IMPORTANT NOTICE

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the Base Prospectus (the "**Base Prospectus**") attached to this electronic transmission and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Base Prospectus. In accessing the attached Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: By accessing this Base Prospectus you have confirmed to Joint Stock Company "ALFA-BANK" ("**Alfa Bank**") (the "**Arranger**" and the "**Dealer**"), Alfa Holding Issuance plc (the "**Issuer**") and ABH Financial Limited ("**ABH Financial**") that (i) you have understood and agree to the terms set out herein, (ii) you are not a U.S. person (within the meaning of Regulation S of the United States Securities Act 1933, as amended (the "**Securities Act**")), or acting for the account or benefit of any U.S. person, and that the electronic mail address you have given to us is not located in the United States, its territories and possessions, (iii) you consent to delivery by electronic transmission, (iv) you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Arrangers and the Dealers, and (v) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase of any of the Notes.

You are reminded that the attached Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus, electronically or otherwise, to any other person and in particular to any U.S. person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

Restrictions: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

ANY NOTES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT).

THE ATTACHED BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

Under no circumstances shall this Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful.

This Base Prospectus is not being distributed to, and must not be passed on to, the general public in the UK. The communication of this Base Prospectus is only being made to those persons falling within Article 19(5) or Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or to other persons to whom this Base Prospectus may otherwise be distributed without contravention of sections 21 or 238 of the Financial Services and Markets Act 2000, or any person to whom it may otherwise lawfully be made. This communication is being directed only at persons having professional experience in matters relating to investments and any investment or investment activity to which this communication relates will be engaged in only with such persons. No other person should rely on it.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Arrangers nor the Dealers, any person who controls any of the Arrangers or the Dealers, Alfa Bank, the Issuer, ABH Financial, any director, officer, employee or agent of any of them, or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from any of the Arrangers of the Dealers.

€1,200,000,000
Programme for the Issuance of Loan Participation Notes
to be issued by, but with limited recourse to,

Alfa Holding Issuance plc
for the purpose of financing loans to
ABH FINANCIAL LIMITED

Under the programme for the issuance of loan participation notes (the "**Programme**") described in this base prospectus (the "**Base Prospectus**"), Alfa Holding Issuance plc (the "**Issuer**"), a public company with limited liability, established under the laws of Ireland, subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the "**Notes**") on the terms set out herein, as completed by final terms (each such final terms, the "**Final Terms**") or in a separate prospectus specific to such Series (the "**Series Prospectus**") setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed €1,200,000,000 (or the equivalent in other currencies). The Notes will be issued in Series (as defined in "**Overview of the Programme**") and the sole purpose of issuing each Series will be to finance a loan (a "**Loan**") to ABH Financial Limited ("**ABH Financial**" or the "**Borrower**"), a company incorporated under the laws of Cyprus and operating in accordance with the Companies Law Cap. 113 (as amended), as borrower, on the terms of the facility agreement between the Issuer and ABH Financial dated 6 June 2014 (the "**Facility Agreement**"), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on or before each issue date (the "**Issue Date**") of the relevant Series (each a "**Loan Supplement**" and, together with the Facility Agreement, the "**Loan Agreement**"). Subject as provided in the Trust Deed (as defined herein) the Issuer will (a) charge, in favour of BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee**"), by way of a first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed, certain of its rights and interests under the relevant Loan Agreement and the relevant Account (as defined in the relevant Loan Agreement), but excluding any Reserved Rights (as defined in the Trust Deed), and (b) assign, in favour of the Trustee, certain of its other rights under the relevant Loan Agreement including rights in respect of any Loan Assignment (as defined below) but excluding any Reserved Rights, in each case for the benefit of the holders of the corresponding Series of Notes (the "**Noteholders**"), all as more fully described under "*Overview of the Programme*".

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of a Series of Notes, the obligation of the Issuer to make any such payment constitutes an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Series of Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax and all other deductions whatsoever) from ABH Financial by or for the account of the Issuer pursuant to the relevant Loan Agreement, less any amounts in respect of the Reserved Rights. The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the credit and financial standing of ABH Financial in respect of the payment obligations of the Issuer under the Notes**.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "*RISK FACTORS*" BEGINNING ON PAGE 11.

The Notes and the corresponding loans have not been, and will not be, registered under the U.S. Securities Act of 1933 (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons ("**U.S. Persons**") (as defined in Regulation S under the Securities Act, "**Regulation S**"). The Notes may be offered and sold to non-U.S. persons in offshore transactions in reliance on Regulation S. Under Russian law, the Notes are securities of a foreign issuer. The Notes are not eligible for initial offering and public circulation in the Russian Federation ("**Russia**"). Neither the issue of the Notes nor a securities prospectus in respect of the Notes has been, or is intended to be, registered with the Central Bank of Russia (the "**CBR**"). The information provided in this Base Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in Russia or to or for the benefit of any Russian person or entity.

The Base Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The Central Bank only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129. Such approval should not be considered as an endorsement of the Issuer or the quality of the Notes that are subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes. Application has been made to Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Notes issued under the Programme within 12 months of this Base Prospectus to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Regulated Market on Euronext Dublin**"). The Regulated Market on Euronext Dublin is a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU (as amended, "**MiFID II**"). Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of MiFID II and/or which are to be offered to the public in any Member State of the European Economic Area or in the United Kingdom. Unlisted Notes may also be issued pursuant to the Programme. For unlisted Notes the Final Terms do not constitute Final Terms for the purposes of the Prospectus Regulation. The relevant Final Terms or Series Prospectus (in respect of a Senior Series) or Series Prospectus only (in respect of a Subordinated Series) in respect of the issue of any Notes will specify whether or not such Notes will be listed on Euronext Dublin (or any other stock exchange) and admitted to trading on the Regulated Market on Euronext Dublin (or any other market). Any reference in this Base Prospectus to listing shall be interpreted as listing and admission to trading on the Regulated Market on Euronext Dublin.

Notes of each Series will be sold in an "**offshore transaction**" within the meaning of, and in accordance with Regulation S and will initially be represented by interests in a global unrestricted Note in registered form (each a "**Global Note**"), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), on its Issue Date. Beneficial interests in a Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. See "*Summary of the Provisions Relating to the Notes in Global Form*." Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein. The price and amount of Notes to be issued under the Programme will be determined by the Issuer, ABH Financial and the relevant Dealer(s) (as defined below) at the time of issue in accordance with prevailing market conditions. The minimum specified denomination of any Notes issued under the Programme shall be EUR100,000 (or its equivalent in any other currency as at the date of issue of the Notes), provided that Notes with a maturity of less than 365 days shall be held in amounts of not less than EUR300,000 (or its equivalent in other currencies).

Arranger and Permanent Dealer
Alfa Bank
The date of this Base Prospectus is 15 April 2020

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Regulation and for the purpose of giving information with regard to the Issuer and ABH Financial which, according to the particular nature of the Issuer, ABH Financial, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, results of operations, financial position, profit and losses and prospects of the Issuer and ABH Financial.

In this Base Prospectus references to the "**Alfa Banking Group**" mean ABH Financial and its subsidiaries taken as a whole.

Each of the Issuer and ABH Financial accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of each of the Issuer and ABH Financial (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

In addition, ABH Financial, having made all reasonable enquiries, confirms that (i) this Base Prospectus contains all information with respect to ABH Financial, the Loans and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Base Prospectus with regard to ABH Financial are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Base Prospectus with regard to ABH Financial are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to ABH Financial, the Loans or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Base Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by ABH Financial to ascertain such facts and to verify the accuracy of all such information and statements.

Each of ABH Financial and the Issuer has derived certain information in this Base Prospectus, including certain information concerning the Russian banking market and its competitors, which in each case may include estimates or approximations, from publicly available sources and information, including annual reports, industry publications, market research, press releases, filings under various securities laws and official data published by certain Russian government agencies, such as the CBR and the Federal State Statistics Service of Russia ("**RosStat**"). Each of ABH Financial and the Issuer has accurately reproduced such information. As far as each of ABH Financial and the Issuer is aware and is able to ascertain from the relevant publicly available sources and information, no facts have been omitted that would render the reproduced information inaccurate or misleading. See "*Risk Factors—Risks Related to Russia and the CIS – The lack of availability and reliability of statistical information in Russia makes business planning inherently uncertain and may impair the ability of the Alfa Banking Group to plan effective strategies*".

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, ABH Financial, the Trustee or Joint Stock Company "ALFA-BANK"(the "**Permanent Dealer**" and the "**Arranger**") to subscribe for or purchase any of the Notes.

The distribution of this Base Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, ABH Financial, the Trustee, the Permanent Dealer and the Arranger to inform themselves about and to observe any such restrictions. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Base Prospectus is set out under "*Subscription and Sale*".

No person is authorised to provide any information or make any representation not contained in this Base Prospectus and any information or representation not contained in this Base Prospectus and any information or representation so contained must not be relied upon as having been authorised by or on behalf of the Issuer, ABH Financial, the Trustee, the Permanent Dealer or the Arranger. The delivery of this Base Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The website of ABH Financial does not form any part of the contents of this Base Prospectus.

Neither the delivery of this Base Prospectus nor the offer, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or ABH Financial since the date of this Base Prospectus.

None of the Issuer, ABH Financial, the Trustee, the Permanent Dealer or the Arranger or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of purchase of the Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Base Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. ABH Financial, the Issuer, the Permanent Dealer and the Arranger are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions. Such investors should consult their legal advisers regarding such matters.

Notes of each Series are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") and the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA and the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA and the United Kingdom may be unlawful under the PRIIPs Regulation.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes of each Series has led to the conclusion that: (i) the target market for the Notes of each Series is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes of each Series to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes of each Series (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes of each Series (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

This Base Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"), (iii) high net worth entities and (iv) other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**relevant persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Base Prospectus or any of its contents.

This Base Prospectus is valid within twelve months from the date of this Base Prospectus. The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of the Notes, prepare a supplement to this Base Prospectus. The obligation to prepare a supplement to this Base Prospectus in the event of any significant new factor, material mistake or inaccuracy does not apply when this Base Prospectus is no longer valid.

This Base Prospectus and the information contained herein is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in Russia within the meaning of Russian securities laws. Information contained in this Base Prospectus is not intended for any persons in Russia who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law no. 39-FZ "On the Securities Market" dated 22 April 1996, as amended ("**Russian QIs**") and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

This Base Prospectus has been filed with and approved by the Central Bank as required by the Prospectus Regulation.

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes. Any investment in Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank.

Where the Issuer wishes to issue Notes with a maturity of less than one year, it shall ensure that the Notes are issued in accordance with an exemption granted under section 8(2) of the Central Bank Act 1971 of Ireland, as amended, and any other applicable rules and regulations.

No representation or warranty, express or implied, is made by the Permanent Dealer or the Arranger as to the accuracy or completeness of the information set forth in this Base Prospectus, and nothing contained in this Base Prospectus is, or shall be relied upon as, a promise or representation, whether as to the past or the future. The Permanent Dealer and the Arranger assume no responsibility for the accuracy or completeness of the information contained in this Base Prospectus.

Each person contemplating making an investment in any Notes issued under this Base Programme from time to time must make its own investigation and analysis of the creditworthiness of ABH Financial and the Issuer, and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

IN CONNECTION WITH THE ISSUE OF ANY SERIES OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER IN THE RELEVANT FINAL TERMS OR SERIES PROSPECTUS (THE "STABILISING MANAGER(S)") (OR PERSON ACTING ON BEHALF OF THE STABILISING MANAGER(S)) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT SUCH STABILISING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF A SERIES OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF SUCH SERIES OF NOTES AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF SUCH SERIES OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

ANY STABILISING ACTION MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Notes or the accuracy or the adequacy of this Base Prospectus. Any representation to the contrary is a criminal offence in the United States.

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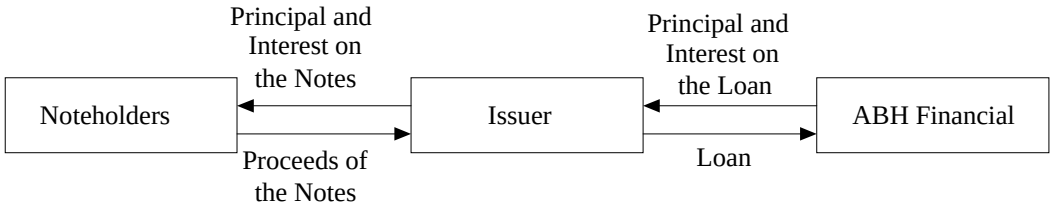
OVERVIEW OF THE PROGRAMME

*The following overview contains basic information about the Notes and the Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Terms and Conditions of the Notes" and "the Facility Agreement" appearing elsewhere in this Base Prospectus. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this document and, in relation to the terms and conditions (the "**Conditions**") of any particular Series of Notes, the applicable Final Terms or Series Prospectus. Words and expressions defined in "Terms and Conditions of the Notes" below shall have the same meanings in this summary. The Issuer and ABH Financial may agree with any Dealer that the Notes may be issued in a form other than that contemplated in "Terms and Conditions of the Notes," in which event a Series Prospectus or supplement to this Base Prospectus, if appropriate, will be made available that will describe the effect of the agreement reached in relation to such Notes.*

Each transaction will be structured as a Loan by the Issuer to ABH Financial of a sum equivalent to the gross proceeds of an issue of a Series of Notes. The Issuer will issue the Notes to Noteholders for the sole purpose of funding such Loan. Each Series of Notes will be constituted by the trust deed dated 6 June 2014 between the Issuer and the Trustee, as further supplemented and amended in respect of such Series of Notes by a Supplemental Trust Deed (together, the "**Trust Deed**"), each entered into between the Issuer and the Trustee (as defined below). Pursuant to the Trust Deed the Issuer will (i) charge to the Trustee by way of a first fixed charge as security for a Series of Notes (a) all rights to principal, interest and other amounts payable by ABH Financial under the relevant Loan Agreement, (b) the right to receive all sums which may be payable by ABH Financial under any claim, award or judgment relating to the relevant Loan Agreement and (c) all rights, title and interest in and to all sums of money now or in the future deposited in an account established for the relevant Series of Notes with the Principal Paying Agent in the name of the Issuer (the "**Account**") including interest from time to time earned thereon and (ii) assign certain of its rights under the relevant Loan Agreement (but excluding any Reserved Rights (as defined in the Trust Deed)), to the Trustee for the benefit of the holders of the corresponding Series of Notes. ABH Financial will be obliged under the terms of the relevant Loan Agreement to make payments in respect of principal, interest and additional amounts (if any) to the Issuer to the Account. The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of any Loan Agreement, unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to each Loan Agreement. Any material amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with, and as more fully described in "*Terms and Conditions of the Notes – 14. Notices*" and shall be binding on the Noteholders. Formal notice of the security interests created by any Trust Deed will be given to ABH Financial and the Principal Paying Agent who will each be required to acknowledge the same.

The Issuer will have no other financial obligations under the relevant Series of Notes and no other assets of the Issuer (including the Issuer's rights with respect to any Loan relating to any other Series of Notes) will be available to such Noteholders. Accordingly, all payments to be made by the Issuer under each Series of Notes will be made only from and to the extent of such sums received and retained (net of tax) or recovered by or on behalf of the Issuer or the Trustee from the assets securing such Series. Noteholders shall look solely to such sums for payments to be made by the Issuer under such Notes, the obligation of the Issuer to make payments in respect of such Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under such Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

Set out below is a diagrammatic representation of the structure.



Notes to be issued under the Programme

Issuer:	Alfa Holding Issuance plc.
Borrower:	ABH Financial Limited
Description:	Programme for the Issuance of Loan Participation Notes pursuant to which the Issuer may issue Notes.
Programme Size:	Up to €1,200,000,000 (or its equivalent in other currencies at the date of issue) in aggregate principal amount of Notes outstanding at any one time. ABH Financial may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein). In this respect, for the purpose of calculating the aggregate principal amount of Notes outstanding, Notes issued at a premium shall be treated as having been issued at the amount of their net proceeds received by the Issuer.
Arranger and Permanent Dealer:	Joint Stock Company "ALFA-BANK". Pursuant to the terms of the Dealer Agreement, the Issuer, on ABH Financial's instructions, may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealer**" are to the person listed above as Permanent Dealer and to such additional persons that are appointed as dealers in respect of the whole programme (and whose appointment has not been terminated) and references to "**Dealers**" are to the Permanent Dealer and all persons appointed as dealers in respect of one or more Series of Notes.
Trustee:	BNY Mellon Corporate Trustee Services Limited.
Principal Paying Agent:	The Bank of New York Mellon, London Branch, unless it is specified in the relevant Final Terms or Series Prospectus that another principal paying agent is appointed in respect of that Series. References in this Base Prospectus to "**Principal Paying Agent**" are to The Bank of New York Mellon or such alternative principal paying agent or agents, as the case may be.
Paying Agents:	The Bank of New York Mellon, London Branch, unless it is specified in the relevant Final Terms or Series Prospectus that another paying agent is appointed in respect of that Series. References in this Base Prospectus to "Paying Agents" are to The Bank of New York Mellon, London Branch or such alternative paying agent, as the case may be.
Registrar:	The Bank of New York Mellon SA/NV, Luxembourg Branch, unless it is specified in the relevant Final Terms or Series Prospectus that an alternative registrar is appointed in

	respect of that Series. References in this Base Prospectus to "**Registrar**" are to The Bank of New York Mellon SA/NV, Luxembourg Branch or such alternative Registrar, as the case may be.
Transfer Agent:	The Bank of New York Mellon, London Branch, unless it is specified in the relevant Final Terms or Series Prospectus that another transfer agent is appointed in respect of that Series. References in this Base Prospectus to "**Transfer Agent**" are to The Bank of New York Mellon, London Branch or such alternative transfer agent(s), as the case may be.
Calculation Agent:	The Bank of New York Mellon, London Branch unless it is specified in the relevant Final Terms or Series Prospectus that another calculation agent is appointed in respect of that Series. References in this Base Prospectus to "**Calculation Agent**" are to The Bank of New York Mellon, London Branch or such alternative calculation agent, as the case may be. The Bank of New York Mellon, London Branch may be appointed as Calculation Agent in respect of any Series of Notes and corresponding Loan by agreement with each of the Issuer and ABH Financial. The Bank of New York Mellon, London Branch is treated as having agreed to act as Calculation Agent in respect of a Series and corresponding Loan if it has received the Final Terms and/or the Series Prospectus (as the case may be) and Loan Supplement (in draft or final form) naming it as Calculation Agent no later than five business days before the Issue Date or, if earlier, the first date on which it is required to make any calculation or determination, provided that it has not notified the Issuer that it does not wish to be so appointed within two business days of such receipt.
Method of Issue:	The Notes may be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be set out in the Final Terms or Series Prospectus.
Issue Price of Notes:	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
Status:	Each Series of Notes will constitute the obligation of the Issuer to apply an amount equal to the proceeds from the issue of the Notes solely for financing the corresponding Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax and all other deductions whatsoever) by or for the account of the Issuer pursuant to the corresponding Loan, all as more fully described in "*Terms and Conditions of the Notes – 1. Status*".
Security:	The Issuer's payment obligations in respect of each Series of Notes will be secured by a first fixed charge on: (a) all of the Issuer's rights to principal, interest and other amounts paid and payable under the relevant Loan Agreement and its right to receive all sums paid

and payable under any claim, award or judgment relating to such Loan Agreement (save for any Reserved Rights (as defined in the Trust Deed)); and

(b) all the rights, title and interest in and to all sums of money held from time to time in an account for the particular Series specified in the relevant Final Terms or Series Prospectus, together with the debt represented thereby (including interest from time to time) pursuant to the Trust Deed.

Assignment of Rights: The Issuer will assign its rights under the relevant Loan Agreement (save for any Reserved Rights and those rights charged above), to the Trustee upon the closing of the offering of the corresponding Series of Notes.

Form: Each Series of Notes will be issued in registered form. The Notes will be represented by one or more Global Notes without interest coupons. Each Global Note will be exchangeable for certificated notes in definitive form (the "**Definitive Notes**") in the limited circumstances specified in the Global Note.

Clearing Systems: Unless otherwise indicated in the relevant Final Terms or Series Prospectus Euroclear and Clearstream, Luxembourg and/or such other additional clearing system as may be agreed between the Issuer, ABH Financial, the Paying Agents, the Trustee and the relevant Dealer(s).

Initial Delivery of Notes: Unless otherwise indicated in the relevant Final Terms or Series Prospectus, on or before the issue date for each Series of Notes, the relevant Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Unless otherwise indicated in the relevant Final Terms or Series Prospectus, the Notes will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg, or any other applicable clearing system. A Global Note may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, ABH Financial, the Paying Agents, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing systems.

Currencies: Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, ABH Financial and the relevant Dealer(s) provided that such currency is accepted by the relevant clearing system.

Currency Exchange Option: Each holder of a Note issued in Russian Roubles in respect of which, pursuant to Condition 7.7 (*Currency Exchange Option*), a Currency Exchange Option has been specified (a "**Russian Rouble Note**") has the option to make an irrevocable election, pursuant to Condition 7.7 (*Currency Exchange Option*), to receive a forthcoming payment of principal or interest in Euro. In respect of any Russian Rouble Notes for which a Noteholder has made such an irrevocable election to receive a payment in Euro, the Principal Paying Agent will, subject to its having received the Exchange Amount (as defined in the "*Terms and Conditions of the Notes*") pursuant to and subject to Condition 7.7 (*Currency Exchange Option*), purchase the

required Euro, using the Exchange Amount received in accordance with the Loan Agreement, at a purchase price calculated on the basis of the Applicable Exchange Rate (as defined in the "*Terms and Conditions of the Notes*") and make payments of interest and principal in Euro. The Principal Paying Agent will not be liable to any person for any losses resulting from the application by the Principal Paying Agent of the Applicable Exchange Rate. See Condition 7.7 (*Currency Exchange Option*).

Maturities:

Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, ABH Financial and the relevant Dealer(s). Where the Issuer wishes to issue Notes with a maturity of less than one year, it shall ensure that the Notes are issued in full compliance with the conditions set out in Notice BSD C 01/02 dated 12 November 2002, as amended, issued by the Central Bank pursuant to section 8(2) of the Central Bank Act of 1971, as amended, of Ireland, including that the Notes comply with, *inter alia*, the following criteria:

(a) at the time of issue, the Notes must be backed by assets to at least 100 per cent. of the value of the Notes issued;

(b) at the time of issue, the Notes must be rated at least investment grade by one or more recognised rating agencies;

(c) the Notes must be issued and transferable in minimum denominations of EUR300,000 or the foreign currency equivalent;

(d) the Notes carry the title "Commercial Paper" (unless constituted under the laws of a country other than Ireland and, under those laws, the commercial paper carries a different title in which case it must carry such title) and must identify the Issuer by name;

(e) it must be stated explicitly on the face of the Notes and, where applicable, in the contract between the Issuer and the initial investor in the Notes that they are issued in accordance with an exemption granted by the Central Bank under Section 8(2) of the Central Bank Act of 1971, inserted by Section 31 of the Central Bank Act of 1989, as amended by Section 70(d) of the Central Bank Act of 1997, each amended by the Central Bank and Financial Services Authority of Ireland Act 2004; and

(f) it must be stated explicitly on the face of the Notes and, where applicable, in the contract between the Issuer and the initial investor in the Notes that the investment does not have the status of a bank deposit, is not within the scope of the Deposit Protection Scheme operated by the Central Bank and that the Issuer is not regulated by the Central Bank arising from the issue of the Notes.

Denominations:

Notes will be in such denominations as may be specified in the relevant Final Terms or Series Prospectus, save that unless otherwise permitted by then current laws and regulations: (i) Notes which have a maturity of less than one year will have a minimum denomination of EUR300,000 (or its equivalent in other currencies) or higher integral

	multiples of EUR1,000; and (ii) the minimum denomination of any Notes shall in any event be EUR100,000 (or its equivalent in any other currency as at the date of issue of the Notes). Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") will have a minimum denomination of the greater of EUR300,000 or £100,000 (or their equivalent in other currencies).
Rate of Interest:	The Notes may be issued on a fixed rate or a floating rate basis.
Fixed Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms or Series Prospectus.
Floating Rate Notes:	Floating Rate Notes will bear interest determined separately for each Series of Notes and corresponding Loan as follows: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (b) by reference to LIBOR, LIBID, LIMEAN or EURIBOR as adjusted for any applicable margin.
Interest Periods and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms or Series Prospectus.
Redemption:	The relevant Final Terms or Series Prospectus will specify the redemption amounts payable. Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of the greater of EUR300,000 or £100,000 (or their equivalent in other currencies).
Issuer's Restrictions and Covenants:	So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, *inter alia*, incur any other indebtedness for borrowed moneys, or enter into other transactions or engage in any business (other than transactions contemplated by this Base Prospectus or the Trust Deed), declare any dividends or have any subsidiaries. See "*Terms and Conditions of the Notes—4. Restrictive Covenants*". Furthermore, the Issuer will agree in the Trust Deed not to make or consent to any amendment or modification or waiver of, or authorise any breach or

	proposed breach of the terms of the corresponding Loan Agreement unless the Trustee has given consent.
Redemption by the Issuer at the Option of ABH Financial:	The Issuer will redeem the Notes in whole, but not in part, at 100 per cent. of their aggregate principal amount plus accrued and unpaid interest and all additional amounts, if any, if ABH Financial elects to repay any Loan (i) in the event it is required to pay additional amounts on account of Cypriot or Irish withholding taxes in respect of certain payments under the corresponding Loan or payments under the corresponding Notes or (ii) in the event that ABH Financial is required to pay additional amounts on account of certain costs incurred by the Issuer pursuant to the relevant Loan Agreement.
Mandatory Redemption:	In limited circumstances, as more fully described in the relevant Loan Agreement, the Notes may be redeemed by the Issuer in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Notes or, at any time, in the case of Fixed Rate Notes, upon giving notice to the Trustee, at the principal amount thereof, together with accrued and unpaid interest and all additional amounts, if any, to the date of redemption in the event that it becomes unlawful for (i) the Issuer to allow the relevant Notes to remain outstanding or (ii) the Issuer or ABH Financial to allow the relevant Loan to remain outstanding under the relevant Loan Agreement. In either case, the Loan would be repaid in whole, but not in part.
Relevant Events:	In the case of a Relevant Event (as defined in the Trust Deed), the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.
Withholding Tax:	All payments of principal and interest to be made by the Issuer in respect of each Series of Notes will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes, which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Ireland, or any taxing authority thereof or therein, other than as required by law. If any such taxes, duties and other charges are payable, the sum payable by ABH Financial to the Issuer under the relevant Loan Agreement will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received net from ABH Financial, after accounting for any such deduction or withholding pursuant to the relevant Loan Agreement.
Further Issues:	The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series even if doing so may adversely affect the value of the original Notes. In the event of such further issuance, the relevant Loan will be correspondingly increased. In addition to issuing further Notes under the Programme

	(which may be consolidated and form a single series with Notes of any Series), the Issuer may from time to time issue other notes on a limited recourse basis for the sole purpose of making loans to the Borrower or its Affiliates (as defined in the Trust Deed) which are legal entities.
Listing:	Application has been made to Euronext Dublin for each Series of Notes issued under the Programme within 12 months of this Base Prospectus to be admitted to the Official List and trading on the Regulated Market or to be listed on such other stock exchange and traded on such other market as shall be specified in the relevant Final Terms or Series Prospectus.
Rating:	Series of Notes issued under this Programme may be rated or unrated. Whether or not each credit rating applied for in relation to the relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**") will be disclosed in the Final Terms or Series Prospectus. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or ABH Financial could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with them will be governed by and construed in accordance with English law.
Selling Restrictions:	The Notes are subject to selling restrictions in the United Kingdom, the United States, Ireland, Cyprus, Russia and other jurisdictions where the Notes may be offered, sold or delivered or this Base Prospectus may be distributed. See "*Subscription and Sale*".
The Loan corresponding to a Series of Notes	
Lender:	Alfa Holding Issuance plc.
Borrower:	ABH Financial Limited.
Security and Ranking:	No Loan will be secured by any collateral. Obligations under the Loan will rank at least *pari passu* with all other unsecured and unsubordinated financial indebtedness of ABH Financial.
Interest Basis:	Interest will be payable on a fixed or floating rate basis as specified in the relevant Loan Supplement.

Redemption at the Option of ABH Financial:	Each Loan may be prepaid at ABH Financial's option in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Loans or, at any time, in the case of Fixed Rate Loans at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, for certain tax reasons or by reason of certain increased costs.
Mandatory Repayments:	In the event that it becomes unlawful for the Issuer or ABH Financial to fund any Loan or allow such Loan to remain outstanding under the relevant Loan Agreement or allow the corresponding Series of Notes to remain outstanding, ABH Financial may be required to repay the corresponding Loan in full.
Certain Restrictions and Covenants:	The Issuer will have the benefit of certain covenants made by ABH Financial, all as more fully described in the relevant Loan Agreement.
Events of Default:	In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, cause the Issuer to declare all amounts payable under the relevant Loan Agreement to be due and payable.
Use of Proceeds of the Notes and Loans:	The Issuer will apply the gross proceeds of the offering of each Series of Notes to fund the corresponding Loan to ABH Financial. In connection with the receipt of such Loan, ABH Financial will pay a facility fee, as set out in the relevant Loan Supplement. ABH Financial intends to use the proceeds from the Loans for general corporate purposes.
Withholding Tax:	All payments of principal and interest under each Loan will be made in full without set-off or counterclaim and free and clear and without deduction for or on account of all taxes which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Cyprus or Ireland, other than as required by law. If any such taxes, duties or other charges are payable in respect of a Series of Notes, the sum payable by ABH Financial under the corresponding Loan will (subject to certain conditions) be required to be increased to the extent necessary to ensure that the Issuer receives and retains the net sum which it would have received and retained free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made.
Governing Law:	Each Loan and any non-contractual obligations arising out of or in connection with it will be governed and construed by English law.

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this Base Prospectus prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations or prospects which, in turn, could have a material adverse effect on the Alfa Banking Group's ability to service its payment obligations under any Loan Agreement and, as a result, the ability of the Issuer to make payments under the Notes. In addition, the value of the Notes could decline due to any of these risks, and prospective investors may lose some or all of their investment.

The risks and uncertainties discussed below are those that the Issuer and ABH Financial believe are material, but these risks and uncertainties may not be the only ones, that the Issuer and the Alfa Banking Group face. Additional risks and uncertainties that, as at the date of this Base Prospectus, the Issuer and ABH Financial consider immaterial or of which they are unaware may also have an adverse effect on the Issuer and/or the Alfa Banking Group's operating results and financial condition or result in other events that could lead to a decline in the value of the Notes.

The Issuer is a special purpose vehicle and as such its ability to make payments will depend on ABH Financial's ability to service its payment obligations under a Loan Agreement. The Alfa Banking Group's business, financial condition, results of operations and prospects may be adversely affected by the risks highlighted below.

RISKS RELATING TO THE ALFA BANKING GROUP'S BUSINESS AND INDUSTRY

The deteriorating conditions of the Russian economy, the instability of the Russian banking sector and falling commodity prices could have a material adverse effect on the Alfa Banking Group's business, liquidity and financial condition

The majority of the Alfa Banking Group's assets and customers are located in, or have businesses related to, Russia. As a result, the Alfa Banking Group is substantially affected by the state of the Russian economy, which is, to a significant degree, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials, imports of significant amounts of consumer and other goods and access to international sources of financing.

The conditions and outlook for the Russian economy deteriorated significantly during 2014 and continued to worsen in 2015 and 2016. Russian economy returned to growth in real gross domestic product ("**GDP**") terms in 2017 expanding by 2.3 per cent. in 2018 and 1.3 per cent. in 2019 whilst inflation was 4.3 per cent. in 2018 and 3.0 per cent. in 2019. The Rouble experienced significant depreciation against the U.S. dollar in 2014 and early 2016. The Rouble / U.S.$ exchange rate remains volatile, and as at 31 December 2018 amounted to RUB 69.47 per U.S.$1.00 and as at 31 December 2019 amounted to RUB 61.91 per U.S.$1.00. The significant decrease and fluctuations in these and other leading economic indicators was the result of a combination of macroeconomic and geopolitical factors, including:

- a significant decline in the price of Brent Crude oil during 2014, 2015 and the first quarter of 2016. The price of Brent Crude oil fell from U.S.$112.36 per barrel on 30 June 2014 to U.S.$55.27 per barrel on 31 December 2014 and continued to decline throughout 2015 reaching U.S.$37.28 per barrel on 31 December 2015, subsequently increasing throughout 2016 and 2017. The price of Brent Crude oil was U.S.$53.80 per barrel on 31 December 2018 and U.S.$68.68 per barrel on 31 December 2019, and continues to be volatile and unstable;

- economic sanctions which the U.S. and the EU (as well as other nations, such as Australia, Canada, Japan and Switzerland) have imposed against Russian individuals and legal entities in connection with Crimea's accession to the Russian Federation and the armed conflict in Eastern Ukraine have significantly interrupted international business relationships and seriously reduced the ability of Russian companies to access the international capital markets. The armed conflict in Eastern Ukraine between the Ukrainian army and local militia has destabilized the region and put further pressure on international relations between Russia and Western countries, including the United States and the EU, and has also led to the expansion of sanction programmes in respect of Russian legal entities and individuals (see "*— Non-compliance with OFAC and EU sanctions programmes, an expansion of these programmes or a significant expansion of the Alfa Banking Group's dealings with any parties subject to sanctions could adversely impact the Alfa Banking Group's financial condition*");

- economic restrictions which Russia imposed on the U.S. and the EU as well as certain other countries in August 2014 with respect to the import of certain agricultural products, significantly impacting the Russian consumer's ability to purchase foodstuffs and contributing to the sharp rise in inflation;

- negative investor sentiment towards investing in Russia that resulted in higher net capital outflows as investments decreased and Russian and non-Russian investors sought out other geographies in which to hold capital and make investments. According to the CBR, such outflows increased significantly in 2014 and reached U.S.$151.5 billion, an increase of 148 per cent. from 2013. Net capital outflows amounted to U.S.$57.5 billion in 2015 as compared to U.S.$19.2 billion in 2016, U.S.$31.1 billion in 2017, U.S.$67.5 billion in 2018, and are estimated to amount to U.S.$26.7 billion 2019;
- a 24.4 per cent. decrease in Russia's international reserves from U.S.$509 billion on 31 December 2013 to U.S.$385 billion on 31 December 2014, as significant resources were spent in an effort to support the value of the Rouble along with other government initiatives to bolster the economy and support the Russian banking sector. The level of international reserves has since stabilised and increased, reaching U.S.$468.5 billion on 31 December 2018 and U.S.$554.4 billion as at 1 January 2020.

Since the beginning of 2020 oil prices have been falling and in early March there was a substantial drop in oil prices (the price of Brent Crude fell from U.S.$45.3 per barrel on 6 March 2020 to U.S.$33.3 per barrel on 12 March 2020) as a result of Russia and OPEC failing to reach an agreement over proposed oil production cuts. This drop in oil prices caused volatility in the global financial markets. The Rouble depreciated against the U.S. dollar as a result of the recent decline in oil prices from RUB 69.47 per U.S.$1.00 as at 31 December 2019 to RUB 80.88 per U.S.$1.00 as at 24 March 2020.

Negative developments affecting the Russian economy in 2014 to 2016 have had a substantial impact on the Russian banking sector. Both the corporate and retail banking sectors saw corresponding increases in lending rates and at the same time banks raised their deposit rates in an effort to obtain additional funding during a period of weakening liquidity. Consequently, funding costs have increased throughout the entire Russian financial system and have put substantial strain on Russian banks' ability to manage interest rate risks, raise financing and prudently allocate available liquidity. The resulting higher interest rates have had a negative impact on the banking sector's profitability, as well as worsening Russian consumer and corporate creditworthiness. The CBR proceeded to gradually reduce its key interest rate and continues to adjust the key interest rate depending on the prevailing market conditions and the trajectory of the Russian economy. The key interest rate is set at 6.0% as at the date of this Base Prospectus. There can be no assurance that further increases will not occur. The turbulence and the increased risk profile of the Russian banking sector has led some foreign financial institutions to limit or close their exposure to the Russian banking sector. While the banking sector has to some extend stabilised over the past few years, any renewed instability may negatively affect the ability of Russian banks, including Alfa Bank, to access the resources of such financial institutions for various business needs, including, among other things, market instruments used for hedging purposes and trade finance operations. See "*—The Alfa Banking Group could be negatively affected by the instability of the Russian banking sector and deterioration of the commercial soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties*".

Any of the factors discussed in the preceding paragraphs could adversely affect the financial condition of the Alfa Banking Group and its customers and may result, among other things, in a reduction in the Alfa Banking Group's capital adequacy ratios and profits, pressure on credit risk concentration levels, an increase in exchange rate risk and losses, higher funding costs, a change in the strategy of the Alfa Banking Group or curtailment of some business operations due to increased risks. Moreover, any of these factors may cause a decrease in customer funds, a reduction in the demand for loans, foreign currency, investment and other banking transaction services that customers carry out with the Alfa Banking Group, as well as a general deterioration in the quality of the Alfa Banking Group's loan book and/or a reduction in the market values of securities or other assets held on the Alfa Banking Group's balance sheet, leading to possible defaults of such loans and/or the need for increased credit loss allowance.

A high level of inflation could lead to market instability, reductions in consumer purchasing power and an erosion of consumer confidence. There can be no assurance that further future declines in, or periods of significant volatility of, commodity prices will not lead to GDP contraction or slower GDP growth, or adversely affect the Rouble/U.S. dollar exchange rate. In line with the sovereign rating downgrades, the credit ratings of Russia's largest state and privately owned financial institutions, including Alfa Bank, were downgraded in early 2015 and upgraded during 2016 and 2017. Any rating downgrades could adversely affect the Alfa Banking Group's liquidity and undermine confidence in Alfa Bank, which could lead to increased borrowing costs and restrict the Alfa Banking Group's access to capital markets. An increase to the Alfa Banking Group's cost or reduction in availability of funding could render it unable to meet deposit withdrawals on demand or at their contractual maturity, to service the credit facilities of existing customers or to fund new loans, investments and businesses. The continued deterioration in the general economic conditions in Russia, depreciation and volatility of the Rouble, high interest rate environment, instability of the Russian banking sector and any downgrade of

credit ratings of Alfa Bank or the Russian Federation could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

The instability of the global economy and financial markets could have a material adverse effect on the Alfa Banking Group's business, liquidity and financial condition

The financial markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints during the global economic crisis in 2008 and 2009. Disruption in the global financial markets has had a negative impact on investor confidence and has negatively affected the interbank markets and debt issuance in terms of volume, maturity and credit spreads. More recently, the global financial markets were characterized by periods of instability and uncertainty resulting from various factors, including the sovereign debt crisis in Europe, the withdrawal of the UK from the European Union, regional conflicts, outbreaks of contagious diseases, mounting concerns regarding the slowing growth of the global economy and trade tensions between some of the largest economies. In particular, initiatives of the U.S. President to impose tariffs on various imports has led to greater uncertainty regarding the status of trade relations between the U.S. and some of its largest trade partners, in particular between the U.S. and China. There is a high degree of uncertainty for the global economy arising from the unstable trade negotiations between the U.S. and China and the escalating trade war could result in negative repercussions in these countries and have a knock-on effect on global trade and the economic environment. In addition, the recent outbreak of the 2019 novel coronavirus (Covid-19) in China, which was declared by the World Health Organization to be a global pandemic, could affect the volume of business activity and trade in the affected areas and worldwide. Given the high uncertainties associated with the novel coronavirus, it is difficult to predict its potential influence on the global economy, Russian economy and Alfa Banking Group. The pandemic and measures aimed at curbing the spread of the novel coronavirus, such as a prolonged continuation of the lockdown imposed in Moscow and certain regions of Russia, may have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

No assurance can be given that further economic downturns, financial crisis or widespread stock market crashes will not occur, or that measures to support global or local banking and financial systems, if taken to overcome any downturn or crisis, will be sufficient to restore stability in the banking sectors and financial markets in the short term or beyond. These and other events have resulted and could result in further economic uncertainty, decrease of foreign investment into and increased capital outflows from Russia and emerging markets generally as well as persistent volatility in global and regional financial markets.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the EU in a national referendum. The United Kingdom signed a withdrawal agreement with EU and Euratom on 24 January 2020 and withdrew from the EU on 31 January 2020. Although a transition period until 31 December 2020 has been established by the withdrawal agreement, there remains considerable uncertainty regarding the future relations between the UK and EU and the impact that the UK's withdrawal may have in the long term. These developments have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict access to capital, which could have a material adverse effect on financial institutions worldwide.

Negative trends in the largest economies, including the United States and the EU, may impact the perception of emerging market economies in general and investor appetite towards emerging market risk. Uncertainty in the international financial markets, further tightening in credit conditions and contraction of the global economy and markets in which the Alfa Banking Group operates, has adversely impacted, and could adversely impact, should the market conditions worsen, the Alfa Banking Group's business and operating results due to:

- decreases in the Alfa Banking Group's net interest income;
- decreases in the demand for the Alfa Banking Group's credit products as a result of higher interest rates;
- significantly increased non-performing loans and credit loss allowance charges and write-offs;
- decreases in the business activity of Russian companies and the credit-worthiness of Russian companies and individuals;
- increases in borrowing costs and reduced, or zero, access to the capital markets due to unfavourable market conditions;
- currency volatility;
- liquidity constraints;

- outflows of deposits from accounts;
- significant declines in the market values of securities held in the Alfa Banking Group's trading and available for sale portfolios; and
- deterioration of capital adequacy.

The Alfa Banking Group believes that its level of access to domestic interbank loans and capital markets, international capital and syndicated loan markets, together with its ability to access other funding sources, its credit standing and its liquidity and risk management policies allow it to meet its liquidity needs. Nevertheless, a decrease in the Alfa Banking Group's ability to access the domestic interbank loan and capital markets, the international syndicated loan and/or the capital markets, whether resulting from worsening market conditions, deterioration of the macroeconomic outlook for Russia, disruptions in the financial markets, recent geopolitical instability or otherwise, or maturity mismatches between the Alfa Banking Group's assets and liabilities, may, together or separately, have a material adverse effect on the business, financial condition or results of operations of the Alfa Banking Group.

The Alfa Banking Group could be negatively affected by the instability of the Russian banking sector and deterioration of the commercial soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties

The Alfa Banking Group routinely executes a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant counterparty credit exposure. This counterparty risk is heightened as a result of financial institutional failures and state sponsored rescue of banks. In recent years, the CBR has actively monitored the Russian banking sector and revoked licences of numerous small and medium-sized Russian banks with the aim of removing fraudulent, failing or undercapitalised financial institutions from the sector and making it more robust and stable in the event of any potential systemic shocks.

Furthermore, the CBR has been actively using its Fund for the Consolidation of the Banking Sector to finance the rescue of failing banks by introducing financial rehabilitation measures that involve the CBR becoming the controlling shareholder in the failing bank. In August 2017, the CBR announced its decision to implement such measures aimed at improving the financial stability of PJSC Bank Otkritie Financial Corporation ("**Otkritie Bank**") a Russian bank that was included in the list of systemically important credit organisations. In September 2017, the CBR implemented financial rehabilitation measures in PJSC B&N Bank ("**B&N Bank**"), a Russian bank that was the 12th largest bank in Russia by assets in August 2017, and JSC Rost Bank, a Russian bank affiliated with B&N Bank and which was already undergoing financial rehabilitation. In December 2017, the CBR introduced financial rehabilitation measures in Promsvyazbank PJSC, a Russian bank that was the 10th largest bank in Russia by assets as at 1 November 2017 ("**Promsvyazbank**"). In May 2018, the Russian Prime Minister signed a decree on transferring ownership in share capital in Promsvyazbank from the State Deposit Insurance Agency of the Russian Federation (the "**State Deposit Insurance Agency**") to the Russian Government. Further, as part of the measures aimed at strengthening the financial health and stability of Bank Otkritie and B&N Bank, the CBR merged of B&N Bank and Bank Otkritie (under the brand of Bank Otkritie) with effect from 1 January 2019. More recently, on 22 January 2019, similar measures were introduced by the CBR with respect to Moscow Industrial Bank, the 33rd largest bank in Russia by assets as of 1 January 2019, in response to the breach of the minimum statutory capital requirements caused by assets' impairment.

Although this mechanism has been, to some degree, tested in practice, there remains a risk that the financial rehabilitation of these or other banks may not be successful in the long-term and such an outcome could undermine the stability of these banks in the future. There also remains some uncertainty as to the long-term effects of these measures on the banking sector as a whole. Any further significant disruptions to the business operations of large Russian banks or restrictions on their ability to fulfill their financial obligations towards other Russian or foreign creditors and banks may have a material adverse effect on the Russian banking sector, local financial market and investment climate generally. Liquidity difficulties could also arise in other large privately owned banks in Russia, and there can be no assurance that the CBR will be able to provide financial support to such banks, which would further exacerbate difficulties in the banking sector and the local financial market.

In addition, intensified withdrawal of banking licences as a result of the inability of certain banks to meet the mandatory requirements of the CBR, failure to comply with anti-money laundering regulations or other reasons could result in lower investor confidence in the Russian banking system generally and may lead to investors, creditors or depositors, as the case may be, reducing their exposure to Russian bank debt or deposits, including those of Alfa Bank, which could be materially adverse to the Alfa Banking Group's business, financial condition, results of operations and prospects, as well as the price of the Notes.

Although the Alfa Banking Group monitors its counterparties on a constant basis and has so far not been affected by any of the recent bank failures, it will continue to be exposed to the risk of loss if any counterparty financial institutions fail, their licences are revoked or are otherwise unable to meet their obligations. A default by, or even concerns about the stability of, one or more financial services institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions which could materially and adversely affect the Alfa Banking Group's ability to raise interbank or other funding, its business, results of operations, financial condition and prospects.

The Alfa Banking Group could face increased loan losses and decreased demand for its services from both corporate customers and individuals who are affected by any slowdown or weakening of the global, regional or Russian economies

The Alfa Banking Group has been subject to risks regarding the credit quality and recovery of loans to, and amounts due from, customers and market counterparties. Factors such as the increased inflation, unemployment in the Russian Federation, reduced corporate liquidity and profitability, increased corporate and personal defaults and insolvencies and/or increased interest rates that reduced the Alfa Banking Group's customers' and market counterparties' ability to repay their loans. In addition, the recent recession of the Russian economy resulted in the deterioration of the value of collateral held against loans and other obligations. Any downturns in the Russian economy may lead to deterioration of the Alfa Banking Group's existing loan portfolio. In addition, any decreases and volatility in the prices of commodities, as has occurred in relation to the price of oil in the first quarter of 2020, may negatively affect the financial condition of the Alfa Banking Group's customers that operate in or are in any way dependent on or linked to such sectors. Certain industries of the Russian economy, such as building, construction, metals and mining, have in the recent past experienced instability and lower demand for their products both in Russia and abroad, which has in some cases led to the worsening of the credit quality of companies engaged in such industries and increased their cost of funding. In some instances, the worsening economic conditions can be exacerbated by fraudulent practices, overleveraging or ineffective management policies employed at such companies. A deterioration in the financial condition of Russian companies due to a cyclical contraction or recession in the Russian or global economies could increase the Alfa Banking Group's loan losses and negatively impact its profitability and capital levels.

In 2019, the Alfa Banking Group's credit loss allowance increased as compared to the 2018, predominantly due to a number of large problem loans made to unrelated corporate borrowers and, to a lesser extent, the growth of the retail lending business. See "*Operating and Financial Review of the Alfa Banking Group – Factors Affecting Results of Operations – Loan Portfolio and Credit Loss Allowance*". There can be no assurance that credit loss allowance will not continue to increase in the future. Any of the above may result in, among other things, a reduction in the Alfa Banking Group's operations with companies operating in such sectors, decreases in or the closing of any applicable loan limits, decreased corporate deposits from these customers, a reduction in the volume of foreign currency and/or foreign trade operations by these customers, decreases in the value of the collateral (including immovable property, land, equipment, intangibles and machinery) underlying their obligations and the need to increase such collateral, defaults by such customers on their obligations and, ultimately, increased loan losses to the Alfa Banking Group.

The consumer finance market began to recover with the stabilisation of the Russian economy and returned to growth in 2017. According to the CBR, the Russian consumer finance market grew by 22.4 per cent. in 2018 by value of loans issued to consumers. In 2019, unsecured consumer lending has continued to grow with the annual growth rate reaching 20.1 per cent. as of 31 December 2019, according to the CBR. However, the expansion of consumer lending and the increase of retail loan portfolios by Russian banks have been happening against the backdrop of decreasing personal income levels. Based on information published by Rosstat, household personal income of the Russian population decreased during 2017 – 2019 by approximately 14.7 per cent. The CBR and other government agencies has publically voiced concerns that there are signs of overleveraging in certain sectors of the consumer finance market and statistics indicate that lending to households that are already burdened with debt has been increasing at a higher pace than the issuance of loans to debt free consumers. Taking into account these concerns, the CBR has increased the risk weighting coefficients applicable to consumer loans (depending on their effective interest rates) three times over the course of 2018, as a result of which some banks were required to increase their capital cushions to take into account the additional capital buffers required by the CBR. Furthermore, the CBR has also introduced a new a payment-to-income ("**PTI**") ratio designed to restrict the issuance of loans to consumers with a high debt burden. If the consumer market overheats and consumers become overleveraged, the default rates on the Alfa Banking Group's retail loan portfolio could increase and if such increase is significant, it could lead to higher credit loss allowance, lower income and profit, as well as a decrease in the capital base. Also, an increase in regulatory constraints, by means of higher capital requirements or otherwise, on consumer lending may hinder the Alfa Banking Group's plans to expand its retail operations and grow its retail customer base, put additional pressure on capital and lower the profitability of such operations.

Any of the above factors could lead to further loan losses, increases in credit loss allowance levels and have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

The Alfa Banking Group may be unable to accurately assess customers' credit risks and this could result in the Alfa Banking Group not becoming aware of events of default of its borrowers in a timely manner

The Alfa Banking Group's total gross loans and advances to customers were U.S.$39,840 million as at 31 December 2019 compared to U.S.$30,572 million as at 31 December 2018. The Alfa Banking Group's loan portfolio requires continued and improved monitoring by management of credit quality and the adequacy of the Alfa Banking Group's provisioning levels. See "*Risk Management*". The Alfa Banking Group is subject to risks regarding the credit quality of, and the recovery on loans to and amounts due from, customers and market counterparties.

The Alfa Banking Group may not be able to assess the default risk on loans provided to corporate customers accurately due to the unpredictability of economic conditions in Russia and abroad. While the Alfa Banking Group requires the periodic disclosure of its corporate customers' financial statements, such financial statements may not always present a meaningful indication of each customer's consolidated financial condition due to the disclosure and accounting regulations in relevant countries, including Russia. Further, the Alfa Banking Group's corporate customers often do not have extensive or externally-verified credit histories. Therefore, in spite of the Alfa Banking Group's credit risk evaluation procedures, the Alfa Banking Group may be unable to evaluate the current financial condition of each prospective corporate borrower correctly or to determine accurately the ability of such corporate borrower to repay.

In addition, the availability of accurate and comprehensive financial and general credit information on individuals and small businesses in Russia is even more limited than in the case of larger corporate customers, which makes it more difficult for the Alfa Banking Group to accurately assess the credit risk associated with such lending. As a result of declining macroeconomic conditions, the expansion of the Alfa Banking Group's retail lending operations and additional credit loss allowance recorded in relation to specific problem loans, the Alfa Banking Group increased its credit loss allowances for loan losses and allowances for loan impairment in the previous years. Although levels of credit loss allowance stabilised in recent years, there was a substantial increase in credit loss allowance in 2019 mainly due to defaults on several large corporate loans there and can be no guarantee that loan losses or credit loss allowance will not increase in the future. Any increase in credit loss allowance may adversely affect the Alfa Banking Group's business, financial condition, results of operations, prospects and liquidity position.

The Alfa Banking Group's strategy could be unsuccessful, or less successful, than the Group anticipates

The Alfa Banking Group's main strategic goals are to become the most technologically advanced banking group in Russia, focus on growth in key market segments and improve operating efficiency.

To achieve a technological shift in its operations, the Alfa Banking Group plans to invest substantial capital and resources into upgrading, developing and implementing advanced information technologies ("**IT**") in its digital platform across its entire infrastructure and operations. There is a risk that budgeted capital expenditures may be inadequate for the Alfa Banking Group to achieve its stated strategies and that real capital expenditures will be considerably more significant than originally anticipated causing the Alfa Banking Group to allocate material resources into accomplishing the strategy. Further, there is a risk that, despite significant amounts being spent, the Alfa Banking Group might fail to make a technological shift in its operations which could negatively impact its ability to grow market share in key segments and improve operating efficiency. The new strategy also carries a number of other risks, including failure of the mobile banking application in becoming the center of convenient interaction with customers or as an effective acquisition tool, difficulties with implementing new technologies, including operational and regulatory obstacles, that result in higher costs, or failure of the new branch format in attracting customers or enhancing operating efficiency, as well as the risk that customers become less inclined to use the Alfa Banking Group's branches due to being unfamiliar with the new format. Moreover, technological advancements will increase the Alfa Banking Group's reliance on information technologies and the digitalisation of banking may give rise to new risks that are currently difficult to predict, such as new forms of fraud, malware or hacking attacks, as well as the need to invest in additional measures aimed at protecting banking and personal data of customers. Failure to achieve any of the above goals or the occurrence of any of the risks set out above could have an adverse impact on the business, financial condition or results of operations of the Alfa Banking Group.

In addition, as part of its strategy, the Alfa Banking Group is planning to continue expanding its operations in the retail and medium, small and micro enterprises ("**MSME**") segments. In particular, the Alfa Banking Group plans to focus on a number of retail products, including credit cards, cash loans and mortgage loans. There can

be no assurance that the markets for these products will grow or that the Alfa Banking Group's share of the respective market will expand as anticipated. Furthermore, there are signs of overextension in the Russian consumer market as statistics indicate that household debt burden continues to increase and banks' cost of risk levels have been on the rise in 2019. According to the CBR, during the nine months of 2019, the debt service to income ratio increased from 9.9 per cent. to 10.6 per cent. driven, primarily, by unsecured consumer loans. Retail customers are generally a greater credit risk than large companies and increases in unemployment levels, default rates, loan losses, falling household income and other factors may negatively affect the performance of the retail segment. These factors create further risks for retail lenders in case Russia's GDP growth returns to zero or GDP begins to contract. Despite lending activity recovery and overall improvement of the loans in the retail sector during recent years, lending to this sector may represent a relatively higher degree of risk than lending to other groups, which may result in higher levels of past-due amounts. In addition, the retail lending sector is generally considered to be more susceptible to fraud than the Alfa Banking Group's corporate and investment banking business and the system of credit bureaus in Russia is not fully developed. This, combined with a lack of reliable data on fraud levels within Russia, particularly in the regions, represents an inherent risk for the Alfa Banking Group's retail business. The above could result in higher levels of credit loss allowance, and negatively impact capital adequacy ratios. In addition, the CBR introduced new regulations tightening the requirements for risk weighting on consumer loans in 2018 and 2019. These regulations have affected and will continue to affect capital adequacy levels of Russian banks, including Alfa Bank.

The ability of the Alfa Banking Group to grow its customer base in retail and MSME segments and expand its loan portfolio will depend upon continuing to implement new products and services tailored to customer needs, successfully competing with state-owned and private banks, as well as capital growth, in order to maintain its capital adequacy requirements. The Alfa Banking Group may also fail in its strategic objective of increasing fee and commission-based income. The failure of the Alfa Banking Group to respond appropriately to any of the risks set forth above could have a material adverse effect on its business, financial condition, results of operations and prospects.

Non-compliance with OFAC and EU sanctions programmes, an expansion of these programmes or a significant expansion of the Alfa Banking Group's dealings with any parties subject to sanctions could adversely impact the Alfa Banking Group's financial condition

The U.S. government has imposed economic sanctions against a number of countries as well as "Specially Designated Nationals" ("**SDNs**"). The implementation and enforcement of these sanctions is administered by the U.S. Department of the Treasury, Office of Foreign Assets Control ("**OFAC**") and consists of broad prohibitions and restrictions against transactions by U.S. persons with OFAC-designated countries and Specially Designated Nationals.

During the course of 2014, the U.S. and the EU (as well as other states, such as Canada, Switzerland, Australia and Japan) imposed sanctions on a number of Russian and Ukrainian persons and entities, including current and former officials and individuals, companies, banks and businessmen, with the consequence that entities and individuals in the U.S. and EU cannot do business with them or provide funds or economic resources to them, with assets in the relevant sanctioning jurisdictions subject to a freeze and the individuals to visa bans. In addition, the U.S. and EU have applied "sectoral" sanctions. These sanctions have imposed restrictions on the ability of several Russian leading state-owned banks to access the capital markets or otherwise obtain funding from persons in the U.S. and EU. Similar sanctions have been imposed on major companies in the oil and gas and defence sectors of the Russian economy. Moreover, the EU and U.S. prohibited the provision, exportation, or re-exportation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation and that involve certain companies in the Russian energy sector.

On 18 December 2014, the U.S. President signed into law a bill passed by the U.S. Congress which may extensively widen the scope of U.S. sanctions against Russian entities and persons. Among other things, the legislation authorises the U.S. President to impose significant additional sanctions on Russia's energy and defence sectors and restrictions on using the U.S. banking system by non-U.S. financial institutions that knowingly facilitate significant financial transactions on behalf of any Russian SDNs. Furthermore, in December 2014, the United States established a region-specific embargo prohibiting a wide range of activities in the Crimea region by U.S. persons. The sanctions also apply to non-U.S. persons in respect of their dealings with U.S. persons or through the U.S. financial system. The EU has maintained sanctions specifically targeting the Crimea region and the city of Sevastopol since June 2014. Furthermore, in December 2016 and more recently in December 2018, the U.S. introduced sanctions against Russia's intelligence services, the Main Intelligence Agency (GRU) and the Federal Security Service (FSB), as well as other entities and individuals associated with GRU in connection with certain allegations of tampering with the political process in the United States by those entities. On 12 September 2018, the U.S. President has signed an executive order that provides for the imposition of sanctions on countries, organizations and persons that the U.S. government determines have interfered in the

U.S. elections.

The current sanctions regime is a result of multiple extensions by the U.S. and EU in the term and scope of sanctions, including SDN designations from 6 April 2018 that targeted a number of Russian state officials and a number of prominent Russian businessmen and their businesses. It is currently unclear how long these sanctions will remain in place and whether new sanctions may be imposed. On 27 January 2019, the sanctions previously imposed on EN+ Group plc, United Company RUSAL plc and JSC EuroSibEnergo were lifted following negotiations between the U.S. Department of Treasury's Office of Foreign Assets Control and the above companies, which have agreed to provide additional information regarding their operations.

In February and March 2020 OFAC also targeted two Swiss subsidiaries of Rosneft for operating in the oil sector of the Venezuelan economy by brokering crude oil shipments.

The governments of the U.S. and certain EU member states, as well as certain EU officials have indicated that they may consider additional sanctions should fighting in Eastern Ukraine escalate. In March 2019, EU and the U.S. sanctioned a number of Russian individuals and entities over a stand-off with Ukraine in the Azov Sea in November 2018. In January 2020, EU and the U.S. imposed additional sanctions in respect of a number of Russian individuals for organizing the elections held in the Crimea and city of Sevastopol in September 2019. Tensions between Russia and the EU and between Russia and the U.S. have further increased recently as a result of the conflict in Syria, and there can be no assurance that the governments of the EU and US or other countries will not impose further sanctions on Russia related to the Syrian conflict.

In August 2014, on the basis of a directive issued by the President of the Russian Federation that cited the necessity to protect national interests, the Government of Russia introduced a one year ban on the import of certain agricultural products from countries that have adopted economic sanctions against Russian legal entities and individuals. This ban on exports was extended until 31 December 2020 in June 2019.

In addition, on 2 August 2017, the U.S. President signed into law the Countering America's Adversaries Through Sanctions Act (the "**CAATSA**") that includes additional sanctions against Russian entities. The CAATSA, *inter alia*, a) codifies the existing sanctions against Russia established by former President Obama's executive orders, reduces the permitted terms of financing under the existing sectoral sanctions and restricts supplies of equipment and services for new deepwater, Arctic offshore, or shale projects anywhere in the world in which a Russian sanctioned entity holds a 33% or more interest; b) gives the U.S. Treasury Secretary the power to impose sanctions against state-owned companies in Russia in the railways, metals, and mining sectors of the Russian economy; c) requires the U.S. President, subject to the ability to claim a national interest waiver, to impose certain secondary sanctions that were discretionary under the existing U.S. sanctions legislation (including, but not limited to, secondary sanctions for investing in or supporting special Russian crude oil projects and the facilitation of transactions on behalf of Russian SDNs); d) allows the U.S. President to introduce secondary sanctions on foreign persons (including those that invest in the construction or servicing of Russian energy export pipelines); and e) requires the U.S. President, subject to the ability to claim a national interest waiver, to impose asset-blocking and travel sanctions, including certain secondary sanctions, on any person who knowingly engages in significant activities that undermine the cybersecurity of any person or government, including a democratic institution, on behalf of the Russian government. In addition, the CAATSA requires the U.S. administration to submit various reports to U.S. Congress. In late January 2018, several such reports have been published, including a report under Section 241 of the CAATSA that identified certain Russian individuals and parastatal entities, as well as a report under Section 242 of the CAATSA on the effects of expanding sanctions to include sovereign debt and derivative products. The identification of any individuals or entities in such reports does not automatically lead to the imposition of new sanctions and it is not possible to predict whether any such identification could have a material adverse effect on the Russian economy or banking system, including the Alfa Banking Group.

The U.S. State Department imposed new sanctions on Russia under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the "**CBW Act**") on 27 August 2018. The initial set of sanctions under the CBW Act includes, among other things, termination of sales of any defence articles and services and prohibition on the export to Russia of certain national security-sensitive goods and technology. In accordance with the CBW Act, if within three months after the initial determination made under the CBW Act, the U.S. President were to determine that certain conditions set out in the CBW Act were not met, the U.S. President, after consultation with the Congress, was required to introduce further sanctions, including, among other things, the prohibition on U.S. banks to provide financing to the Russian state, extensive bans on exports and imports involving Russia and the possible suspension of aviation rights into the United States. In November 2018, the U.S. Department of State declared its intention to impose such additional sanctions following Russia's alleged failure to meet the respective conditions. On 2 August 2019, OFAC proceeded to issue a directive that prohibited US banks from participating in the primary market for non-Rouble denominated bonds issued by the Russian sovereign and also prohibited US banks from lending non-Rouble denominated funds to the Russian sovereign.

In December 2019, the U.S. President signed into law a bill passed by the U.S. Congress that provides for the introduction of certain sanctions on persons providing certain assistance in the construction of the Nord Stream 2 pipeline project. It is currently not possible to predict what impact these potential new sanctions or any retaliating measures by the Russian Government may have on the Russian economy or the Group's business.

Several pieces of legislation directed at amplifying U.S. sanctions against the Russian Federation have been introduced in the U.S. Congress and are currently under consideration. The current initiatives, if enacted, could affect, among other things, Russian sovereign debt, Russian energy projects and, the Russian energy and financial sectors. It is currently unclear at which point, if at all, any of these bills could be signed into law and what would be the scope of any new sanctions that may be imposed pursuant to such law.

Certain members of the Alfa Banking Group are under the jurisdiction of the EU and the Alfa Banking Group also includes members that are U.S. persons and as such are subject to applicable EU and U.S. laws, including the abovementioned sanctions. However, Alfa Bank itself is a Russian bank and is not a U.S. or EU person and the OFAC and EU sanctions regimes do not apply to it. None of the proceeds of the issue of any Notes will be used to fund activities or persons that are subject to sanctions introduced by the U.S. and the EU. Nevertheless, any material dealings with sanctioned persons by Alfa Bank may have certain commercial and business consequences as set out below. Alfa Bank's operations with some of the Russian persons and their controlled entities that are currently designated by OFAC as SDNs and/or subject to EU's asset freeze sanctions are rare and, according to the Alfa Banking Group's internal estimates, the overall volume of such operations with such persons and entities is insignificant and such operations are limited to the territory of the Russian Federation and are permissible pursuant to applicable law. Alfa Bank has from time to time provided financing to some of the entities subject to the sectoral sanctions without violation of any applicable sanctions legislation, although the volume of such operations was insignificant, and Alfa Bank may provide further financing in the future. However, there can be no assurance that compliance issues under OFAC and applicable EU regulations, measures or similar laws and regulations will not arise with respect to the Alfa Banking Group or its personnel.

Non-compliance with OFAC and applicable EU regulations by members of the Alfa Banking Group that are U.S. or EU persons could result in, among other things, debarment from the ability to contract with the U.S. and EU governments or their agencies, liability of the Alfa Banking Group and/or its personnel, the imposition of significant fines and negative publicity and reputational damage. In addition, should Alfa Bank's dealings with sanctioned counterparties become material, the Alfa Banking Group's ability to transact with U.S. or EU persons could be affected, even though such dealings would comply with applicable law. As a result, the ability of members of the Alfa Banking Group to raise funding from international financial institutions or the international capital markets may be inhibited.

Furthermore, should either OFAC, other U.S. governmental agencies or the Council of the EU expand their respective sanctions programmes, including the sectoral sanctions, to include any more of the Alfa Banking Group's existing or future clients, suppliers or other counterparties, further sectors of the Russian economy or otherwise, such an expansion could result in financial difficulties for such persons, the Alfa Banking Group's dealings with designated persons could become material or the suspension or potential curtailment of business operations between the Alfa Banking Group and the designated persons could occur. Should such events arise the Russian Government may continue to provide support to the Russian economy, including the Russian financial services sector, and the Russian Government has put in place initiatives with the view of limiting some of the effects of OFAC and EU sanctions, such as the establishment of a national payment system. Nonetheless, the introduction of large scale sanctions or the expansion of the existing sectoral sanctions on Russian companies or sectors of the Russian economy, including the Russian financial services sector, and potentially the adoption of further restrictive economic measures by Russia, may negatively affect the Russian economy and investment climate and lead to further deterioration of financial markets. Any of the foregoing could result in a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Although the Alfa Banking Group has no reason to believe that it may be specifically targeted by OFAC or EU sanctions, the introduction of any large scale sanctions on the Russian financial services sector, or the expansion of the sectoral sanctions that have been introduced by OFAC and the Council of the EU, may negatively affect the business of Russian banks, including Alfa Bank, in a number of ways. For example, even though Russian banks should be able to continue their operations and provide banking services in Russia, they may be forced to discontinue their dealings with U.S. and EU persons, including financial institutions, Visa and MasterCard financial corporations and rating agencies. In addition, Russian banks may not be able to use international settlement, clearing, payment and information exchange systems. The ability of members of the Russian banking sector to transact in U.S. Dollars or Euro with their counterparties may be limited, Russian banks may not be able to raise funding in the international markets, particularly those involving investors from the U.S. and the EU, which could lead to liquidity constraints and increased funding costs for Russian financial institutions. Furthermore, funds and other assets of Russian banks, as well as those belonging to their Russian customers, held by U.S. and EU financial institutions may be blocked. As a result, whilst the Alfa Banking Group would

consider and, to the extent possible, take measures available to it to discharge its obligations under the Loans, or facilitate the discharge of the Issuer's obligations under the Notes, as the case may be, the imposition of sanctions on the Russian financial services sector could negatively affect the ability of Noteholders to receive payments under the Notes. See also "*— Risk Factors Relating to the Notes and the Trading Market — An expansion of OFAC or EU sanctions programmes could adversely impact the trading market for the Notes*".

The measures undertaken by the Russian Government to provide liquidity and support the Russian banking sector during times of instability may not be available in the future or be sufficient, and the recent instability of the Russian banking sector may have a material adverse effect on the Alfa Banking Group's business, liquidity and financial condition

Historically, the Russian banking sector has experienced several downturns and constraints. In 2009, within the framework of Russian Government anti-crisis measures, Vnesheconombank (State Corporation Bank for Development and Foreign Economic Affairs) provided the Alfa Banking Group with two subordinated loans in the total amount of RUB39.6 billion and with maturities in 2019 and 2020. Under the terms of the Vnesheconombank loans, the Alfa Banking Group is required, among other things, to (a) maintain a portfolio of loans with a term of not less than six months issued to priority sectors of the economy in Russia in the amount of the January 2009 subordinated loan outstanding; (b) maintain a portfolio of loans with a term of not less than one year issued to priority sectors of the economy in Russia in the amount of the October 2009 subordinated loan outstanding at interest rates less than or equal to the CBR refinancing rate plus three per cent.; (c) obtain approval from Vnesheconombank for certain significant transactions; and (d) include Vnesheconombank nominees in Alfa Bank's management bodies (as of the date of this Base Prospectus, Vnesheconombank has refrained from nominating any candidate to be a member of Alfa Bank's Board of Directors).

The Alfa Banking Group's use of state funding was due in part to the limited availability of funding from other sources following the onset of the global economic crisis in Russia in 2008. There can be no guarantee that, if the Alfa Banking Group were at any time in the future unable to obtain sufficient liquidity in the market, it would be able to obtain further such loans from Vnesheconombank or other Russian Government agents. In addition, as at 31 December 2019, the Alfa Banking Group owned securities in the amount of approximately U.S.$6,862 million (at market value), which were listed in CBR's lombard list, a list of high-quality securities that are accepted by the CBR as collateral required to receive "lombard loans" (short-term loans provided by the CBR to credit institutions to meet their temporary borrowing requirements secured by the pledge of securities) (the "**Lombard List**"), and held assets, in particular, loans and advances to customers, which had been pre-approved by the CBR to be used as collateral for secured borrowing from the CBR. As at 31 December 2019, the Alfa Banking Group's due to other banks included balances outstanding to the CBR of U.S.$145 million compared to U.S.$ 116 million as at 31 December 2018.

In the wake of the deteriorating macroeconomic conditions in Russia and limited access to international sources of funding, in 2015 and 2016 the CBR implemented a number of measures to support liquidity in the Russian banking sector. In particular, the CBR gradually lowered its key interest rate from 17.0 per cent. in December 2014 to 7.25 per cent. in March 2018, retained low interest rate lending programmes provided to small and medium enterprises and expanded the Lombard List. The key interest rate is set at 6.0 per cent. as at the date of this Base Prospectus. In December 2014, the Russian parliament passed legislation allowing the Russian Government to make state contributions of up to RUB1 trillion to the State Deposit Insurance Agency via the issuance of federal state bonds for the purposes of providing capitalisation to Russian banks. The State Deposit Insurance Agency, in turn, has been authorised to lend these federal state bonds as subordinated debt to Russian banks or use them as a payment for subordinated bonds issued by Russian banks. Russian banks that receive subordinated debt under this capitalisation programme are required to comply with special requirements, including maintaining lending operations to the real sectors of economy, limitations on retail lending and interest rates for loans funded with via the programme and salaries for top-management and certain other requirements. Pursuant to this capitalization programme, the State Deposit Insurance Agency has lent to Alfa Bank federal state bonds with a total nominal value of RUB62,788 million by way of a subordinated loan in December 2015. In April 2017, Alfa Bank returned the federal state bonds to the State Deposit Insurance Agency except for five bonds with total nominal value of RUB 5,000 (see "*Operating and Finance Review of the Alfa Banking Group— Capital Management of the Alfa Banking Group*").

In April 2018, in order to mitigate the negative impact of recent sanctions and to support lending to the Russian economy, the CBR introduced certain measures allowing banks not to increase credit loss allowance on loans to sanctioned entities, other assets and contingent credit obligations.

No assurance can be given that initiatives to provide additional sources of capitalization to the Russian banking sector will be available in the future. Moreover, the specific terms on which such capitalization may be provided by the State Deposit Insurance Agency may make it considerably more expensive than market instruments or may impose substantial restrictions on operations or other aspects of a bank's activities, any of which may result

in banks declining to participate in the State Deposit Insurance Agency's capitalisation programme.

Notwithstanding the Russian Government's anti-crisis measures mentioned above, there is still reduced liquidity and capitalisation in the Russian banking sector and no assurance can be given that more severe liquidity problems will not occur in the future, or that the Russian Government will continue or be able to implement state support measures to support the Russian banking sector, in particular in case of any potential liquidity constraints or limitations on access to the international capital markets by Russian financial institutions. Any of which may, together or individually, have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

The Alfa Banking Group may face liquidity risks, which it may fail to mitigate if it is unable to raise sufficient funding

The Alfa Banking Group meets a significant portion of its funding requirements using customer accounts, which as a percentage of total liabilities represented 80.7 per cent. as at 31 December 2019 and 80.3 per cent. as at 31 December 2018. As at 31 December 2019, retail customer accounts held by individuals amounted to 49.8 per cent. of total customer accounts, and commercial and state and public organisation customer accounts amounted to 50.2 per cent. of total customer accounts.

Russian companies have significant capital requirements, which have been accentuated by the lack of commercially-justifiable funding available from the financial markets as a result of the global economic crisis, and more recently geopolitical tensions and limited access to international sources of funding. The Russian Civil Code (the "**Civil Code**") entitles retail depositors to withdraw deposits, including term deposits, at any time, without penalty to principal. As a result, the Alfa Banking Group's retail depositors may withdraw their deposits from the Alfa Banking Group at any time without notice and such unanticipated withdrawals of customer deposits may result in liquidity gaps that the Alfa Banking Group may not be able to cover.

The remainder of the Alfa Banking Group's funding is raised in the domestic and international capital, syndicated loan and interbank markets. The Alfa Banking Group has been able to access these markets by issuing U.S. dollar-denominated, Rouble-denominated, Swiss Franc-denominated, Euro-denominated Eurobonds and Euro-commercial paper ("**ECP**"), U.S. dollar-denominated syndicated loans and domestic Rouble-denominated bonds.

The Alfa Banking Group's ability to raise funding at commercially reasonable costs from the domestic and international markets in amounts sufficient to meet its ongoing liquidity needs could be adversely affected by a number of factors, including the condition of the Russian and international economies and the condition of the financial markets. If the sources of funding, including from the Russian Government, the domestic and international capital, syndicated loan and interbank markets, are not available, the Alfa Banking Group may not be able to generate sufficient cash to refinance or service its debts. If the Alfa Banking Group is not able to access sufficient liquidity, it may not be able to satisfy its obligations with respect to its debt, including the Notes which could have a material adverse effect on the Alfa Banking Group's liquidity position, as well as the value of the Notes. If geopolitical tensions continue to escalate or the economic situation or financial markets in Russia deteriorate further, there is no guarantee that the Alfa Banking Group will be able to access funding sufficient to fund its operations, or otherwise be able to continue to run and develop its business as planned, which may adversely impact the Alfa Banking Group's business, operating results, financial condition and prospects.

Significant depreciation or appreciation of the Rouble and fluctuations in foreign currency exchange rates may have a material adverse effect on the Alfa Banking Group

Certain members of the Alfa Banking Group, including Alfa Bank, use as their functional currency the Russian Rouble. However, the Alfa Banking Group's presentation currency is the U.S. dollar.

Monetary assets and liabilities originally denominated in currencies other than the functional currency of the respective Alfa Banking Group member are translated into the functional currency of such entity in connection with the preparation of the Consolidated Financial Statements. Gains and losses arising from such translations are reflected in the Alfa Banking Group's profit or loss as foreign exchange translation gains less losses. For the purposes of the presentation of the Consolidated Financial Statements, assets and liabilities are translated into the presentation currency of the Alfa Banking Group, the U.S. dollar, at the relevant balance sheet date. The Alfa Banking Group's Rouble net balance sheet and derivatives position, calculated as excess of Rouble-denominated assets over Rouble-denominated liabilities plus net position in derivatives, was a negative position of U.S.$1,242 million and a negative position of U.S.$552 million as at 31 December 2019 and 31 December 2018, respectively. Having a positive net Rouble balance sheet and derivatives position tends to result in foreign exchange translation losses during the period when the U.S. dollar appreciates against the Rouble in nominal terms and in foreign exchange translation gains during the period when the U.S. dollar depreciates against the Rouble in nominal terms.

Throughout 2014, the Rouble depreciated significantly against the U.S. dollar, reaching RUB67.82 per U.S.$1.00 on 18 December 2014, as a result of falling oil prices, slowdown of the Russian economy, capital outflows and deterioration of the geopolitical environment, including as a result of the events in Ukraine and in the introduction of sanctions by Western countries on certain Russian individuals and legal entities. In 2019, Rouble moderately depreciated against U.S. dollar from lows recorded in 2018. As at 31 December 2019, the Rouble / U.S.$ exchange rate amounted to RUB61.91 per U.S.$1.00 and RUB80.88 per U.S.$1.00 as at 24 March 2020, which reflects the Rouble depreciation against the U.S. dollar as a result of the recent decline in oil prices.

In addition to possible foreign exchange transaction losses, the depreciation of the Rouble against the U.S. dollar could negatively affect the Alfa Banking Group in a number of ways. The Alfa Banking Group maintains mismatches between the currency of its liabilities and the currency of its assets. These mismatches expose the Alfa Banking Group to exchange rate risk, which risk has increased significantly in light of the Rouble's recent volatility against the U.S. dollar and the Euro. Upon a depreciation of the Rouble against foreign currencies, the Alfa Banking Group becomes subject to higher interest payments on its foreign currency denominated liabilities when calculated in Rouble terms. The depreciation of the Rouble against the U.S. dollar also makes it more difficult for some Russian borrowers to service their U.S. dollar loans, especially for borrowers with predominantly Rouble revenue, which may adversely affect their credit quality. An appreciation of U.S. dollar-denominated and other foreign currency loans in Rouble terms also leads to higher credit risk concentrations in lending portfolios and puts additional pressure on Russian banks' capital and provisioning requirements. The Alfa Banking Group plans to continue to access the international capital and syndicated loan markets, which subjects it to risks inherent in currency fluctuations and uncertainty of these markets as a reliable funding source. Although the Alfa Banking Group sets limits and performs certain other measures aimed at reducing currency risk, including, but not limited to, entering into foreign exchange derivative contracts, fluctuations in prevailing foreign currency exchange rates may adversely affect the Alfa Banking Group's business, financial condition, results of operations and prospects and may adversely affect the value of the Notes.

The Alfa Banking Group faces intense competition in Russia and other markets where it operates

The Russian market for financial and banking services is intensely competitive. The Alfa Banking Group faces competition from both domestic and foreign banks. According to the CBR, as at 1 January 2020, 442 credit organisations were operating in Russia. In the Russian corporate banking market, the Alfa Banking Group principally competes with Sberbank, VTB Bank, Gazprombank, Otkritie Bank, UniCredit Bank, Rosbank, Tinkoff Bank, Modulbank and Raiffeisenbank, as well as a number of other national and regional banks and certain number of the world's largest international banks. In the investment banking sector, the Alfa Banking Group's primary competitors are Sberbank CIB, VTB Capital, Gazprombank and foreign investment banks. In the Russian retail banking market, the Alfa Banking Group's principal competitors are Sberbank, VTB, Raiffeisenbank, Citibank, Russian Standard Bank, Home Credit and Finance Bank, Russian Agricultural Bank, Vostochny Express Bank, Sovcombank, and Tinkoff Bank, as well as a number of other national and regional banks and Russian subsidiaries of foreign banks. In addition to facing competition in Russia, the Alfa Banking Group's subsidiaries, branches and representative offices elsewhere compete with national and/or international banks and non-banking credit organisations in the jurisdictions in which they operate. See "*Description of the Alfa Banking Group—Competition in the Russian Banking Market*".

Some of the banks with which the Alfa Banking Group competes in Russia, including, in particular, Sberbank and VTB Bank and, with respect to the Alfa Banking Group's corporate lending activities, international universal banks, are larger and have greater capital resources available to them. In the non-Russian jurisdictions in which the Alfa Banking Group operates, the Alfa Banking Group faces competition from larger, more established and better capitalised local financial institutions. In addition, the deterioration of economic conditions in Russia and worldwide during the global economic crisis forced Russian financial institutions to tighten their credit risk assessment criteria, which dramatically limited the number of borrowers able to meet such criteria. At the same time, and also as a result of deterioration of economic conditions during the global economic crisis, a number of borrowers reduced their business and/or growth plans, which decreased to some extent their funding requirements. These factors led to intensified competition in the corporate lending market. Such trend has had, and may in the future have, a negative impact on the interest margin of the Alfa Banking Group.

If the Alfa Banking Group were unable to continue to compete successfully in the markets in which it operates and/or is unable to succeed in achieving its strategies of growth and expansion, this would have a material adverse effect on its business, financial condition, results of operations and prospects. Furthermore, the Alfa Banking Group may be subject to further increased competition from Russian banks and other financial providers of financial services (including existing and potential new providers of digitalized online banking services), as to the market continues to grow and competitors develop and roll out new products and services. As

such, the Alfa Banking Group's market share and results of operations are subject to competitive pressures from existing competitor products and new products that have the potential to disrupt the Alfa Banking Group's operations.

The competitive landscape in the Russian banking sector has changed after the global economic crisis. While a number of international banks have scaled down their operations, banks which are directly or indirectly owned by or affiliated with the Russian Federation, such as Sberbank, VTB Bank, Russian Agricultural Bank, Gazprombank and Bank Otkritie have continued to build on their positions in the Russian banking sector. State-owned banks and banks affiliated with the Russian Federation have been able to entrench and consolidate their positions partly because they receive significantly larger amounts of state funding than privately-owned banks, such as the Alfa Banking Group and state funding in Russia tends to be cheaper than that which is available from the private sector. If state owned or affiliated banks continue to benefit from greater levels of state funding and credit support than the Alfa Banking Group in the future this could adversely affect the Alfa Banking Group's ability to compete with such banks, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Alfa Banking Group may be unable to reduce the industry and borrower concentrations in its loan portfolio

The Alfa Banking Group's loan portfolio is exposed to certain economic sectors. As at 31 December 2019, individuals, oil industry, food industry and agriculture, finance and investment companies, trade and commerce and real estate and construction accounted for 26 per cent., 12 per cent., 9 per cent., 7 per cent., 7 per cent. and 7 per cent., respectively, of the Alfa Banking Group's gross loan portfolio (excluding loans to banks and off-balance sheet credit related commitments and performance guarantees) compared to 20 per cent., 13 per cent., 8 per cent., 8 per cent., 7 per cent. and 9 per cent., respectively, as at 31 December 2018. In recent years, the Alfa Banking Group had stopped providing financing to companies involved in some sectors of the Russian economy, including in the infrastructure construction sector, and reduced lending to certain other sectors which in the management's view are experiencing a downturn or are associated with higher credit risks. In addition, as at 31 December 2019, loans to the Alfa Banking Group's ten largest non-bank borrowers (or groups of related borrowers) amounted to U.S.$7,318 million, representing 18.4 per cent. of the Alfa Banking Group's total gross loans to customers, compared to U.S.$6,629 million (21.7 per cent.) as at 31 December 2018. The Alfa Banking Group is sensitive to the downturns in the sectors in which it has high industry concentrations or where its largest borrowers operate, as well as adverse changes to such borrowers' business and financial condition. There can be no assurance that the Alfa Banking Group will be able to achieve or maintain a greater level of diversification in its loan portfolio. The Alfa Banking Group's failure to do so may have a material adverse effect on its business, financial condition, results of operations and prospects.

The CBR imposes a limit on all Russian banks' exposure to a single borrower or group of related borrowers of 25 per cent. of such bank's regulatory capital, which must be monitored on a daily basis. See "*The Banking Sector and Banking Regulation in the Russian Federation—Mandatory Economic Ratios*". As at the date of this Base Prospectus, Alfa Bank is in compliance with the CBR's limit on exposure to a single borrower or a group of related borrowers. However, Alfa Bank's exposure to a single borrower or a group of related borrowers could rise above this limit, for reasons including a change in the composition of Alfa Bank's loan portfolio, foreign currency exchange rate changes or changes in the CBR's limit level or interpretation of how the limit should be calculated. The sanctions for failure to comply with this requirement could include fines, the temporary administration of Alfa Bank by the CBR or the revocation of Alfa Bank's banking licence. If Alfa Bank exceeded its exposure to a single borrower or a group of related borrowers and the CBR took sanctions, the Alfa Banking Group's business, financial condition, results of operations and prospects could be materially adversely affected.

A decline in the value or liquidity of the collateral securing the Alfa Banking Group's loans may adversely affect the Alfa Banking Group's loan portfolio

A substantial portion of the Alfa Banking Group's loans to corporate customers and individuals is secured by collateral such as real property, land leasing rights, production equipment, vehicles, aircraft, ships, securities, precious metals, raw materials and inventory. Downturns in the corresponding economic sectors and any continuation in the worsening of economic conditions in Russia may result in declines in the value of collateral securing the Alfa Banking Group's loans to levels below the amounts of the outstanding principal and accrued interest on those loans. The reduced collateral values may not be sufficient to cover uncollectible amounts on the Alfa Banking Group's secured loans, which may result in the Alfa Banking Group being required to reclassify the relevant loans, establish additional credit loss allowance. A failure to recover the expected value of the collateral may expose the Alfa Banking Group to loan losses, which may materially and adversely affect the Alfa Banking Group's business, financial condition, results of operations and prospects.

In addition, the Alfa Banking Group may acquire controlling or minority stakes in defaulting companies, which operate in sectors that are not core to the Alfa Banking Group's business and in respect of which the Alfa Banking Group has no operational or management expertise. The Alfa Banking Group may not have an adequate number of personnel with sufficient experience to assume control of and manage these companies and if the Alfa Banking Group is unable to avoid doing so, this may divert key management time away from its key activities. Further, the Alfa Banking Group may fail to manage these businesses efficiently once it has assumed control.

It may be difficult for the Alfa Banking Group to enforce security and/or guarantees under Russian law

The Alfa Banking Group enters into security arrangements for loans made to its corporate and retail customers. The enforcement of security under Russian law generally requires either an agreement of the parties for an out of court enforcement procedure (which is relatively new, has recently been amended and is subject to specific requirements, including in certain cases the requirement for foreclosure through a notary public) or, in certain cases, a court order followed by a public sale of the collateral. A court may in certain circumstances delay such public sale for a period of up to one year upon a pledgor's application. Therefore, the Alfa Banking Group may have difficulty foreclosing on collateral or enforcing other security when customers default on their loans, which may adversely affect the Alfa Banking Group's business, financial condition, results of operations and prospects.

Further, even where the Alfa Banking Group is successful in foreclosing on collateral, it may be difficult to find buyers for such collateral and it may be sold for significantly less than its appraised value. Any failure to recover the expected value of collateral may expose the Alfa Banking Group to losses, which may materially adversely affect the Alfa Banking Group's business, financial condition, results of operations and prospects.

A substantial portion of the Alfa Banking Group's loans to corporate customers is secured by collateral such as real property, land leasing rights, production equipment, vehicles, securities, precious metals, raw materials and inventory, as well as beneficiaries' sureties. Loans to individual retail customers are mostly unsecured, with the exception of mortgage loans. See "*Description of the Alfa Banking Group—Retail Banking—Mortgage lending*". In addition, a substantial portion of the Alfa Banking Group's loans to corporate customers is secured by the borrower's agreement that a certain volume of its cash receivables will flow through accounts over which the Alfa Banking Group has direct debit rights. However, if the value of the collateral provided or the financial condition of the guarantors or sureties deteriorates or if the borrower diverts funds away from such bank accounts (under Russian law, a borrower may close its bank account with a Russian bank at any time), the Alfa Banking Group may not be able to recover on the collateral, guarantees, sureties or direct debit arrangements, which may lead to losses, materially adversely affecting its business, financial condition, results of operations and prospects. See "*Risk Management*".

The preparation of the Consolidated Financial Statements requires management to make judgments, estimates and assumptions and the accuracy of these estimates and assumptions could have a material impact on the Consolidated Financial Statements

The preparation of the Consolidated Financial Statements requires the Alfa Banking Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. On an ongoing basis, the Alfa Banking Group's management evaluates its estimates and judgments, including those related to expected credit losses on loans and advances, fair value of financial instruments, functional currencies, initial recognition of related party transactions, income taxes and other matters. Management bases its estimates and judgments on historical experience and on various other factors that it believes to be reasonable under the circumstances. Actual results may differ from these estimates and conditions, and such differences may be material. Refer to Note 4 to the Consolidated Financial Statements appearing elsewhere in this Base Prospectus for further details.

The judgments, estimates and assumptions that the Alfa Banking Group's management makes are based on information available at the time. Should circumstances change, the outcome may be materially different from what was envisaged at the time the judgments, estimates and assumptions were made. Should this occur, it could have a material adverse effect on the Consolidated Financial Statements, including the reported profit and balance sheet.

The interests of Alfa Bank's principal shareholders may conflict with those of other stakeholders and the relationship of the shareholders with the Russian Government could have an adverse effect on the Alfa Banking Group's business, financial condition and results of operations

Messrs. Mikhail Fridman, German Khan and Alexei Kuzmichev are the Alfa Banking Group's principal shareholders, directly holding 32.86 per cent., 20.97 per cent. and 16.32 per cent., respectively, of ABH Holdings S.A.'s ("**ABH Holdings**") outstanding share capital as at the date of this Base Prospectus. The principal shareholders have exercised and will continue to be able to exercise influence over the Alfa Banking

Group's activities. See "*Ownership*" and "*Description of the Alfa Banking Group*". While its principal shareholders have historically supported the Alfa Banking Group, there can be no assurance that they will continue to provide financial support to the Alfa Banking Group or that the principal shareholders may not have interests that differ from those of the Alfa Banking Group. As a result of their indirect ownership of a substantial percentage of the Alfa Banking Group's outstanding shares and their ability to influence the appointment of ABH Financial's Board of Directors, the Alfa Banking Group's shareholders may prevent the Alfa Banking Group from making certain decisions or taking certain actions that would benefit it. For example, the principal shareholders may from time to time have interests in certain industrial sector companies. If any of these companies experience financial difficulties, then the principal shareholders could elect to provide additional funding to such companies through exercising their influence over the Alfa Banking Group, which could adversely affect the Alfa Banking Group's business, financial condition, results of operations and prospects.

The Alfa Banking Group could suffer damage to its reputation that would lead clients to take their business elsewhere

To attract and retain clients, the Alfa Banking Group depends to a large extent on its relationships with existing clients and its reputation for integrity and high-quality professional services. As a result, if a client is not satisfied with the Alfa Banking Group's service, the damage the Alfa Banking Group suffers may be greater than simply the loss of that client's business. Any negative publicity, including factually inaccurate negative publicity, could damage the Alfa Banking Group's reputation, cause existing clients to take their business elsewhere and lead potential customers to take their business to the Alfa Banking Group's competitors and lead to greater regulatory scrutiny. Negative publicity could arise from any number of sources, including litigation, press speculation, employee misconduct, operational failures and current and future investigations by regulatory authorities. The Alfa Banking Group could also experience negative publicity and reputational damage as a result of the misconduct of its distribution partners or intermediaries they work with, its joint venture partners or acquired businesses. Unlike state owned banks that may be perceived by the public as being first in line to benefit from state support in times of distress, private banks, like Alfa Bank, may need to rely more heavily on their business reputation and the perception of their financial well being. For the reasons discussed above, any damage to the reputation of the Alfa Banking Group could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

The Alfa Banking Group's banking business entails operational and technological risks

The Alfa Banking Group is exposed to many types of operational risk, including the risk of fraud by employees or outsiders, mismanagement, unauthorised transactions by employees and operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. Given the Alfa Banking Group's high volume of transactions, errors may be repeated or compounded before they are discovered or rectified. In addition, the Alfa Banking Group's information technology systems do not fully support its operations and a number of transactions at the Alfa Banking Group are processed manually, which may further increase the risk that human error or employee tampering or manipulation will result in losses that are difficult to detect. Additionally, the exposure to operational and related risks may become more prevalent as the Alfa Banking Group expands its operations in the MSME segment because such operations entail higher volume of transactions and less transparent borrowers that may have lower governance standards compared with large corporate clients.

One of the key goals of the Alfa Banking Group's strategy involves achieving a technological shift in operations and infrastructure (see "*Description of the Alfa Banking Group—Strategy—Shift to a New Technological Level*"). The execution of this strategy and the Alfa Banking Group's operations more generally are exposed to technological risks. To achieve this goal, the Alfa Banking Group is implementing various information technology infrastructure development programmes across its branch network and other business operations (see "*Description of the Alfa Banking Group—IT Infrastructure*"). The implementation of these new information technology systems has involved significant changes across a wide range of the Alfa Banking Group's operating activities and required the retraining of a significant number of the Alfa Banking Group's employees. Furthermore, the Alfa Banking Group's banking business requires the development of sufficient communication channels and software, the creation of large automated systems and considerable computer capacity located throughout the Russian Federation.

Therefore, the Alfa Banking Group's financial performance, its ability to meet its strategic objectives and its ability to manage risks arising out of the market environment and to manage the future growth of its branch and office network depend and will continue to depend to a significant extent upon the functionality of its IT systems and its ability to increase systems capacity and functionality. The Alfa Banking Group invests considerable time and money in order to upgrade its technologies in a timely manner, centralise its information systems, create appropriate reserves and duplicate capacities, develop internal audit functions and control the operation of its

hardware and software. A disruption (even short-term) to the functionality of the Alfa Banking Group's IT systems, or delays in increasing the capacity of the IT systems, could have a material adverse effect on the business, financial condition, results of operations and prospects of the Alfa Banking Group. In addition, insufficient integration of the IT system increases the Alfa Banking Group's operational risks and the costs of further business development. The inability of the Alfa Banking Group's IT systems to adequately support its operations may have a material adverse effect on its ability to monitor and manage its operations.

The Alfa Banking Group's ability to operate its business depends on its ability to protect the computer systems and databases which the Alfa Banking Group operates and uses from the intrusion of third parties who may attempt to gain access to the Alfa Banking Group's computer systems, networks or databases through the Internet or otherwise. Although the Alfa Banking Group believes that its computer systems, networks and databases are well protected from unauthorised intrusion by a range of both physical and programming measures, given the potential technical and financial resources of intruders, full assurance cannot be given that its computer systems, networks and databases will not suffer from such attacks in the future.

There can be no assurance that the Alfa Banking Group will be able at all times to successfully monitor, prevent and manage its operational and technological risks in the future. Any failure to do so could materially adversely affect the Alfa Banking Group's business, financial condition, results of operations and prospects.

Employee misconduct is difficult to deter and detect and could harm the Alfa Banking Group's reputation and business

The Alfa Banking Group faces the risk of loss due to issues that may arise out of its employees' lack of knowledge and wilful, negligent or involuntary violations of laws, rules and regulations or other misconduct. Misconduct by employees is a recurring risk in the financial services industry and could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines as well as serious reputational or financial harm. Misconduct by employees, including the violation of the Alfa Banking Group's own internal risk management policies, could also include binding the Alfa Banking Group to transactions that exceed authorised limits or present unacceptable risks, or hiding unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks and losses. It is not always possible to guard against employee misconduct and ensure full compliance with the Alfa Banking Group's risk management policies, and the precautions the Alfa Banking Group takes to detect such activity may not always be effective. The direct and indirect costs of employee misconduct can be substantial and could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

The Alfa Banking Group may be unable to recruit or retain experienced and/or qualified personnel

The Alfa Banking Group's growth depends in part on its ability to continue to attract, retain and motivate qualified and experienced banking and management personnel in Russia. The Alfa Banking Group credits a significant part of its success to recruiting high-calibre international and Russian management and employees with international qualifications and relevant international experience. However, its ability to continue to attract and retain such people in large part is dependent upon the continued growth of the Russian economy, the Russian banking system and the Alfa Banking Group's ability to remunerate and develop its employees. Further volatility in the Russian economy or the banking system may adversely impact its ability to continue to recruit and retain high-calibre staff at all levels.

In addition, the emergence of other Russian banks and foreign banks and financial institutions in Russia and the other regions in which the Alfa Banking Group operates not only represents an increase in competition for business but an increase in competition in the specialised financial services employment markets. The Alfa Banking Group faces the risk of competitors recruiting its employees.

Competition in the Russian banking industry for personnel with relevant expertise is intense, due to the relatively small number of available qualified individuals and there is a high level of turnover among junior bank employees, in particular, in its retail banking business. In addition, competition from state banks for personnel continues to pose risks for private banks, including Alfa Bank. To recruit qualified and experienced employees and to minimise the possibility of their departure to other banks, the Alfa Banking Group provides compensation packages and long-term motivation programmes consistent with evolving standards in the Russian labour market. However, any failure on the part of the Alfa Banking Group to retain its management and other key staff, or to recruit and retain qualified and experienced personnel in Russia or manage the Alfa Banking Group's human resources successfully could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects. See "*Description of the Alfa Banking Group—Employees*".

Any acceleration in the repayment of Alfa Banking Group's indebtedness or deterioration in the Alfa Banking Group's business or financial results may result in the Alfa Banking Group being unable to support the interests of the Noteholders

As at 31 December 2019, the Alfa Banking Group had numerous outstanding publicly traded debt obligations raised outside of the Russian Federation, including senior loan participation notes issues, subordinated loan participation notes issues (including perpetual loan participation notes) and ECP issues (collectively, the "**Alfa Banking Group Indebtedness**"). See "*Operating and Financial Review of the Alfa Banking Group—Financial Position—Debt Securities Issued, Other Debt and Subordinated Debt*". The Alfa Banking Group Indebtedness provides recourse to either both Alfa Bank and ABH Financial or, as the case may be, Alfa Bank or ABH Financial only.

If Alfa Bank ceases to be controlled (directly or indirectly) by ABH Financial and certain other conditions are met, then portions of the Alfa Banking Group Indebtedness may become due and payable, which, in turn, may have a negative impact on the Alfa Banking Group's ability to support the Issuer's obligations under the Notes.

It is possible that if the business or financial results of one or more entities within the Alfa Banking Group were to deteriorate, the overall financial stability of the Alfa Banking Group would weaken and the rating of Alfa Bank and/or the Notes may be downgraded, which, in turn, may adversely impact the Alfa Banking Group's ability to support the Issuer's obligations under the Notes.

In addition, any financial difficulties of ABH Financial, as a result of the acceleration of any Loan or otherwise, may lead to substantial repercussions for Alfa Bank and the principal shareholders of the Alfa Banking Group, including, without limitation, increased scrutiny from the CBR and/or regulatory measures for failure to comply with CBR requirements relating to the financial standing of shareholders/controlling persons, difficulties in raising new financing or outflow of deposits, negative publicity and other consequences. Russian banking regulations require shareholders/controlling persons of Russian banks to be financially viable and this imposes certain obligations on them. Furthermore, the introduction of any involuntary reorganization, bankruptcy proceedings or other arrangements with respect to ABH Financial can have a negative impact on the ability of the principal shareholders of the Alfa Banking Group to control or provide financial support to Alfa Bank. Any of these factors can lead to a disruption in the operations of Alfa Bank and, in turn, lead to or exacerbate the financial difficulties of ABH Financial and adversely impact the value of the Notes

The Alfa Banking Group may fail to effectively identify or execute strategic acquisitions or investments, and if the Alfa Banking Group were to pursue such transactions it may fail to successfully integrate them into or realise anticipated benefits to its business in a timely manner

The Alfa Banking Group may selectively pursue opportunities to acquire or make investments in businesses, products, technologies or innovations, which complement its business and strategy. The Alfa Banking Group may not be able to identify suitable acquisitions or investments, or it may not be able to complete any transaction on acceptable terms, or at all. Any acquisitions or investments the Alfa Banking Group may pursue in the future could entail risks, including:

- difficulties in realising cost, income or other anticipated benefits or synergies from the acquired entity or investment, including the loss of key employees or intellectual property from the acquired entity or investment;
- costs of executing the acquisition or investment, including financial costs, business disruption and increased management attention;
- potential for undermining the Alfa Banking Group's strategy, customer relationships or other elements critical to the success of the Alfa Banking Group's business;
- inadequate due diligence or errors in valuation or assessment of the acquisition or investment;
- liabilities or losses resulting from the Alfa Banking Group's control of the acquired entity or investment, including inherited legal claims; and
- difficulty integrating the acquired business, including difficulty in adapting acquired technology to the Alfa Banking Group's own systems.

If the Alfa Banking Group pursues acquisitions or investments in the future and experiences any of the above or other difficulties, its business, results of operations, financial condition and prospects could be materially adversely affected.

The Alfa Banking Group may be unable to meet its regulatory requirements relating to capital adequacy

Alfa Bank is required by the CBR to have a minimum RAR-based total capital adequacy ratio (the

"**N1.0 Ratio**"), of 8.0 per cent. (10 per cent. prior to 1 January 2016), a common equity tier 1 capital adequacy ratio (N1.1) (the "**N1.1 Ratio**") of 4.5 per cent. (5.0 per cent. prior to 1 January 2016) and a tier 1 capital adequacy ratio (N1.2) (the "**N1.2 Ratio**") of 6.0 per cent. (5.5 per cent. prior to 1 January 2015). As at the date of this Base Prospectus, a capital conservation buffer of 2.5 per cent. and a capital buffer for systemically important credit organisations of 1 per cent. is applicable to Alfa Bank's minimum capital adequacy requirements. These ratios must be reported to the CBR by Alfa Bank each month. Alfa Bank's N1.0 Ratio amounted to 12.65 per cent. as at 1 January 2020 and 13.52 per cent. as at 1 January 2019, which in each case exceeded the minimum required by the CBR. Alfa Bank's N1.1 Ratio and N1.2 Ratio as of 1 January 2020 amounted to 9.09 per cent. and 10.67 per cent., respectively, and as of 1 January 2019 amounted to 9.50 per cent. and 11.55 per cent., respectively, which in each case exceeded the minimum required by the CBR. See "*—The CBR regulations phasing in Basel III in Russia could have an adverse effect on Alfa Bank, its capital ratios and its regulatory capital*" and "*The Banking Sector and Banking Regulation in the Russian Federation—Regulation—Mandatory Economic Ratios*" for further details on the capital and other mandatory economic ratios set by the CBR.

In addition, the Basel Committee on Banking Supervision recommends a minimum risk-based capital adequacy ratio of 8.0 per cent., calculated in accordance with the International Regulatory Framework for Banks ("**Basel III**"). The Alfa Banking Group's total capital adequacy ratio, calculated in accordance with Basel III, was 18.3 per cent. as at 31 December 2019, compared to 18.2 per cent. as at 31 December 2018 . The Alfa Banking Group's Tier I capital adequacy ratio was 16.3 per cent. as at 31 December 2019, compared to 17.3 per cent. as at 31 December 2018. Both ratios, the total capital adequacy ratio and Tier I capital adequacy exceeded the minimum risk based capital adequacy ratio recommended by Basel III.

However, if Alfa Bank's capital position were to decline below the minimum statutorily required levels of capital adequacy, its banking licences could be suspended or revoked and it could encounter difficulties in continuing to operate its business and obtaining funding, which could materially adversely affect its business, financial condition, results of operations and prospects. The Alfa Banking Group's capital adequacy level may decrease organically with the growth of business or the payment of dividends.

In recent years, the CBR, in cooperation with Russian banks, has gradually implemented international standards for capital adequacy of credit organisations under "Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework", as issued by the Basel Committee ("**Basel II**") as well as Basel III. See "*The Banking Sector and Banking Regulation in the Russian Federation—Regulation—Mandatory Economic Ratios*".

In addition, in December 2017, the Basel Committee published the final Basel III standards (also known as Basel 3.5 or Basel IV) that are intended to enhance risk sensitivity and to implement changes to the design and calibration of the leverage ratio and capital floors. The majority of these reforms are scheduled to be implemented by January 2022. There can be no guarantee that the implementation of Basel IV, if and when conducted by the CBR, will not have a material adverse effect on Alfa Bank's financial results and capital adequacy ratios.

Requirements imposed by regulators, including capital adequacy requirements, are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom the Alfa Banking Group deals. These requirements are not designed to protect holders of the Notes and may limit the Alfa Banking Group's activities, including its lending, and may increase the Alfa Banking Group's costs of doing business, or require the Alfa Banking Group to seek additional capital in order to maintain CBR capital adequacy requirements or different varieties of funding to satisfy the CBR's liquidity requirements. In addition, in November 2019, the CBR introduced new regulations tightening the requirements for risk weighting on consumer loans.

Further similar changes in regulation with respect to risk-weightings and provisioning could have a material adverse effect on Alfa Bank's financial results and capital ratios.

The Alfa Banking Group's ability to obtain additional capital may be restricted by a number of factors, including:

- the Alfa Banking Group's future financial condition, results of operations and cash flows;
- any necessary regulatory approvals;
- the ability of the Alfa Banking Group's shareholders to provide additional capital; and
- general market conditions for capital-raising activities by commercial banks and other financial institutions.

If the Alfa Banking Group requires additional capital in the future in order to meet Alfa Bank's CBR capital adequacy requirements, it cannot guarantee that it will be able to obtain this capital on favourable terms, in a

timely manner or at all. The Alfa Banking Group's shareholders are under no obligation to inject additional capital into Alfa Bank.

In addition, any breach of regulatory requirements in the Russian Federation could expose Alfa Bank and the Alfa Banking Group to potential liability and other sanctions, including the loss of Alfa Bank's general banking licence.

The CBR regulations phasing in Basel III in Russia could have an adverse effect on Alfa Bank, its capital ratios and its regulatory capital

On 1 March 2013, Regulation No. 395-P "On the Methodology of Calculation of Value and Adequacy of Capital of Credit Organisations (Basel III)" of the CBR implementing Basel III principles with respect to the composition and assessment of sufficiency of bank regulatory capital entered into force in Russia and was subsequently replaced with Regulation No. 646-P "On the Methodology of Calculation of Value and Adequacy of Capital of Credit Organisations (Basel III)" of the CBR implementing Basel III principles with respect to the composition and assessment of sufficiency of bank regulatory capital ("**Regulation No. 646-P**"). See "*The Banking Sector and Banking Regulation in the Russian Federation—Regulation—Regulation of Capital*". The Alfa Banking Group's management believes that the impact of these regulations on Alfa Bank's capital adequacy ratios has so far been insignificant, but there can be no assurance that full implementation of Regulation No. 646-P will not have a material adverse effect on Alfa Bank's financial results and capital ratios, which means that Alfa Bank might be forced to either raise additional capital or reduce the amount of its lending.

On 20 October 2015, the CBR published a list of systemically important credit organisations, which includes Alfa Bank and nine other Russian banks, that together account for over 60 per cent. of total assets of the Russian banking sector. The criteria used by the CBR to determine systemically important credit organisations included, among others, the size of a credit organisation in terms of total assets, the share of deposits placed by individuals in the total deposit base of the Russian banking system, as well as the volume of transactions in the interbank market. Systemically important credit organisations have to comply with additional regulatory requirements, including a liquidity coverage ratio ("**LCR**") and additional requirements for capital adequacy in accordance with Basel III. The LCR is applied by the CBR as a prudential ratio for systemically important credit organisations starting from 1 January 2016 and is set at 100 per cent. In January 2020, the CBR published a report on systemically important credit organisations which contemplates potential changes in banking regulation applicable to systemically important credit organisations including implementation of a new mandatory credit exposure ratio and differential capital buffers. These changes, if enacted, may result in further constraints for systemically important banks and require additional capital resources to comply with them. As at the date of this Base Prospectus, the capital conservation buffer is set at 2.5 per cent. The CBR has set a countercyclical buffer for banks at 25 per cent. of the weighted average of countercyclical buffers set in all jurisdictions to which the bank has credit and market exposure (calculated in accordance with applicable CBR rules) starting from 1 January 2016 which will gradually increase each year to reach 100 per cent. by 2019. The level of the applicable countercyclical buffer for Russian banks is determined by the CBR and as at the date of this Base Prospectus is set at zero per cent. of risk-weighted assets. Systemically important credit organisations are subject to an additional capital buffer, which as at the date of this Base Prospectus is set at 1 per cent. The CBR may also amend the capital adequacy requirements and increase the capital adequacy ratios applicable to Russian banks at any time and, in such circumstances, Alfa Bank may be forced to seek additional capital or alternative sources of financing to comply with these requirements. Such additional capital or alternative sources of financing may not be available or may only be available on commercially unacceptable terms. Any of the above factors may, individually or in the aggregate, have a material adverse effect on Alfa Bank's business, results of operations, financial condition and prospects.

Changes in regulatory consumer lending requirements, consumer protection or other applicable banking legislation or their interpretation by courts and regulators may hinder the Alfa Banking Group's consumer lending operations, impose greater compliance requirements and adversely affect its growth, financial conditions and profitability

Until December 2013, in the absence of specific consumer lending laws, the general Law of the Russian Federation No. 2300-1 of 7 February 1992, "On Protection of Consumers Rights", as amended (the "**Consumer Protection Law**") had provided general protection for consumers of banking services, including consumers of retail finance loans. In addition to the Consumer Protection Law, Federal Law No. 353-FZ dated 21 December 2013 "On consumer loan" (the "**Consumer Lending Law**") came into force on 1 July 2014. The Consumer Lending Law is intended to provide more specific regulation of consumer protection in the Russian banking sector, in contrast to the Consumer Protection Law, which contains rules that apply to consumer protection in general. The Alfa Banking Group's retail lending documentation, practices and procedures underwent an internal review process and certain changes were introduced to such documentation, practices and procedures in

connection with the requirements of the Consumer Lending Law, including amendments to standardized loan documents, pricing and tariffs, servicing of loans, cooperation with partners and other segments of retail lending operations.

Among other things, the Consumer Lending Law sets out standard terms of agreements in relation to consumer loans provided after 1 July 2014 and imposes additional obligations on lenders (such as certain notification and disclosure requirements). If any fees charged by the Alfa Banking Group on its retail loans were to be deemed to be in violation of the above rulings or the Consumer Lending Law, the Alfa Banking Group could be required to return such fees to the relevant clients or pay monetary penalties.

The Consumer Lending Law also provides for a limitation of penalties and effective interest rates on consumer loans (see "*Overview of the Banking Sector and Banking Regulation in the Russian Federation—Financial Consumer Protection*") which may result in a decrease in interest income of Alfa Bank's retail operations, which could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

There can be no assurance that further amendments to the Consumer Lending Law will not be adopted and, if adopted, these amendments will not contain any provisions that would negatively affect Russian banks, including Alfa Bank, or impose additional requirements or restrictions that Alfa Bank would have to respond to by adapting its business practices, products offered to customers and standard consumer lending documentation in order to comply with the applicable legislation. Such measures could have an adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

The CBR takes an active approach to the regulation and monitoring of the Russian consumer lending market and the regulator places particular focus on actively managing any signs of overleveraging or deterioration of credit quality in the sector. In December 2018, the CBR published new risk weighting coefficients for new loans granted by Russian banks on or after 1 April 2019 as a result of which the risk weighting coefficients were increased and in December 2019 the CBR reaffirmed these coefficients for new loans granted by Russian banks on or after 1 April 2020. The higher risk weighting coefficients are designed to prevent the Russian credit market from overheating since increases in risk weighting coefficients negatively impact capital adequacy, which effects profitability and puts pressure on capital. See "*The Banking Sector and Banking Regulation in Russia—Banking Regulation—Mandatory Economic Ratios*".

Moreover, the CBR has introduced an additional metric for purposes of determining risk weighting coefficients on consumer loans which focuses on the overall debt burden of borrowers. This burden is determined using the PTI ratio which will be calculated as the ratio of the borrower's monthly debt payments under consumer loans to the borrower's average monthly income. Any of the above factors may, individually or in the aggregate, have a material adverse effect on the Alfa Banking Group's business, results of operations, financial condition and prospects.

Failure of the Alfa Banking Group to comply with legislation and regulatory requirements may have a material adverse effect on its business, financial condition and results of operations

The Alfa Banking Group's operations are subject to regulation by various government and banking authorities in various jurisdictions in connection with obtaining and renewing various licences and permits, as well as with ongoing compliance with existing laws and regulations and with the terms and conditions of the Alfa Banking Group's licences and permits. Changes in the nature of such regulation in Russia or other jurisdictions where the Alfa Banking Group operates could limit the ability of the Alfa Banking Group to execute its growth strategy and/or could adversely affect its existing business and results of operations.

Regulatory authorities in Russia and other CIS countries exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences, permits, approvals and authorisations. Regulatory authorities have the right to, and frequently do, conduct periodic inspections of the Alfa Banking Group's operations and properties throughout the year. Any such future inspections may determine that the Alfa Banking Group violated laws, decrees or regulations, and the Alfa Banking Group may be unable to refute such determination or remedy the violations.

The Alfa Banking Group's failure to comply with existing or future laws and regulations, the terms and conditions of its licences and permits, or the findings of governmental inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of the Alfa Banking Group's licences, permits, approvals and authorisations, or in requirements that the Alfa Banking Group cease certain of its business activities, or in criminal and administrative penalties applicable to its officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of the Alfa Banking Group's operations, could increase its costs and materially adversely affect its business, financial condition and results of operations. Moreover, if the CBR were to suspend or revoke Alfa Bank's general banking licence, then

this would render Alfa Bank unable to perform any banking operations (including processing payments of its customers) and/or would lead to winding-up of its business (whether by way of bankruptcy proceedings or liquidation).

As part of the Alfa Banking Group's business, it not only provides financing and offers investment banking and other services to publicly traded companies but also invests in securities for its own account for trading purposes or as part of its treasury operations. Accordingly, should one part of the Alfa Banking Group come into possession of any price-sensitive non-public information ("**Inside Information**") about a publicly traded company, whilst another part of the Alfa Banking Group independently enters into a trade with respect to the securities of such company, the Alfa Banking Group might be considered by the authorities to be in violation of the Federal law No. 224-FZ dated 27 July 2010 "On Counteracting the Abuse of Inside Information and Market Manipulation and Amendment of Certain Legislative Acts of the Russian Federation" (the "**Insider Dealing Law**"). This, in turn, could result in the imposition of certain civil, administrative and other sanctions on the Alfa Banking Group and could have a material adverse effect on its business, financial condition, results of operations and prospects.

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and the regulatory structure governing the Alfa Banking Group's operations is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted. Additionally, as a result of the global economic crisis, certain regulations have been relaxed in order to moderate the effects of the global economic crisis on Russian banks. There can be no assurance that there will not be a strengthening of regulation as a preventative measure against the reoccurrence of a similar crisis in the future. If the enforcement or interpretation of existing regulations were to change or if future regulations were imposed, this could have an adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

RISKS RELATED TO RUSSIA AND THE CIS

Emerging markets such as Russia are subject to greater risks than more mature markets, including significant political, economic and legal risks

Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more mature markets, including in some cases significant political, economic and legal risks. Emerging market governments and judiciaries often exercise broad, unchecked discretion and are susceptible to abuse and corruption. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out herein may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity and debt markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened recently and in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Should the Alfa Banking Group become unable to obtain alternative financing on reasonable terms, or at all, this could have a material adverse effect on its business, financial condition, results of operations and prospects. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate.

Political Risks

A worsening of the political climate in the Russian Federation may have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a market-oriented economy. Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts among executive, legislative and judicial authorities, which negatively affected the Russian Federation's business and investment climate.

Although the political situation in the Russian Federation has stabilised since 2000, future political instability could result in deterioration of economic conditions, including capital flight and a slowdown of investment and business activity. Following Russian parliamentary elections in December 2011, controversy concerning alleged voting fraud in favour of the ruling party, United Russia, led to organised protests in several Russian cities, including several sizeable protests in Moscow. Allegations of voting irregularities also appeared following the election of Vladimir Putin to the Russian presidency in March 2012, with a number of protests taking place

throughout the country both before and after his May inauguration. However, the discontent generally declined in 2013 and 2014 resulting, among other things, in weakening of internal tensions and a shift in Vladimir Putin's credibility rating. In March 2018, Vladimir Putin was re-elected as President of the Russian Federation for a six year term.

In January 2020, the current Russian President Vladimir Putin proposed a number of constitutional reforms aimed at altering the balance of power between the legislative, executive and judicial branches and introducing certain other changes to the Constitution of the Russian Federation. It is expected that a nationwide vote on constitutional changes will be held some time in 2020. When implemented, these constitutional reforms may have a significant impact on the Russian political landscape and regulatory environment and lead to other changes that are currently difficult to predict.

The actions of the Russian legislative, executive and judicial authorities can affect the Russian securities market and consequently the Alfa Banking Group's business, financial condition, operating results and prospects

The actions of the Russian legislative, executive and judicial authorities can affect the Russian securities market as well as banks and other businesses operating in Russia. In particular, the events surrounding claims brought by the Russian authorities against several major Russian companies, led to questions being raised regarding the progress of market and political reforms in Russia and have resulted in significant fluctuations in the market price of Russian securities and a negative impact on foreign direct and portfolio investment in the Russian economy, over and above the general market turmoil recently. Any similar actions by the Russian authorities that result in a further negative effect on investor confidence in Russia's business and legal environment could have a further material adverse effect on the Russian securities market and price of Russian securities, or securities issued or backed by Russian entities, including the Notes, as well as on the Alfa Banking Group's business, its ability to obtain financing in the international markets, and its financial condition, results of operations and prospects.

Domestic, regional and international political conflicts could create an uncertain operating environment that could adversely impact the Alfa Banking Group's business and hinder its long-term planning ability

The Russian Federation consists of 85 regions ("**federal subjects**") of the federation, some of which exercise considerable autonomy in their internal affairs. In certain areas, the division of authority between federal and regional governmental authorities remains uncertain. The lack of consensus between local and regional authorities and the federal governmental authorities may result in political instability and may have a material adverse effect on the Alfa Banking Group's business, financial condition, prospects or ability to fulfil its financial obligations. The Russian federal and regional electoral legislation is subject to ongoing revision and amendment. The amendments made to such legislation in 2004, whereby heads of regions are nominated by the President of the Russian Federation and appointed by regional legislatures (instead of direct election by the population) were designed to minimise conflict between federal and regional authorities and secure stability across the Russian Federation. In April 2013, a new law came into force which allows the federal subjects to choose their own process of electing the regional governors. According to this law, each region can choose whether to proceed with direct elections of regional governors or to submit to the President a list of candidates for the position of governor from which the President shall choose three candidates. The deputies of the legislative assembly would then appoint one candidate for the post of regional governor from such list.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, both internally and with other countries. Russian military and paramilitary forces have been engaged in the Chechen Republic in the recent past and continue to maintain a visible presence there. Moreover, in August 2008, Russia and Georgia were involved in an armed conflict. The conflict ended with Russian recognition of the independence of South Ossetia and Abkhazia. Russian stock exchanges experienced heightened volatility, significant overall price declines and capital outflow following these events and the international capital markets temporarily closed to Russia. Furthermore, differing views on the Georgia conflict, as well as the recent armed conflict in Eastern Ukraine, have had an impact on the relationship between the Russian Federation, the EU, the United States and certain former Soviet Union countries and, if prolonged, could adversely affect business relationships among these countries and adversely affect the Russian economy. Recently, there has been a considerable deterioration of relations between Russia and the United Kingdom that so far has resulted in both countries expelling their diplomats and taking other diplomatic sanctions. A prolonged deterioration in Russia's international relations may have a negative effect on the investment climate in Russia and the price of Russian securities. The risks associated with these events or potential future events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on the Alfa Banking Group's business, its ability to obtain financing in the international markets, and its financial condition, results of operations and prospects.

The armed conflict in Eastern Ukraine and the international reaction to Russia's actions in connection with Crimea create significant political and economic uncertainty which could adversely impact the Alfa Banking Group's financial condition

The significant civil unrest and political instability in Ukraine in recent years and the armed conflict in Eastern Ukraine has affected the relations between the Russian Federation and Ukraine. On 16 March 2014, a referendum was held in Crimea pursuant to which it was reported that a majority of those who voted were in favour of succession from Ukraine and joining Russia as a federal subject. On 17 March 2014, the parliament of Crimea declared independence from Ukraine and officially applied to the Russian authorities with a request to join Russia which on 18 March 2014 was followed by the signing of an agreement between the Russian Federation and the Republic of Crimea on the acceptance of the Republic of Crimea into the Russian Federation. On 21 March 2014, the Russian parliament passed legislation extending the effect of Russian laws and state authorities to the territory of Crimea and providing for a transitional period until 1 January 2015 for purposes of fully integrating Crimea into Russia.

These events in Crimea and the resulting change in Crimea's legal status have prompted a negative reaction from the international community with the EU, the United States and Ukraine, amongst others, refusing to recognize the referendum in Crimea as legal. The armed conflict in Eastern Ukraine between the Ukrainian army and local militia has destabilized the region and put further pressure on the international relations between Russia and Western countries, including the United States and the EU. Although the armed conflict in Eastern Ukraine has subsided, relations between the Ukrainian government and the breakaway territories in Eastern Ukraine remain tense, which may lead to a renewed escalation of the armed conflict. In relation to these events, the United States and the EU, as well as certain other countries, introduced sanctions and trade restrictions on Crimea, a number of former Ukrainian governmental officials, certain Russian governmental officials and individuals, politicians, Russian businessmen and Russian and non-Russian companies and banks (including certain restrictions on the largest Russian state controlled banks and certain state-controlled companies predominantly in the energy and defence sectors), and also adopted bans and restrictions on exporting certain goods and technologies to Russia generally and in certain cases to designated companies. See *"—Non-compliance with OFAC and EU sanctions programmes, an expansion of these programmes or a significant expansion of the Alfa Banking Group's dealings with any parties subject to sanctions could adversely impact the Alfa Banking Group's financial condition*". No assurance can be given that additional persons will not be subjected to sanctions, the existing sanctions programmes will not be further expanded or that other jurisdictions or bodies will not impose similar or additional sanctions.

The reaction of international investors to escalating geopolitical tensions and the economic sanctions described above have had an adverse effect on the Russian financial markets and funds focused on emerging markets, including Russia, have become more susceptible to intensive withdrawals by clients as has occurred on a number of occasions in the recent past. The ability of Russian companies and banks to obtain funding from the international capital and loan markets has also been hampered as a result of decreased demand from the international investor base and reduced issuer activity. Further escalation of the sanctions regime against Russia may have a further negative impact on the Russian economy and the Russian financial and banking markets, increase capital outflows as well as worsen the general business and investment climate in Russia. In 2014 and 2015, the rating agencies lowered their credit ratings for Russia citing the continuous effect of the United States and EU sanctions as one of the factors affecting these downgrades (see "*—The deteriorating conditions of the Russian economy, the instability of the Russian banking sector and commodity prices could have a material adverse effect on the Alfa Banking Group's business, liquidity and financial condition—Impact on credit ratings*"). The continued impact of these events and any continuing or escalating military action in Eastern Ukraine, public protests, unrest, political instability or further sanctions could have a further adverse effect on the Ukrainian and Russian economies and consequently, a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

After the Alfa Banking Group restructured its Ukrainian operations in August 2006, the Alfa Banking Group started to treat its exposure Ukrainian entity Joint Stock Company "Alfa Bank" ("**Alfa Bank Ukraine**", ABH Ukraine Limited and its subsidiaries, including Alfa Bank Ukraine, form the "**ABH Ukraine Group**") as related party transactions. On 31 March 2014, Alfa Bank transferred to the ABH Ukraine Group legal title to shares representing a 19.9 per cent. interest in Alfa Bank Ukraine which were sold by the Alfa Banking Group in 2010 and 2011 (see "*Description of the Alfa Banking Group—Historical Relationship with Alfa Bank Ukraine and the ABH Ukraine Group*"). As at 31 December 2016, the Alfa Banking Group's on-balance sheet exposure to the ABH Ukraine Group was U.S.$6 million. In addition to its exposure to the ABH Ukraine Group, as at 31 December 2016, the Alfa Banking Group had approximately U.S.$30 million balances receivable from Ukrainian borrowers. Most of these balances were concentrated on the level of ATB, the Alfa Banking Group's Dutch bank subsidiary. As at 31 December 2019, the Alfa Banking Group's exposure to the ABH Ukraine Group and balances receivable from Ukrainian borrowers were insignificant.

Terrorism, crime and corruption could affect the Russian economy and disrupt the Alfa Banking Group's ability to conduct its business

Terrorist activity inside and outside Russia have had a significant effect on the international and domestic financial and commodity markets. Various acts of terrorism have been committed in population centres within the Russian Federation. Suicide bombings were carried out in two Moscow metro stations on 29 March 2010 and at the Moscow Domodedovo airport on 24 January 2011 and resulted in 76 fatalities in aggregate. More recently, two suicide bombings in Volgograd carried out on 29 and 30 December 2013 at the central Volgograd railway station and on a trolleybus, respectively, resulted in 34 fatalities. The risks associated with these events or potential future events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation. In particular, as the Russian Federation produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts causing disruptions of Russian oil and gas exports could negatively affect the Russian economy.

Levels of organised criminal activity continue to be significant in Russia. The Russian and international press have reported high levels of corruption in the Russian Federation, including the bribing of officials for the purpose of initiating investigations by Russian Government agencies. Additionally, published reports indicate that a significant number of Russian media regularly publish biased articles in exchange for payment. These factors could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Social instability could renew support for a centralised authority, nationalism or violence, and thus materially adversely affect the Alfa Banking Group's ability to conduct its business effectively

Social instability in the Russian Federation, coupled with difficult economic conditions and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past to labour and social unrest (principally in urban areas). Any future labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including restrictions on foreign involvement in the Russian economy and increased violence. This could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of the Alfa Banking Group's assets

Although the Russian Government has enacted legislation to protect property against expropriation and nationalisation and to provide fair compensation to be paid if such events were to occur, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and insufficient mechanisms to enforce judgments.

The concept of property rights is not well developed in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Alfa Banking Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if in the future the Russian Government decides to nationalise or expropriate some or all of the Alfa Banking Group's assets. The expropriation or nationalisation of any of the Alfa Banking Group's or its respective shareholders' assets without fair compensation may have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Economic Risks

Instability of the Russian economy

Since the dissolution of the Soviet Union in 1991, Russia has experienced:

- significant declines in gross domestic product;
- hyperinflation or high levels of inflation;
- an unstable currency;
- high levels of state debt relative to gross domestic product;
- crises in the banking sector limiting the ability of banks to provide liquidity to Russian enterprises;
- a large number of loss-making enterprises that continue to operate due to the lack of effective bankruptcy proceedings;

- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of "black" and "grey" market economies;
- pervasive capital flight;
- high levels of government corruption and the penetration of organised crime and government into the economy;
- political and social instability;
- ethnic and religious tensions;
- lack of consensus between federal and local governments;
- over-dependence of the economy on export of commodities, in particular oil, gas and metals;
- significant declines and volatility in the stock market;
- significant increases in unemployment and under-employment;
- the impoverishment of a large portion of the Russian population;
- a declining population and short life-expectancy; and
- outdated and deteriorating physical infrastructure.

From 2000 until the first half of 2008, Russia experienced rapid growth in its gross domestic product, higher tax collections and increased stability of the Rouble, providing some degree of economic soundness. However, the Russian economy was adversely affected by the global economic crisis that began in the second half of 2008, which manifested itself through extreme volatility in debt and equity markets, reductions in foreign investment, sharp decreases in GDP and rise of unemployment around the world. While the situation globally has stabilised since to a certain extent, the Russian economy began to experience a new slowdown in 2013. The conditions and outlook for the Russian economy deteriorated significantly during 2014 and continued to worsen in 2015. See "*Risks relating to the Alfa Banking Group—The deteriorating conditions of the Russian economy, the instability of the Russian banking sector and commodity prices could have a material adverse effect on the Alfa Banking Group's business, liquidity and financial condition*". Whilst the Russian economy experienced some stabilisation in 2016 and 2017, any deterioration in the general economic conditions in Russia, as a result of the fall in the price of oil in March 2020 and/or the novel coronavirus outbreak, could adversely influence the level of demand for various products and services, including those provided by the Alfa Banking Group, and therefore could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Instability of the Russian banking system could have a material adverse effect on the Alfa Banking Group's business, financial condition or results of operations

During the past few years a number of Russian banks have experienced difficulties, including failure to make sufficient credit loss allowance, that have caused them to become insolvent and have their licenses revoked or to recognise large loan impairments that required steps to replenish their capital. The CBR commenced a "cleanup" campaign aimed at removing fraudulent, failing or undercapitalised financial institutions from the sector and making it more robust, stable and transparent in the event of any potential systemic shocks. In pursuit of this campaign, the CBR revoked banking licenses from a large number of banks, which substantially undermined the sustainability and reliability of the sector. The relevant steps comprised the revocation of Master Bank's banking licence (Master Bank was a major Moscow-based bank and the 41st largest bank in Russia as of 1 October 2013 by customer accounts according to an Interfax rating) and subsequent revocation of licences of a number of smaller banks, including Bank Russian Credit in July 2015 and financial group Life, which included Probusinessbank, in August 2015. Furthermore, in January 2016, the CBR revoked the banking license of the Foreign Economic Industrial Bank (Vneshprombank), which was a major Moscow-based bank and the 37th largest bank in Russia by customer accounts as of 1 January 2016 according to an Interfax rating. The CBR revoked the banking license of Tatfondbank, a major regional bank, in March 2017 and Ugra Bank, which was the 33rd largest bank in Russia by assets, in July 2017. The CBR introduced measures aimed at improving the financial stability of Otkritie, B&N Bank and Promsvyazbank, all of which were some of the largest Russian private banks. More recently, on 22 January 2019, similar measures were introduced by the CBR with respect to Moscow Industrial Bank, the 33rd largest bank in Russia by assets as of 1 January 2019, in response to the breach of the minimum statutory capital requirements caused by assets' impairment. Intensified withdrawal of banking licences as a result of the inability of certain banks to meet the mandatory requirements of the CBR,

failure to comply with anti-money laundering regulations or due to other reasons could result in lower liquidity on the domestic market, lower investor confidence in the Russian banking system and raise concerns about the ability of the State Deposit Insurance Agency to service any further pay-outs to insured depositors should any similar bank collapses occur in the future. In addition, the Alfa Banking Group may be affected by consequential defaults of corporate customers that suffer from the problems faced by other Russian banks or if similar disruption in the banking sector occurs in the future and affects the overall economic situation in Russia.

Liquidity shortages on domestic financial and interbank markets during 2014 and 2015 driven by restricted access for many Russian banks to the international capital markets and volatility of the Russian Rouble resulted in the increased funding costs throughout the entire Russian financial system and have put substantial strain on Russian banks' ability to manage interest rate risks, raise financing and prudently allocate available liquidity. The resulting higher interest rates have also negatively affected the banking sector's profitability, as well as led to a deterioration in the creditworthiness of Russian consumer and corporates. Although liquidity in the Russian banking sector improved in 2016 and 2017, no assurance can be given that new liquidity constraints or shortages will not occur in the future.

In the event of a further deterioration and increased instability of the Russian banking sector, the Alfa Banking Group's customers could withdraw some or all of their deposits more quickly than anticipated by the Alfa Banking Group, which could have a material adverse effect on the Alfa Banking Group's liquidity, business, financial condition, results of operations and prospects.

Fluctuations in the global economy and any prolonged decline in commodities prices may have an adverse effect on the Russian economy and on the Alfa Banking Group's business, financial condition, results of operations and prospects

Russia produces and exports large quantities of crude oil, natural gas and other mineral resources, which makes the Russian economy particularly vulnerable to fluctuations in the world markets' prices of commodities. The price of oil has been particularly volatile in the recent years reaching a peak in March 2012 and significantly decreasing in the second half of 2014 from U.S.$112.36 per barrel of Brent Crude oil on 30 June 2014 to U.S.$55.27 per barrel on 31 December 2014. As at 31 December 2019, the price of Brent Crude oil was U.S.$68.68 per barrel. Since the beginning of 2020 oil prices have been falling and in early March there was a substantial drop in oil prices (the price of Brent Crude fell from U.S.$45.3 per barrel on 6 March 2020 to U.S.$33.3 per barrel on 12 March 2020) as a result of Russia and OPEC failing to reach an agreement over proposed oil production cuts. This drop in oil prices caused volatility in the global financial markets. In addition, any significant disruptions of major exploration and development projects in the Russian oil and gas sector as a result of technological failures, restrictions on obtaining necessary technologies or services from foreign suppliers as a result of sanctions or insufficient funding may result in decreased productivity, reductions in output of such commodities and ultimately lead to lower federal budget revenues. These developments could have a material adverse effect on the Russian Government's ability to provide financial support to Russian banks, including the Alfa Banking Group and could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

In addition, military conflicts, international terrorist activity and natural disasters have had a significant effect on international finance and commodity markets. Any future military conflicts, acts of terrorism or natural disasters could have an adverse effect on the international financial and commodities markets and the global economy. As Russia produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts, or politically motivated acts of Russian Government, causing disruption of Russian oil and gas exports could negatively affect the Russian economy and thereby adversely affect the Alfa Banking Group's business, results of operations, financial condition and prospects.

Exchange rates, exchange controls and repatriation restrictions could adversely affect the value of investments in the Russian Federation

The Rouble remains largely non-convertible outside the Russian Federation. A market exists within the Russian Federation for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. During 2014, the foreign currency and gold reserves decreased significantly and stood at U.S.$385 billion by 31 December 2014. Russia's international reserves continued to decrease throughout 2015 and reached U.S.$368 billion by 31 December 2015 but subsequently increasing to U.S.$378 billion by 31 December 2016, to U.S.$433 billion by 31 December 2017, to U.S.$469 billion by 31 December 2018 and to U.S.$554.4 billion by 1 January 2020. According to data published by the CBR, the CBR spent approximately U.S.$78.9 billion of Russia's international reserves on money market interventions to support the Rouble in 2014 but no assurance can be given that the CBR will use any more of the reserves to support the Rouble in the future. The Rouble depreciated against the U.S. dollar as a result of the recent decline in oil prices from RUB 69.47 per U.S.$1.00 as at 31 December 2019 to RUB 80.88 per U.S.$1.00 as at 24 March 2020. The CBR has taken

measures to support the Rouble by selling foreign currency and this may reduce Russia's international reserves. Although Russia's current foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short-term, there can be no assurance that the currency market will not further deteriorate in the medium or long-term due to the lack of foreign currency funding available in the global markets. The lack of growth of the Russian currency market in the medium or long-term may have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Russia's physical infrastructure is in poor condition, which could disrupt normal business activity

Russia's physical infrastructure is in very poor condition and largely dates back to Soviet times. It has not been adequately funded and maintained over the past decade and may cause disruptions in normal business activities. Particularly affected are pipeline, rail and road networks, power generation and transmission systems and communication systems. With a view to increasing capital inflows and private investment into Russia's physical infrastructure, the Russian Government has launched a number of infrastructure modernisation programmes such as a large scale reform of the electricity sector. However, there is uncertainty in the current economic environment as to the extent to which such programmes will be realised. Such reforms, if realised, are likely to result in increased charges and tariffs, but may fail to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The Russian Government is actively considering plans to reorganise and/or privatise the Russian Federation's rail, electricity and telephone systems. Any such reorganisation or privatisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The continued deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in the Russian Federation and may interrupt business operations, any of which could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

If the Russian Federation were to return to heavy and sustained inflation, the Alfa Banking Group's results of operations could be adversely affected

The inflation rate ("**CPI**") in the Russian Federation measured by RosStat was relatively stable from 2011 to 2013, reaching 6.1 per cent. in 2011, 6.6 per cent. in 2012 and 6.5 per cent. in 2013. As a result of the deteriorating economic conditions, depreciating Rouble and restrictive measures on certain imports, inflation increased significantly in 2014 and reached 11.4 per cent. and 12.9 per cent. in 2015. Inflation was subdued in the following period and amounted to 2.5 per cent. in 2017, 4.3 per cent. in 2018 and to 3.0 per cent. in 2019.

Any return to high and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and an erosion of consumer confidence. Any one of these events could lead to decreased demand for the Alfa Banking Group's products and services and result in a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Legal Risks

Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity

The Russian legal framework applicable to a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code, by other federal laws and by decrees, orders and regulations issued by the President, the Russian Government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap with or contradict one another. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian law and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian law often leaves substantial gaps in the regulatory infrastructure.

Among the risks of the current Russian legal system are:

- inconsistencies among, federal laws; decrees, orders and regulations issued by the President, the Russian Government, federal ministries and regulatory authorities; and regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpretations of Russian law;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;

- the relative inexperience of certain judges in interpreting new principles of Russian law, particularly business and corporate law;
- the possibility that certain judges may be susceptible to economic, political or nationalistic influences;
- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed.

All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. The Alfa Banking Group may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies.

Unlawful or arbitrary government action in Russia may have an adverse effect on the Alfa Banking Group's business

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes on disputed legal grounds. Moreover, the state also has the power in certain circumstances, by regulation or act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Unlawful or arbitrary state action, if directed at the Alfa Banking Group, could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Difficulty in enforcing the Alfa Banking Group's rights in Russia may have an adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects

The current status of the Russian legal system makes it uncertain whether the Alfa Banking Group would be able to enforce its rights in disputes with any of its contractual counterparties. Furthermore, the dispersion of regulatory power among a number of state agencies in the Russian Federation has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Russian Government has rapidly introduced laws and regulations and has changed its legal structure in an effort to make the Russian economy more market-oriented, resulting in considerable legal confusion. No assurance can be given that local laws and regulations will become stable in the future. The Alfa Banking Group's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Further, its ability to protect and enforce such rights is dependent on the Russian courts, which are underdeveloped, inefficient, and, in places, corrupt. Judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court orders can in practice be very difficult in the Russian Federation.

Foreign judgments and arbitral awards may not be enforceable against the Alfa Banking Group

Russian courts will not enforce any judgment obtained in a court established in a country other than the Russian Federation unless one of the following factors is present:

- there is a treaty in effect between the Russian Federation and the country where the judgment was rendered providing for the recognition of court judgments in civil cases; or
- a federal law of Russia is adopted providing for the recognition and enforcement of foreign court judgments; or
- the judgment may be enforced on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts.

No such treaty exists between the Russian Federation and either the United Kingdom or the United States and no such federal law has been passed. Even in the event that there is such a treaty and a federal law, Russian courts may nonetheless refuse to recognise and enforce a foreign court judgment on the grounds provided in such treaty and in Russian legislation in effect on the date on which such recognition and enforcement is sought. The Commercial Procedural Code of the Russian Federation establishes the procedures for the recognition and enforcement of foreign court judgments and contains an extensive list of grounds for refusal of such recognition and enforcement in the future. Moreover, Russian procedural legislation may change and no assurance can be given that in the future no other ground for refusal of such recognition and enforcement may arise.

There have been at least two instances in which Russian courts have recognised and enforced a judgment of a court of a country with which Russia does not have an international treaty to that effect (the United Kingdom and

the Netherlands). The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both countries were parties. There have been no other Russian court decisions by which foreign judgments, in the absence of a statutory basis in Russian federal law or a treaty between Russia and the respective state where the foreign judgment was rendered, have been recognised and enforced on the territory of Russia. It may be said that as a general rule the court judgments rendered against a member of the Alfa Banking Group in the United Kingdom or elsewhere remain uncertain and it may be impossible to enforce in Russia, unless their recognition and enforcement are permitted by an international treaty or Russian legislation.

Russian tax law and practice are not fully developed and are subject to frequent changes

A significant part of the Alfa Banking Group assets and operations is located in Russia and, therefore, weaknesses in the Russian tax system could adversely affect the Alfa Banking Group.

The Russian subsidiaries of the Alfa Banking Group are subject to a broad range of Russian taxes and charges imposed at the federal, regional and local levels, including, but not limited to, corporate income tax, value added tax ("**VAT**"), property tax and payroll related social security contributions.

Russian laws and regulations related to these taxes, such as the Tax Code of the Russian Federation (the "**Russian Tax Code**") have been in force for a relatively short period in comparison with tax laws and regulations in more developed market economies. The implementation of Russian tax laws and regulations is often unclear or inconsistent. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in the continual changes to the tax legislation, some of which applies retroactively and occurs with little notice.

Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed or interpreted in the future in a manner adverse to the stability and predictability of the Russian tax system. The possibility exists that the Russian Government may impose arbitrary or onerous taxes, levies, fines and penalties in the future, which could adversely affect the business of Alfa Bank and the Russian subsidiaries of the Alfa Banking Group.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and applications of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax laws and regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and tax risks and leading to the inconsistent enforcement of these tax laws and regulations in practice.

Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws and regulations differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. In addition, there have been cases where letters of the tax authorities have been cancelled by the Russian Ministry of Finance. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities. There can be no assurance, therefore, that the representatives of the local Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Russian Ministry of Finance. Moreover, there can be no assurance that the Russian legislation and regulations will not be altered, in whole or in part, or that Russian tax authorities and/or Russian courts or other regulatory authorities will not interpret these rules and regulations in such a way that the arrangements described in this Base Prospectus would be subject to different tax treatment than the treatment described herein, whether retroactively or otherwise, or would be adversely affected in some other way. During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax reviews of Russian companies operating in various industries, including in the financial services industry.

In practice, taxpayers often have to resort to court proceedings to defend their positions against the Russian tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters by different courts relating to the same or similar circumstances may be inconsistent or contradictory.

The Russian tax system is, therefore, impeded by the fact that, at times, it still relies heavily on the inconsistent judgments of local tax officials and fails to address many of the existing problems. It is, therefore, possible that transactions and activities of Alfa Bank and the Russian subsidiaries of the Alfa Banking Group that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Additionally, in 2017 anti-avoidance rules were introduced by Article 54.1 "Limits on the exercise of the rights

relating to the calculation of the tax base and (or) the amount of a tax, a levy or insurance contributions" of the Russian Tax Code. A similar "unjustified tax benefit" concept introduced by the Plenum of the Supreme Arbitration Court of the Russian Federation in its Resolution No. 53 ("**Resolution No. 53**") has been in existence for more than 10 years in Russian tax law. The unjustified tax benefit concept has been widely used by Russian tax authorities to challenge the tax positions of Russian taxpayers, inter alia, with respect to application of double tax treaty benefits. The new anti-avoidance rules establish the framework within which taxpayers enjoy tax benefits and prohibit any wilful misconduct resulting in non-payment or underpayment of taxes by misrepresenting information on economic events and objects of taxation. In addition to this prohibition taxpayers may reduce the tax base and/or payable amount of tax if they can document that (i) tax evasion is not the primary purpose of a transaction and (ii) the contractual obligation is fulfilled directly by the party named in the contract or by a person to whom such obligation was transferred by contract or by law. The new rules apply retrospectively to all periods open for tax examination. Due to the fact that court practice related to application of new rules is still inconsistent, no assurance can currently be given as to the exact effect such rules may have on the taxpayers, including Russian companies of the Alfa Banking Group.

Tax declarations together with related documentation are subject to review and investigation by a number of the Russian authorities, empowered by Russian law to impose fines and penalties on taxpayers. Subject to certain exceptions, tax returns together with the related documentation remain open and subject to inspection by the Russian tax authorities in the course of on-site tax audits for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the Russian tax authorities does not prevent further review of that year, or any tax return and other documentation applicable to that year, from any further reviews during the three-year limitation period. In particular, a repeat tax audit may be conducted (i) by a higher level tax authority as a measure of control over the activities of lower level tax authorities, or (ii) in connection with the reorganisation/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable to the revenue. Therefore, previous tax audits do not necessarily preclude subsequent claims relating to the audited period.

The Russian Tax Code provides for the possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer is deemed to obstruct the performance of the tax review and this has become an insurmountable obstacle for the tax review. Because the terms "obstructed" and "insurmountable obstacle" are not specifically defined in Russian tax law or any other branches of Russian law, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year limitation period. Therefore, the statute of limitations is not entirely effective with respect to liability for payment of taxes in Russia. If as a result of such extended review it is concluded that the Russian subsidiaries of the Alfa Banking Group had significant tax underpayments for respective tax periods, it may have a material adverse effect on the Alfa Banking Group's business, financial condition and results of operations. Tax audits may also impose additional administrative burden on the Alfa Banking Group by diverting the attention of its management and financial personnel, requiring resources for defending the Alfa Banking Group's tax filing position, including for any tax litigation.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. This uncertainty could possibly expose the Alfa Banking Group to significant fines and penalties and to enforcement measures, despite the Alfa Banking Group's best efforts at compliance, and could result in a greater than expected tax burden.

Despite the Russian Government's steps to reduce the overall tax burden in recent years in line with its objectives, the possibility exists that the Russian Government may impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Alfa Banking Group's business, financial condition or results of operations. Additionally, there have been cases perceived as utilisation of tax claims as a tool for significant state intervention in certain key industries.

The Alfa Banking Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws currently in effect are not well developed as far as taxation of foreign companies in Russia or operations of Russian companies abroad are concerned. The Russian Tax Code contains a concept of permanent establishment in Russia as a means for taxing foreign legal entities which carry out regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. However, the practical application of the concept of a permanent establishment under Russian law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may be at a risk of being treated as having a permanent establishment in Russia and be liable to Russian taxation and have obligations to withhold Russian taxes from payments to foreign individuals and legal entities as a tax agent. There were a few precedents where the Russian tax authorities sought to challenge the Russian tax status of foreign companies and some of their attempts were successful. It is possible that with the evolution of these rules or changes in the approach of the

Russian tax authorities and/or courts to their interpretation and application, the Alfa Banking Group might become subject to additional taxation in Russia in respect of its operations outside Russia.

In addition, the Russian Federation, like a number of other countries in the world, is actively involved in discussing and implementation of measures against tax evasion by the use of low tax jurisdictions and aggressive tax planning structures. Starting 1 January 2015 the following rules and concepts were introduced into the Russian Tax Code: (1) "controlled foreign companies" rules pursuant to which undistributed profits of certain organizations as well as foreign structures not being legal entities (such as funds, partnerships), owned and/or controlled by Russian tax residents (both legal entities and individuals), should be subject to taxation in Russia provided certain criteria are met; (2) the concept of tax residency in Russia for non-Russian legal entities whereby generally legal entities would be deemed Russian tax residents if their place of management is located in Russia; (3) the beneficial ownership concept for the purposes of application of the double tax treaties, which is broadly in line with the concept developed by the Organisation for Economic Co-operation and Development (the "**OECD**"), which provides that treaty relief should only be available to foreign income recipients provided they have the actual right to receive income (i.e. they qualify as a "beneficial owner of income").

On 7 June 2017, about 70 countries and jurisdictions including Russia signed or formally expressed their intention to sign the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "**MLI**"). The MLI is to implement a series of measures to update international tax treaties. In particular, the MLI sets forth additional requirements for the purposes of application of the reduced tax rates. It is expected that 1,100 double taxation treaties would be modified as a result of 84 jurisdictions signing the MLI. Currently, it is not entirely clear how each individual double tax treaty to which the Russian Federation is a party would be affected by the MLI. It is expected that changes to specific bilateral treaties would come into effect after the parties to the treaties deposit their instruments of ratification, acceptance or approval of the MLI, subject to an additional phase-in period. The MLI entered into force for the Russian Federation on 1 October 2019. As per the official announcement of the Russian Ministry of Finance published on its website, the entry into effect of the provisions of the MLI in relation to Russian double tax treaties has been delayed at least until 1 January 2021. These MLI-related changes, when implemented, might negatively affect the availability of certain double taxation treaty benefits to Non-Resident Noteholders.

Introduction and further evolution of the abovementioned rules and concepts may impose additional administrative and tax burdens on the Alfa Banking Group. No assurance can currently be given as to how the above rules and concepts will be applied in practice, their potential interpretation by the Russian tax authorities and the possible impact (including, additional tax liability, if any) on the Alfa Banking Group. Therefore, it cannot be excluded that the Alfa Banking Group may be subject to additional tax liabilities as a result of the application of the new rules and concepts to transactions carried out by the Alfa Banking Group, which could have a material adverse effect on financial condition and results of operations and the value of the Notes.

These facts create tax risks in Russia that may be substantially more significant than typically found in countries with more developed tax systems. Furthermore, the Russian tax legislation is consistently becoming more sophisticated.

Historically, the Alfa Banking Group and the main Russian entities of the Alfa Banking Group have been paying significant amounts of tax due to the scale of their operations. These factors, coupled with the potential for state budget deficits, raise the risk of the imposition of additional taxes, levies, fines and penalties on the Alfa Banking Group. The introduction of new taxes or levies or introduction of amendments to current taxation rules may have a substantial impact on the overall amount of tax liabilities of the respective entities. Although the Alfa Banking Group undertakes measures aimed at minimising tax risk and the approach to management of tax liabilities and tax risks within the Alfa Banking Group has been conservative, there is no assurance that the Russian entities of the Alfa Banking Group would not be required to make substantially larger tax payments in the future, which may affect the financial results of the Alfa Banking Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Alfa Banking Group's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant additional taxes, levies, fines and penalties and enforcement measures, and could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

OECD Action Plan on Base Erosion and Profit Shifting

Fiscal and taxation policy and practice is constantly evolving and recently the pace of change has increased due to a number of developments. In particular, a number of changes of law and practice are occurring as a result of the Organisation for Economic Co-operation and Development ("**OECD**") Base Erosion and Profit Shifting project ("**BEPS**"). Investors should note that certain action points which form part of the OECD BEPS project (such as Action 4, which can deny deductions for financing costs, see the risk factor entitled "EU Anti-Tax Avoidance Directive" below or Action 6 on the prevention of treaty abuse) may be implemented in a manner

which affects the tax position of the Issuer.

EU Anti-Tax Avoidance Directive

As part of its anti-tax avoidance package, and to provide a framework for a harmonised implementation of a number of the BEPS conclusions across the EU, the EU Council adopted Council Directive (EU) 2016/1164 (the "**Anti-Tax Avoidance Directive**") on 12 July 2016.

The EU Council adopted Council Directive (EU) 2017/952 (the "**Anti-Tax Avoidance Directive 2**") on 29 May 2017, amending the Anti-Tax Avoidance Directive, to provide for minimum standards for counteracting hybrid mismatches involving EU member states and third countries.

EU member states were required to implement the Anti-Tax Avoidance Directive by 2019 (subject to derogations for EU member states which have equivalent measures in their domestic law) and had until 31 December 2019 to implement the Anti-Tax Avoidance Directive 2 (except for measures relating to reverse hybrid mismatches, which must be implemented by 31 December 2021).

The Directives contain various measures that could, depending on their implementation in Ireland, potentially result in certain payments made by the Issuer ceasing to be fully deductible. This could increase the Issuer's liability to tax and reduce the amounts available for payments on the Notes. There are two measures of particular relevance. Firstly, the Anti-Tax Avoidance Directive provides for an "interest limitation rule" which restricts the deductible interest of an entity to 30% of its earnings before interest, tax, depreciation and amortisation. However, the interest limitation only applies to the net borrowing costs of an entity (being the amount by which its borrowing costs exceed its taxable interest revenues and other economically equivalent taxable revenues). This measure has not yet been implemented in Ireland. The exact scope of the measure and its impact on the Issuer's tax position will depend on how this is implemented in Ireland.

Secondly, the Anti-Tax Avoidance Directive (as amended by the Anti-Tax Avoidance Directive 2) provides for hybrid mismatch rules. These rules apply in Ireland with effect from 1 January 2020 and are designed to neutralise arrangements where amounts are deductible from the income of one entity but are not taxable for another, or the same amounts are deductible for two entities. These rules could potentially apply to the Issuer where: (i) the interest that it pays under the Notes, and claims deductions from its taxable income for, is not brought into account as taxable income by the relevant Noteholder, either because of the characterisation of the Notes, or the payments made under them, or because of the nature of the Noteholder itself; and (ii) the mismatch arises between associated enterprises, between the Issuer and an associated enterprise or under a structured arrangement. It is not clear if the Issuer will have any associated enterprise, however if the Issuer has an associated enterprise holding Notes, then the measures should not impact payments on the Notes to that enterprise where the amounts of the payment are fully included for tax purposes and brought into account as taxable income by that enterprise.

For the purposes of the hybrid rules, a structured arrangement is one involving a mismatch outcome where the mismatch outcome is priced into the terms of the arrangement or the arrangement was designed to give rise to a mismatch outcome. Absent any guidance from the Irish Revenue Commissioners on how they will approach structured arrangements, it is not yet clear if this would apply to the transaction to bring it within scope of the hybrid rules.

Russian transfer pricing rules may adversely affect the Alfa Banking Group's business, financial condition and results of operations

Russian transfer pricing legislation which is currently in effect allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions. The list of "controlled" transactions under this legislation includes transactions performed with certain types of related parties and certain types of cross-border transactions. Starting from 2016 special transfer pricing rules apply to transactions with securities and derivatives only if they fall in the scope of "controlled transactions". The burden of proving market prices rests with the taxpayer.

Due to the uncertainties in the interpretation of Russian transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge prices of the transactions of the Alfa Banking Group and make adjustments, which could adversely affect the Alfa Banking Group's tax position unless the Alfa Banking Group will be able to confirm the use of market prices with respect to "controlled" transactions, supported with the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Alfa Banking Group's tax position, business, financial condition, results of operations and prospects.

The Alfa Banking Group is subject to regulations related to money laundering and non-compliance with these regulations may result in the revocation of the banking licences of members of the Alfa Banking Group

Russia is a member country of the Financial Action Task Force on Money Laundering ("**FATF**") and the Egmond Group, and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Russia, all banks and their employees are obliged to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money laundering. The Federal Law No. 115-FZ "On Countermeasures Against Laundering of Criminal Profits and the Financing of Terrorism" of 7 August 2001, as amended (the "**Anti-Money Laundering Law**") and implementing legislation set forth the framework for this requirement and other anti-money laundering procedures.

Minimum standards and duties according to the Anti-Money Laundering Law include customer identification, record keeping, suspicious activity reporting, employee training, an internal audit function and designation of a compliance officer. Suspicious ("unusual") transactions must be reported on a daily basis to the Federal Service for Financial Monitoring.

In addition, the Alfa Banking Group has expanded its operations with the MSME clients over the past few years which places additional burden on it in terms of financial and tax reporting. In 2018, Russian legislation has been amended to place more obligations on banks to act as tax agents and report various payments to the tax authorities which has resulted in a greater involvement of the Alfa Banking Group's compliance and other staff in such operations and longer times to perform services requested by customers.

To ensure that the Alfa Banking Group is not unwittingly used as an intermediary in any money laundering process or other related criminal activities, the Alfa Banking Group complies with the CBR's anti-money laundering rules. This programme includes written policies and procedures, assigning a compliance officer, an audit and review function to test the robustness of anti-money laundering policies and procedures, monitoring and auditing customer activities and transactions in accordance with anti-money laundering legislation and regulations and employee training. Noncompliance with Russian money laundering legislation may result in the revocation of Alfa Bank's banking licence and, as a result, the general deterioration of the Alfa Banking Group's business, financial position or results of operations.

The Russian corporate governance, public reporting requirements and accounting regulations to which the Alfa Banking Group is subject differ significantly from those applicable to comparable companies in other jurisdictions

The Alfa Banking Group's corporate affairs are governed by its charters, its internal regulations and by the laws governing Russian banks and companies incorporated in Russia. See "*The Banking Sector and Banking Regulation in the Russian Federation*". The rights of shareholders and the responsibilities of members of governing bodies of legal entities under Russian law are different from, and may be subject to certain requirements not generally applicable to, companies organised in the United Kingdom, the United States or other jurisdictions. See "*Management*".

The accounting and reporting standards of the Russian Federation are not comparable to those in other jurisdictions, such as the United States and the United Kingdom and Russian Accounting Regulations ("**RAR**") are not comparable to either International Financial Reporting Standards ("**IFRS**") or US Generally Accepted Accounting Principles ("**GAAP**"). Russian accounting legislation continues to develop and has been subject to change on a regular basis in recent years. The relatively recent introduction of IFRS in Russia means that Russian companies are not as experienced with or knowledgeable about IFRS as companies in countries that have a longer history of complying with IFRS.

In accordance with Russian legislation applicable to securities issuers, Alfa Bank is required to file quarterly reports with the federal governmental authority responsible for the supervision of the securities market of the Russian Federation, which, as at the date of this Base Prospectus, is the CBR. These reports include certain information about Alfa Bank, its management, subsidiaries, affiliates and selected financial and business information (such as events of litigation and quarterly statutory accounting reports prepared in accordance with RAR).

As a result of the relatively recent introduction of international accounting standards in Russia, Russian companies and corporate groups may not have fully developed and implemented the required methodologies for the preparation of international financial statements, including the internal control frameworks, development methodologies or risk assessment activities on which the preparation of international financial statements depends. In addition, despite recent initiatives to improve corporate transparency in Russia, there is less publicly available information about most Russian banks, including Alfa Bank and the Alfa Banking Group, than there is available for comparable banks in, for example, the United Kingdom or the United States.

The Alfa Banking Group faces risks associated with doing business in other CIS countries and other emerging markets

In addition to Russia, as at the date of this Base Prospectus, the Alfa Banking Group undertakes banking activities in other CIS countries. The Alfa Banking Group may undertake additional banking activities in the CIS and other emerging markets. In many respects, the risks inherent in transacting business in these countries are similar to those in Russia, especially those risks set out herein.

Risks Relating to the Republic of Cyprus

Pursuant to the arm's length principle contained in the Cypriot Income Tax Law transactions entered into with connected persons (as this is defined in the Cypriot Income Tax Law) are required to be carried out, for tax purposes, under terms and conditions that are comparable to those that would take place between independent parties in a comparable transaction. If not, the Cypriot tax authorities have the statutory right to make adjustments to the taxable profit if in their view the arm's length principle is not applied on transactions between connected parties on their commercial or financial relations. There are currently no specific transfer pricing rules and transfer pricing documentation requirements in the Cypriot Income Tax Law, however there are ongoing discussions for their introduction and such are expected to be introduced in the near future more likely with a retroactive effect as of 1 January 2020.

On 30 June 2017, the Cypriot Tax Department issued a Circular (the "**Circular**") revising the transfer pricing framework for companies carrying out intra-group financing activities. The Circular provides, inter alia, additional guidance in terms of substance and transfer pricing requirements in line with the OECD Transfer Pricing Guidelines, as well as guidance as to the required content of a transfer pricing study. The Circular is effective from 1 July 2017 and replaces the "minimum profit margin" regime which is applicable until 30 June 2017. According to the Circular, the term intra-group financing arrangements refers to any activity consisting of granting of loans or cash advances remunerated by interest (or ought to have been remunerated by interest) to connected companies, financed by financial means and instruments, such as debentures, private loans, cash advances and bank loans. The Circular does not apply to loans financed by equity capital.

Therefore, ABH Financial may be subject to potential adjustments of its taxable profits if it cannot be demonstrated by ABH Financial that certain transactions with connected parties were carried out at an arm's length basis. If transactions entered into by ABH Financial with connected parties are challenged by the Cypriot tax authorities and ABH Financial is not able to defend its position (including judicially), the tax position of ABH Financial in Cyprus may be adversely affected.

RISKS RELATING TO THE ISSUER

The Issuer's ability to fulfil its obligations to make payments on the Notes is dependent on the Alfa Banking Group

The Issuer is a special purpose vehicle whose entire share capital is held in a charitable trust by TMF Management (Ireland) Limited. The Issuer was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to make loans to ABH Financial and its affiliates. The Issuer will use the proceeds of each Series of Notes to finance a loan to ABH Financial. The Issuer does not have other assets or revenues sufficient to meet its obligations to pay redemption amounts and other amounts due under the Notes. The performance by the Issuer of its obligations under the Notes is, therefore, entirely dependent upon ABH Financial meeting its payment obligations under the terms of the relevant Loan Agreement.

The Issuer is subject to certain legal risks, including the location of its centre of main interest ("COMI"), the appointment of an examiner in the event the Issuer experiences financial difficulties and the claims of preferred creditors under Irish law

Centre of main interest

The Issuer has its registered office in Ireland. Under Regulation (EU) No. 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings (recast) (the "**Recast EU Insolvency Regulation**"), the Issuer's centre of main interest ("**COMI**") is presumed to be the place of its registered office (i.e. Ireland) in the absence of proof to the contrary and provided that the Issuer did not move its registered office within the 3 months prior to a request to open insolvency proceedings.

As the Issuer's COMI is presumed to be Ireland, any main insolvency proceedings in respect of the Issuer would fall within the jurisdiction of the courts of Ireland. As to what might constitute "*proof to the contrary*" regarding the location of a company's COMI, the key decision is that in ***Re Eurofood IFSC Ltd*** ([2004] 4 IR 370 (Irish

High Court); [2006] IESC 41 (Irish Supreme Court); [2006] Ch 508; ECJ Case C-34l/04 (European Court of Justice)), given in respect of the equivalent provision in the previous EU Insolvency Regulation (Regulation (EC) No. 1346/2000). In that case, on a reference from the Irish Supreme Court, the European Court of Justice concluded that "*factors which are both objective and ascertainable by third parties*" would be needed to demonstrate that a company's actual situation is different from that which the location of its registered office is deemed to reflect.

As the Issuer has its registered office in Ireland, all of its directors are tax resident in Ireland and is registered for tax in Ireland, the Issuer does not believe that factors exist that would rebut the presumption that its COMI is located in Ireland, although this would ultimately be a matter for the relevant court to decide based on the circumstances existing at the time when it was asked to make that decision. If the Issuer's COMI was found to be in another EU jurisdiction and not in Ireland, main insolvency proceedings would be opened in that jurisdiction instead.

Preferred creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

- under the terms of the Trust Deed, the Issuer will charge to the Trustee on behalf of Noteholders by way of first fixed charge (the "**Charge**") as security for its payment obligations in respect of the Notes certain rights under the relevant Loan Agreement and to the relevant Account. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE, local property tax and VAT;
- under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and
- in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

RISKS RELATED TO THE NOTES AND TRADING MARKET

ABH Financial is a holding company and its subsidiaries conduct substantially all of its operations and directly own all of its assets (other than the shares of ABH Financial's direct subsidiaries), and its obligation to make payments on the Loan are effectively subordinated to all the liabilities of ABH Financial's subsidiaries (including indirectly held shares of Alfa Bank)

ABH Financial is a holding company and its primary assets consist of shares in its subsidiaries (including indirectly held shares of Alfa Bank) and cash in its bank accounts. ABH Financial has no revenue generating operations of its own, and therefore its cash flow and ability to service its indebtedness, including the Loans, will depend entirely on the operating performance and financial condition of its operating subsidiaries and the receipt by it of funds from such subsidiaries in the form of dividends, interest payments on intercompany loans or otherwise. Its subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts due on the Loans or to provide the Issuer or ABH Financial with funds for the payment obligations under the Loans or the relevant Notes. In the event of a bankruptcy, liquidation or reorganisation of a subsidiary, holders of that subsidiary's indebtedness, and trade and other creditors of that subsidiary, will have a claim to the assets of the subsidiary that will rank prior to ABH Financial's interest in those assets (except to the extent that ABH Financial is recognised as a creditor through intercompany claims or loans). Accordingly, in the event that any subsidiary becomes insolvent, liquidates or otherwise reorganises, ABH Financial's creditors (including, indirectly, the holders of any Notes) will have no right to proceed against the assets of such subsidiary and the creditors of such subsidiary, including trade creditors of such subsidiary, will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before ABH Financial, as direct or indirect shareholder, will be entitled to receive any distribution from such subsidiary. Therefore, in most circumstances, ABH Financial's obligations under the Loans will effectively rank junior to all liabilities of ABH Financial's subsidiaries, including trade payables and the liquidation value of preferred stock of these subsidiaries. Most of the indebtedness of the Alfa Banking Group has been incurred by Alfa Bank and any Loans will be structurally

subordinated to such indebtedness. In addition, ABH Financial's subsidiaries may be subject to contractual or other restrictions that would prevent them from paying dividends or otherwise distributing cash to ABH Financial. There can be no assurance that the assets of any of its subsidiaries will be sufficient to repay their indebtedness and other liabilities or that any subsidiary's assets will be available to make distributions to ABH Financial that would be available to satisfy ABH Financial's payment obligations under the terms of relevant Loan.

Payments under a Series of Notes are limited to the amount of certain payments received under the relevant Loan Agreement

The Issuer is only obliged to make payments in respect of a Series of Notes to the Noteholders in an amount equal to, and in the same currency as, sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer from ABH Financial pursuant to the relevant Loan Agreement. Consequently, if ABH Financial fails to meet its payment obligations under the relevant Loan Agreement in full, this will result in the Noteholders of a Series of Notes receiving less than the scheduled amount of principal, interest and additional amounts (if any) on the relevant due date.

The Noteholders have no direct recourse to ABH Financial

Except as otherwise disclosed in the *"Terms and Conditions of the Notes"* and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of any Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the relevant Loan Agreement or have direct recourse to ABH Financial, except through action by the Trustee under the Security Interests (as defined in *"Terms and Conditions of the Notes").* The Trustee shall not be required to take any actions, steps or proceedings to enforce payment under any Loan Agreement, unless it has been indemnified and/or secured and/or prefunded to its satisfaction.

Payment of principal and/or interest by ABH Financial under any Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent is expected to meet, and will discharge, the Issuer's obligations in respect of the Notes. Consequently, the Noteholders will have no further recourse against the Issuer or ABH Financial after such payment is made.

Upon the occurrence of certain circumstances described in the relevant Loan Agreement, ABH Financial may prepay the relevant Loan

Under the terms of the relevant Loan Agreement, ABH Financial may, or may be required to, subject to certain conditions, prepay the relevant Loan early if (i) ABH Financial is required to increase its payments for tax reasons regardless of whether the increased payment obligation results from any change in the applicable tax laws or treaties, or from the change in application of existing tax laws or treaties, or from enforcement of the security provided for in connection with the Notes; (ii) in the event that it becomes unlawful for the Issuer to allow the relevant Loan to remain outstanding under the relevant Loan Agreement, to allow the Notes to remain outstanding, to maintain or give effect to any of its obligations under the Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the relevant Loan, and (iii) other cases as specified in the relevant Loan Agreement.

An expansion of OFAC or EU sanctions programmes could adversely impact the trading market for the Notes

If OFAC or EU sanctions programmes are significantly expanded, including, *inter alia*, the extension of the sectoral sanctions in relation to the Russian financial services sector as described under "*—Risks Relating to the Alfa Banking Group's Business and Industry—Non-compliance with OFAC and EU sanctions programmes, an expansion of these programmes or a significant expansion of the Alfa Banking Group's dealings with any parties subject to sanctions could adversely impact the Alfa Banking Group's financial condition*" above, the trading market for the Notes and the rights of the Noteholders could be materially adversely affected.

As of the date of this Base Prospectus, the Alfa Banking Group's dealings with persons designated as SDNs by OFAC and/or subject to EU's asset freeze sanctions are insignificant. However, if OFAC or EU sanctions programmes, including the sectoral sanctions, are expanded to include any more of the Alfa Banking Group's existing or future clients, suppliers or other counterparties, the Alfa Banking Group's dealings with designated persons may become material, which may force some Noteholders to sell their interests in any Notes due to internal compliance requirements or any laws or regulation applicable to such Noteholders, thereby decreasing their market value, as well as cause the trading market for the Notes to become less liquid as some investors may be prevented from purchasing the Notes.

The OFAC and EU sanctions programmes that target Russian persons are very recent and the application of these sanctions remains subject to interpretation and implementation by various regulators and market participants which may deviate from the Alfa Banking Group's interpretation and application of these sanctions to itself and its counterparties. Although not currently expected, should the manner in which the sanctions are applied or interpreted change, the ability of Russian banks to transact with U.S. or EU persons could be affected, and, as such, Russian banks may be unable to make scheduled payments of principal and interest on their borrowings.

Although the Alfa Banking Group has no reason to believe that it may be specifically targeted by OFAC or EU sanctions, the introduction of any large scale sanctions on the Russian financial services sector, or the expansion of the sectoral sanctions that have been introduced by OFAC and the Council of the EU, may negatively impact the Alfa Banking Group's ability to make scheduled payments of principal and interest under the Loans, as any such payments could be frozen as a consequence of such sanctions before receipt by the Issuer. Any such freezing of payments will be outside of the control of the Alfa Banking Group as it will result from the enforcement of sanctions by the relevant payment processing banks. Consequently, the ability of the Issuer and its agent(s) to make scheduled payments of principal and interest under the Notes may be impaired. Whilst the Alfa Banking Group would consider and, to the extent possible, take measures available to it to discharge its obligations under the Loans, or facilitate the discharge of the Issuer's obligations under the Notes, as the case may be, the imposition of sanctions on the Russian financial services sector could result in the Noteholders not receiving timely scheduled payments under the Notes or receiving such payments at all and/or as a consequence an Event of Default may occur under the Loans. Moreover, should any sector in which the Alfa Banking Group operates become subject to either OFAC or EU sanctions, the relevant clearing systems, brokers and other market participants as well as Euronext Dublin may refuse to permit trading in or otherwise facilitate transfers of the Notes and certain Noteholders may be unable to continue to hold the Notes as a result of applicable law or internal compliance requirements all of which could compound to significantly reduce the trading market for the Notes or may otherwise materially impact the value of the Notes.

There may be no market for the Notes when issued

There may not be an existing market for the Notes at the time they are issued. Further there can be no guarantee that a Series of the Notes will be listed or traded on any exchange. Further, if a Series of the Notes is listed or traded on an exchange, there can be no assurance that a liquid market will develop for the Notes, that the holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

Even if a market for a Series of the Notes develops, the market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the operating results of Alfa Bank's competitors, adverse business developments, changes to the regulatory environment in which Alfa Bank operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes and other factors, including those set forth in this section "*Risk Factors*".

It is possible that FATCA could operate to impose U.S. withholding tax on certain payments to Alfa Bank and the Issuer and may also apply to certain payments from the Issuer to the Noteholders

Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**"), will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries (including any clearing system other than Euroclear or Clearstream, Luxembourg) in the payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payments to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives a payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA, including any legislation implementing intergovernmental agreements relating to FATCA, if applicable), and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the common depositary for the clearing systems and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the clearing

systems and custodians or intermediaries. Holders should consult their own tax advisors on how these rules may apply to payments they receive under the Notes.

Ratings of the Notes may be limited

The credit ratings of ABH Financial may not reflect the potential impact of all risks related to structure and other factors on any trading market for, or trading value of, the Notes. In addition, real or anticipated changes in ABH Financial's credit ratings will generally affect any trading market for, or trading value of, the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There is no assurance that a credit rating will remain for any given period of time or that a credit rating will not be lowered or withdrawn by the relevant rating agency if, in its judgment, circumstances so warrant. The impact of other activities that ABH Financial undertakes, including increases in its debt levels, mergers and acquisitions, could also result in future declines in its credit ratings. In the event that a credit rating assigned to the Notes or ABH Financial is subsequently lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Notes, and the market value of the Notes is likely to be adversely affected.

In general, European-regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Where a Series of Notes is rated, the rating assigned to the Notes and details of the relevant rating agency will be specified in the applicable Final Terms or the Series Prospectus. Whether or not each credit rating applied for in relation to the relevant Series of Notes will be issued by a credit rating agency established in the EU and registered under the CRA Regulation will be disclosed in the Final Terms or the Series Prospectus.

Risks relating to Notes denominated in Russian Roubles

For investors (a) holding Russian Rouble Notes through Euroclear and/or Clearstream, Luxembourg who have made an irrevocable election to receive payment in Euro or (b) whose Russian Rouble Notes are represented by Definitive Notes (as defined in "*Provisions Relating to the Notes in Global Form*") and who have made an irrevocable election to receive a forthcoming payment of principal or interest on the Notes in Euro, the Principal Paying Agent will subject to its having received the Exchange Amount (as defined in the "*Terms and Conditions of the Notes*"), pursuant to and subject to Condition 7.7, purchase the required Euro, using the Exchange Amount received in accordance with the Loan Agreement, at a purchase price calculated on the basis of the Applicable Exchange Rate (as defined in "*Terms and Conditions of the Notes*") and transfer the purchased amount in Euro to the Noteholder's Euro account. If for any reason, the Principal Paying Agent cannot purchase Euro, the relevant payment of interest or principal will be made to the relevant Noteholder in Russian Roubles, as more fully described in "*Terms and Conditions of the Notes — Condition 7.7 Currency Exchange Option*".

The Applicable Exchange Rate that the Principal Paying Agent has agreed to exchange Russian Roubles into Euro shall be the internal foreign exchange conversion rate for settlement on the relevant due date for payment which the Principal Paying Agent acting in a commercially reasonable manner uses to convert Russian Roubles into Euro at the request of its other customers.

No assurance can be given that the amount of Euro received by an investor who elects to receive a payment of principal or interest in respect of the Notes in Euro will be equal to the amount of Euro that the investor could have realised in the foreign exchange market if the interest or principal payment made on the investor's Notes were instead paid directly to the investor in Russian Roubles and the investor had converted the Russian Roubles into Euro. The Principal Paying Agent will not be liable to any person for any losses resulting from application by the Principal Paying Agent of the Applicable Exchange Rate. In addition, even if Noteholders make an irrevocable election to receive a payment on the Notes in Euro, if the Principal Paying Agent cannot, for any reason, purchase Euro with the Russian Roubles that have been paid by the Borrower in accordance with the terms of the Loan Agreement in respect of any payment of principal or interest, Noteholders will receive Russian Roubles in respect of such payment of principal or interest.

Debt instruments denominated and settled in Russian Roubles have only been accepted for clearance through Euroclear and Clearstream, Luxembourg since 2007, and only a small number of Russian Rouble-denominated debt instruments are now settled through these clearing systems. Due to the relative lack of experience of

Euroclear and Clearstream, Luxembourg with settling, clearing and trading Rouble-denominated debt instruments, there can be no assurance that the clearing, settlement and trading of the Notes held through Euroclear or Clearstream, Luxembourg will be effected in the same manner as the clearing, settlement and trading of Euro or Euro-denominated instruments.

Holders of Russian Rouble Notes held through Euroclear and Clearstream, Luxembourg who have not elected to receive payments in Euro pursuant to the Conditions will be required to open and maintain a Rouble-denominated bank account. There are significant practical difficulties associated with opening Rouble-denominated bank accounts outside the Russian Federation, and no assurance can be given that holders will be able either to open or maintain an offshore Rouble bank account. Such holders of Notes who do not open and maintain a Rouble-denominated bank account will be unable to transfer from their accounts at Euroclear and Clearstream, Luxembourg the Russian Rouble payments made on the Notes or any Russian Rouble proceeds realised from the sale of their Notes.

Definitive Notes will not be issued in integral multiplies of less than €100,000

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination (as specified in the applicable Final Terms) of EUR100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of EUR100,000 (or its equivalent) that are not integral multiples of EUR100,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

ENFORCEABILITY OF JUDGMENTS AND ARBITRAL AWARDS IN CYPRUS

ABH Financial is organised under the laws of the Cyprus. The courts of Cyprus will not recognise and/or enforce any judgment obtained in a court established in a country other than Cyprus unless such enforcement is envisaged by an international treaty to which Cyprus is a party providing for enforcement of such judgments and then only in accordance with the terms of such treaty. Regulation (EU) no 1215/2012 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters (the "**Regulation**") is directly applicable in Cyprus. Provided neither Article 45 or Article 46 of the Regulations is applicable, any final judgment obtained in a court of a Member State to which the aforementioned regulations apply coming within the scope of the Regulations would be recognised and enforced in Cyprus. Pursuant to the Agreement on the Withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community, signed on 24 January 2020 (the "**Withdrawal Agreement**") and in particular Article 67 thereof, during the "transition period" – as currently defined in Part Four, Article 126 of the Withdrawal Agreement, the Regulation shall be in force in the UK and to and for judgments obtained in an English court. Although the Withdrawal Agreement provides for a transition period until 31 December 2020, the future relations, post-expiration of the transition period, between the UK and the EU remain uncertain.

Cyprus is also party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**"). Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention should be recognised and enforced by a Cypriot court in accordance with the procedure and subject to the matters set out in the New York Convention and the Cypriot International Arbitration Law No. 101/87 without re-examination of the merits of the case.

SUPPLEMENT TO THE BASE PROSPECTUS

The Issuer and ABH Financial will, in connection with the listing and admission of the Notes to trading on Euronext Dublin, in the event of any significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed and admitted to trading on Euronext Dublin.

The Issuer and ABH Financial may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Conditions, in which event a Series Prospectus or supplemental Base Prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

IFRS Financial Information of the Alfa Banking Group

The Alfa Banking Group annual financial information as at and for the year ended 31 December 2019 and 2018 set out in this Base Prospectus has, except where expressly stated otherwise and subject to rounding, been derived from or calculated based on the audited consolidated financial statements of ABH Financial as of and for the year ended 31 December 2019 prepared in accordance with the International Financial Reporting Standards, as issued by the International Accounting Standards Board, together with the independent auditor's report, are set out on pages F-2 – F-110 of this Base Prospectus (the "**Consolidated Financial Statements**").

ABH Financial is the indirect parent company of Alfa Bank. ABH Financial is the sole borrower under each Loan Agreement and its obligations and liabilities thereunder are not guaranteed or otherwise indemnified or supported by Alfa Bank or any of Alfa Bank's other subsidiaries.

The Consolidated Financial Statements included in this Base Prospectus have been audited by AO PricewaterhouseCoopers Audit, independent auditor, as stated in its reports appearing herein. AO PricewaterhouseCoopers Audit is a member of self-regulatory organization of auditors Association "Sodruzhestvo".

Effective 1 January 2019, the Alfa Banking Group adopted IFRS 16 "Leases" ("**IFRS 16**") using the modified retrospective approach allowing not to restate the comparative information but rather recognise the cumulative effect of the initial application in the opening retained earnings. Upon adoption of IFRS 16 as at 1 January 2019 the Alfa Banking Group recognised lease liabilities in relation to leases which had previously been classified as operating leases in accordance with IAS 17 in the amount of U.S.$136 million. Lease liabilities were measured at the present value of the remaining lease payments, discounted as at 1 January 2019 using the incremental borrowing rate. In applying IFRS 16 for the first time, the Alfa Banking Group used exemptions permitted by the standard to the leases of low-value assets and leases with a remaining lease term of less than 12 months as at 1 January 2019 (short-term leases).

The right-of-use asset was recognized at the commencement day and measured at initial cost, consisting of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date. As at 1 January 2019, the Alfa Banking Group recognised US$136 million of right-of-use assets.

The Alfa Banking Group adopted the changes to IAS 12 "Income Taxes" with effect from 1 January 2019. As a result of these amendments, the tax benefits of distributions on perpetual instruments that are classified as equity under IFRS but are considered liabilities for tax purposes are no longer recognised directly in equity but in profit or loss.

Documents Incorporated by Reference

This Base Prospectus should be read and construed in conjunction with the audited financial statements of the Issuer as at and for the years ended 31 December 2019 and 2018 together, in each case, with the audit report thereon which have been previously published or are published simultaneously with this Base Prospectus. The audited financial statements of the Issuer as at and for the years ended 31 December 2019 and 2018 can be accessed through the following links:

https://www.ise.ie/debt_documents/Alfa%20Holding%20FS%2031%20Dec%202019%20-%20final_8efd81d5-1abb-4f02-82e3-e26aa669a870.pdf

https://www.ise.ie/debt_documents/Alfa%20Holding%20-%20FS%202018_9478d898-8f88-448e-9ba8-3bb20a071248.PDF

Such documents shall be incorporated in, and form part of, this Base Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purposes of this Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus. The documents incorporated herein by reference have been filed with the Central Bank.

The financial statements of the Issuer for the year ended 31 December 2018 and 2017 were audited by Grant Thornton.

Impact of New Accounting Standards and reclassifications

From time to time, the Alfa Banking Group adopts new accounting pronouncements and changes presentation of information in its consolidated financial statements. As a result, presentation of some information for the same period or as at the same date may differ in consolidated financial statements from different periods.

Currency

In this Base Prospectus, the following currency terms are used:

"**Euro**", "**EUR**" or "**€**" means the lawful currency of participating member states of the European Union, as contemplated by the Treaty establishing the European Community, as amended.

"**£**" means the lawful currency of the United Kingdom;

"**Rouble**" or "**RUB**" means the lawful currency of the Russian Federation; and

"**U.S. dollar**" or "**U.S.$**" means the lawful currency of the United States of America.

Average Balances, Average Interest Rates and Effective Interest Rates

This Base Prospectus includes information on the average balances of interest-earning assets and interest bearing liabilities of the Alfa Banking Group for the years ended 31 December 2019 and 2018 and as well as the average interest rate of interest income or expense for such assets and liabilities. The average balances for interest-earning assets and interest-bearing liabilities are determined as the average of the beginning, middle and end of year balances as appropriate. These average balances would likely be different if more frequent averaging methods were used and such differences could be material. The average interest rates disclosed in this Base Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for applicable period and, in relation to rates for the semi-annual periods, by annualisation through multiplication by 2. Average interest rates are distinct from the effective interest rates presented in the Consolidated Financial Statements and referred to elsewhere in this Base Prospectus. 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 net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing 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 amortized 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.

IFRS requires that effective interest rates be used in the preparation of IFRS compliant consolidated financial statements. The Alfa Banking Group utilises both the effective interest rate and the average interest rate for its management's monitoring of operational results and effectiveness.

These average interest rate measures are not defined under IFRS or other generally accepted accounting principles, nor should they be considered as substitutes for the information contained in the Consolidated Financial Statements.

Non-IFRS measures

Combined Key Ratios, Profitability Ratios, Balance Sheet Ratios, Capital Adequacy and Credit Quality ratios (collectively, "**Non-IFRS measures**") are presented because the Alfa Banking Group considers them an important supplemental measure of the Alfa Banking Group's operating performance and financial position and believes they are commonly used by securities analysts, investors and other interested parties in the evaluation of companies in the Alfa Banking Group's industry. Non-IFRS measures have limitations, and they should not be considered in isolation, or as a substitute for analysis of the Alfa Banking Group's operating results and financial position as reported under IFRS. The Alfa Banking Group compensates for the limitations of Non-IFRS measures by relying primarily on its IFRS operating results and using Non-IFRS measures only supplementally. See the Consolidated Financial Statements and information for ABH Financial included elsewhere in this Base Prospectus.

Market and official data

The Alfa Banking Group has derived substantially all of the information contained in this Base Prospectus concerning its competitors from publicly available information, and it has relied on the accuracy of this information without independent verification. In addition, some of the information contained in this Base Prospectus has been derived from the official data of the Russian Government agencies and the CBR. The official data published by Russian federal, regional and local governments is substantially less complete or researched than those of Western countries, and the veracity of some official data released by the Russian Government may be questionable. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this Base Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. Such information has been accurately reproduced and that as far as the Alfa Banking Group is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduce information inaccurate or misleading.

FORWARD-LOOKING STATEMENTS

Certain statements in this Base Prospectus are not historical facts and constitute "forward-looking statements." Forward-looking statements are identified by words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," "will," "may" and similar expressions, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings "*Overview of Alfa Banking Group*", "*Risk Factors*", "*Operating and Financial Review of the Alfa Banking Group*" and "*Description of the Alfa Banking Group*". ABH Financial may from time to time make written or oral forward-looking statements in reports to its investors and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of ABH Financial's plans, objectives or goals, including those related to its strategy, products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by ABH Financial from time to time (but that are not included in this Base Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- inflation, interest rate and exchange rate fluctuations in Russia;
- the ability of ABH Financial to refinance its indebtedness on reasonable terms, if at all;
- the health of the Russian economy, including the Russian banking sector and consumer confidence;
- any future expansion plans of Alfa Banking Group and the likelihood of such plans being successfully implemented;
- the effects of, and changes in, the policy of the Russian Government, laws, regulations, taxation or accounting standards or practices in Russia, in particular, regulations promulgated by the CBR;
- the effects of competition in the geographic and business areas in which Alfa Banking Group conducts its operations;
- Alfa Banking Group's ability to manage its loan portfolio and overall asset quality;
- Alfa Banking Group's ability to increase market share for its products and services and control expenses;
- the management of the growth of Alfa Banking Group's business, assets and liabilities;
- the ability of Alfa Banking Group to adapt its products and services to new technologies; and
- Alfa Banking Group's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Alfa Banking Group operates. Such forward-looking statements speak only as at the date on which they are made, and are not subject to any continuing obligations under the listing guidelines of Euronext Dublin. Accordingly, ABH Financial does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. ABH Financial does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

OVERVIEW OF THE ALFA BANKING GROUP

Following summary should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information and the Consolidated Financial Statements included elsewhere in this Base Prospectus. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Base Prospectus include forward looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".

ABH Financial and the Alfa Banking Group

The Alfa Banking Group, of which Alfa Bank is a key part, is the largest privately-owned Russian banking group that offers a wide range of banking products and services principally in the Russian Federation, and conducts certain banking operations and financial services in the Netherlands, Cyprus and the United Kingdom. The Alfa Banking Group has three main segments:

- *Corporate and investment banking*, which provides a broad range of commercial and investment banking services and products, including corporate lending, leasing, corporate deposit services, factoring, trade finance operations, structured corporate lending, securities trading, debt and equity capital markets, derivatives, structured financing, foreign exchange trading, corporate finance and merger and acquisition advisory services to large corporations and MSME, and other financial institutions. As at 31 December 2019, the Alfa Banking Group has separated medium, small and micro banking business into new reportable segment in accordance with IFRS standards;
- *Retail banking*, which provides a wide range of retail banking services, including retail demand accounts, term deposit services, credit and debit card services, lending (including consumer loans, personal instalment loans, credit card lending, car loans and mortgages), money transfers and private banking services to individuals; and
- *Treasury operations*, which manage the Alfa Banking Group's own funding activities and internal funding reallocation, liquidity and risk management activities and investment in liquid assets, as well as short-term money market and promissory note operations.

As at 31 December 2019, the Alfa Banking Group had 825 offices throughout the Russian Federation and abroad, including subsidiaries and representative offices (along with their associated branches) in the Russian regions, the Netherlands, Cyprus and the United Kingdom, compared to 752 offices as at 31 December 2018.

According to surveys conducted by Banki.ru on the basis of RAR financial statements, as at 31 December 2019, Alfa Bank was the Russian Federation's fifth largest bank in terms of equity and loans, as well as the largest privately-owned bank in terms of assets, loans and equity.

Alfa Bank is also the largest Russian privately-owned bank by retail demand deposits, with a 8.7 per cent., 10.0 per cent. and 9.74 per cent. market share of retail demand deposits by value as at 1 January 2018, 1 January 2019 and 31 December 2019, respectively, according to calculations by Alfa Bank based on published CBR statistics.

As at 31 December 2019, the Alfa Banking Group had total assets of U.S.$59,466 million, total equity of U.S.$8,142 million, net loans and advances to customers of U.S.$38.643 million and customer accounts totalling U.S.$ 41,422 million, compared to total assets of U.S.$47,199 million, total equity of U.S.$7,198 million, net loans and advances to customers of U.S.$29,684 million and customer accounts totalling U.S.$32,106 million, respectively as at 31 December 2018.

Credit Ratings of ABH Financial

ABH Financial is rated by two internationally-recognised rating agencies: Standard & Poor's and Fitch. These ratings have been prepared by such rating agencies based on the Consolidated Financial Statements. On 13 February 2015, Fitch downgraded ABH Financial's long-term foreign currency IDR from "BB+" to "BB" with a negative outlook. On 27 June 2016, Fitch affirmed Alfa Bank's long-term IDR at "BB+" and ABH Financial's IDR at "BB" with negative outlooks. On 9 October 2019 Fitch Ratings affirmed Alfa Bank's IDR at "BB+" and ABH Financial's IDR at "BB" with positive outlooks. On 4 February 2015, Standard & Poor's downgraded ABH Financial to "B+/B" with a negative outlook. On 1 June 2016, ABH Financial's long-term and short-term credit ratings were confirmed at "B+/B" and the outlook was changed from "negative" to "stable". On 20 February 2017, ABH Financial's long-term and short-term credit ratings were confirmed at "B+/B" and changed the outlook from "stable" to positive. On 24 April 2019 Standard & Poor's raised long-term issuer credit rating on ABH Financial to "BB-" and affirmed the "B" short-term issuer credit rating with a stable outlook.

Credit Ratings of Alfa Bank

Alfa Bank is rated by three internationally-recognised rating agencies: Moody's, Standard & Poor's and Fitch.

These ratings have been prepared by the rating agencies based on the Consolidated Financial Statements and not on the financial statements of Alfa Bank prepared on a standalone basis. As at the date of this Base Prospectus, Moody's long-term local and foreign currency deposit rating of Alfa Bank is "Ba1/Ba1" (with a "stable" outlook), Standard & Poor's long-term and short-term credit ratings for Alfa Bank are "BB+/B" (with a "stable" outlook) and for ABH Financial are "BB-/B" (with a "positive" outlook) and Fitch's long-term and short-term credit ratings for Alfa Bank are "BB+/B" (with a "stable" outlook) and for ABH Financial are "BB/B" (with a "positive" outlook). See "*Description of the Alfa Banking Group*" for credit rating information.

Standard & Poor's and Fitch are established in the European Union and are registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**") and as such are included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation. Moody's is not established in the EEA. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation.

Alfa Bank is also rated by two Russian rating agencies: Analytical Credit Rating Agency ("**ACRA**") and Expert RA ("**RAEX**"). As at the date of this Base Prospectus, ACRA's rating of Alfa Bank is AA+(RU) with stable outlook, and RAEX' rating of Alfa Bank is ruAA with a stable outlook.

USE OF PROCEEDS

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to ABH Financial. The gross proceeds of such Loan will be used by ABH Financial for general corporate purposes (unless otherwise specified in the relevant Loan Agreement). In connection with the receipt of such Loan, ABH Financial will pay a facility fee, as reflected in the relevant Loan Supplement.

CAPITALISATION OF THE ALFA BANKING GROUP

The following table sets out the consolidated total equity and liabilities of the Alfa Banking Group as at 31 December 2019 derived from the Consolidated Financial Statements, included elsewhere in this Base Prospectus. This information should be read in conjunction with the sections entitled "*Selected Consolidated Financial Information*", "*Operating and Financial Review of the Alfa Banking Group*" and the Consolidated Financial Statements, appearing elsewhere in this Base Prospectus.

	As at 31 December 2019
Equity	*(U.S.$ millions)*
Share capital	1,265
Perpetual loan participation notes	966
Fair value reserve for investments at fair value through other comprehensive income	5
Revaluation reserve for premises	45
Cumulative translation reserve	(1,438)
Retained earnings	7,258
Non-controlling interests	41
Total equity	**8,142**
Liabilities	
Due to other banks	2,448
Customer accounts	41,422
Debt securities issued	3,876
Loan from State Deposit Insurance Agency	470
Subordinated debt	1,566
Other financial liabilities	1,126
Other liabilities	358
Deferred tax liability	58
Total liabilities	**51,324**
Total liabilities and equity	**59,466**

For information on significant developments after 31 December 2019, see "*Recent Developments*". Except as described therein, there have been no material changes in the Alfa Banking Group's capitalisation since 31 December 2019.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information of the Alfa Banking Group which has been derived from, and should be read in conjunction with, the Consolidated Financial Statements included elsewhere in this Base Prospectus, as well as the sections entitled "*Presentation of Financial and Other Information*", "*Risk Factors*" and "*Operating and Financial Review of the Alfa Banking Group*".

The financial information set out in this Base Prospectus with respect to the Alfa Banking Group has, except where expressly stated otherwise, and subject to rounding, been derived from the Consolidated Financial Statements (or underlying accounting records), as appropriate, and include the financial results of ABH Financial and its subsidiaries.

Selected Consolidated Statement of Profit or Loss and Other Comprehensive Income Data of the Alfa Banking Group

	For the year ended 31 December	
	2019	**2018**
	(U.S.$ millions)	
Net Margin	**2,117**	**1,920**
Net credit loss allowance charge	(652)	(261)
Net margin after credit loss allowance	**1,465**	**1,659**
Fee and commission income	1,569	1,458
Fee and commission expense	(525)	(480)
Gains less losses arising from trading securities	27	(3)
Gains less losses arising from interest based derivatives	17	(4)
Gains less losses arising from foreign currencies	(225)	251
Gains less losses arising from investments	(5)	(11)
Gains less losses arising from acquisition of own debts	1	1
Impairment of goodwill	(10)	-
Gains less losses from investment properties	(4)	17
Loss on disposal of subsidiaries	-	(20)
Other provisions	(30)	(3)
Other operating income	13	5
Operating expenses	(1,318)	(1,236)
Profit before tax	**975**	**1,634**
Income tax expense	(271)	(313)
Profit for the year	**704**	**1,321**
Other comprehensive income / (loss) for the year	**324**	**(624)**
Total comprehensive income for the year	**1,028**	**697**

Selected Consolidated Statement of Financial Position Data of the Alfa Banking Group

	As at 31 December	
	2019	**2018**
Assets	*(U.S.$ millions)*	
Cash and cash equivalents	6,450	4,333
Mandatory cash balances with central banks	422	336
Financial assets at fair value through profit or loss	1,120	863
Repurchase receivables relating to financial assets at fair value through profit or loss	3	8
Due from other banks	3,542	4,193
Loans and advances to customers	38,643	29,684
Investments	7,171	5,822
Repurchase receivables relating to investments	132	78
Other financial assets	724	980
Other assets	443	422
Premises and equipment and right-of-use assets	816	480
Total assets	**59,466**	**47,199**
Liabilities		
Due to other banks	2,448	1,872
Customer accounts	41,422	32,106
Debt securities issued	3,876	3,259
Loan from the State Deposit Insurance Agency	470	367
Subordinated debt	1,566	1,195
Other financial liabilities	1,126	648
Other liabilities	358	339
Deferred tax liability	58	215
Total liabilities	**51,324**	**40,001**
Equity		
Share capital	1,265	1,265
Perpetual loan participation notes	966	943
Fair value reserve for investments at fair value through other comprehensive income	5	5
Revaluation reserve for premises	45	49
Cumulative translation reserve	(1,438)	(1,764)
Retained earnings	7,258	6,656
Non-controlling interests	41	44
Total equity	**8,142**	**7,198**
Total liabilities and equity	**59,466**	**47,199**

OPERATING AND FINANCIAL REVIEW OF THE ALFA BANKING GROUP

The following operating and financial review of the consolidated financial position and operating results of the Alfa Banking Group covers the year ended 31 December 2019 and the year ended 31 December 2018. The financial information set out in this section with respect to the Alfa Banking Group has, except where expressly stated otherwise, and subject to rounding, been derived from the Consolidated Financial Statements (or underlying accounting records), and include the financial results of ABH Financial and its subsidiaries.

This section should be read in conjunction with the Consolidated Financial Statements and the notes thereto and the other financial information included elsewhere in this Base Prospectus, as well as the section entitled "Presentation of Financial and Other Information" and "Selected Statistical and Other Information". This section contains forward-looking statements that involve risks and uncertainties. The Alfa Banking Group's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements".

Overview

Principal Activities

The Alfa Banking Group, of which Alfa Bank is a key part, is the largest privately-owned Russian banking group that offers a wide range of banking products and services principally in the Russian Federation, and conducts certain banking operations and financial services in the Netherlands, Cyprus and the United Kingdom. The Alfa Banking Group has three main segments:

- *Corporate and investment banking*, which provides a broad range of commercial and investment banking services and products, including corporate lending, leasing, corporate deposit services, factoring, trade finance operations, structured corporate lending, securities trading, debt and equity capital markets, derivatives, structured financing, foreign exchange trading, corporate finance and merger and acquisition advisory services to large corporations, MSME, and other financial institutions. As at 31 December 2019, the Alfa Banking Group has separated medium, small and micro banking business into new reportable segment in accordance with IFRS standards;
- *Retail banking*, which provides a wide range of retail banking services, including retail demand accounts and term deposit services, credit and debit card services, lending (including consumer loans, personal instalment loans, credit card lending, car loans and mortgages), money transfers and private banking services to individuals; and
- *Treasury operations*, which manage the Alfa Banking Group's own funding activities and internal funding reallocation, liquidity and risk management activities and investment in liquid assets, as well as short-term money market and promissory note operations.

As at 31 December 2019, the Alfa Banking Group had 825 offices throughout the Russian Federation and abroad, including subsidiaries and representative offices (along with their associated branches) in the Russian regions, the Netherlands, Cyprus and the United Kingdom, compared to 752 offices as at 31 December 2018. For a more detailed description of the business activities of the Alfa Banking Group, see "*Description of the Alfa Banking Group*".

Factors Affecting Results of Operations

Russia's Economic Condition

The majority of the Alfa Banking Group's assets and customers are located in, or have businesses related to, the Russian Federation. The concentration of the Alfa Banking Group's assets in Russia reflects its strategic focus on its core market in Russia. As a result, the Alfa Banking Group is substantially affected by Russian economic conditions. The Russian Federation's economy is to a significant degree dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. Dramatic decreases in the prices of these commodities in the world market can lead to sharp decreases in Russian Government revenues and the revenues of privately held Russian companies operating in these sectors, which, in turn, can have a severely negative effect on the overall Russian economy.

The conditions and outlook for the Russian economy deteriorated significantly during 2014 and continued to worsen in 2015 and 2016. Russian economy returned to growth in real GDP terms in 2017 expanding by 1.6 per cent. in 2017, 2.3 per cent. in 2018 and 1.3 per cent. in 2019 whilst inflation was 2.5 per cent. in 2017, 4.3 per cent. in 2018 and 3 per cent. in 2019. The Rouble experienced significant depreciation against the U.S. dollar in 2014 and 2015. In 2018 and 2019, Rouble appreciated against U.S. dollar. As at 31 December 2018, the Rouble / U.S.$ exchange rate amounted to RUB69.47 per U.S.$1.00 and RUB61.91 per U.S.$1.00 as at

31 December 2019. Fluctuation of the Rouble / U.S.$ exchange may have significant effect on the Alfa Banking Group's financial performance, as the majority of the Alfa Banking Group's operations are conducted in Roubles, while the presentational currency of the Alfa Banking Group's financial statements is U.S.$ dollars.

Any deterioration of the Russian economy affects the Russian banking sector as was illustrated by the worsening financial results and condition of banks in 2015 and 2016. There was increased turbulence in the Russian banking sector in the second half of 2017 that led to the CBR revoking banking licences of approximately 60 credit organisations, accounting for approximately 11.1 per cent. of the banking sector, which further undermined public confidence in banks. The general stabilisation of the Russian economy 2018 and 2019 resulted in an increase in customers' demand for banking services. As at 31 December 2019, the Alfa Banking Group's loans and advances to customers increased to U.S.$38,643 million from U.S.$29,684 million as at 31 December 2018. Although during the period under review Russian banks benefited from improved asset quality and capital, Russian banks remain exposed to volatile of credit losses. The CBR has recently reported the growth of household debt burden against the backdrop of accelerated growth of consumer lending and a decline in real disposable income of the population. These factors may lead to an increase in non-payments on consumer loans. As at 31 December 2019, the credit loss allowance of the Alfa Banking Group for loans to individuals increased by 61.8 per cent. to U.S.$500 million, as compared to U.S.$ 309 million as at 31 December 2018.

Volatility of Currencies

The Alfa Banking Group is exposed to foreign currency rates volatility which affect its results of operations and financial position. A substantial portion of the Alfa Banking Group's assets and liabilities are Rouble-denominated and, consequently, a significant part of its interest income and interest expense is received or paid in Roubles. As a result, a significant depreciation or, as the case may be, appreciation of the Rouble has the effect of decreasing or increasing, respectively, the Alfa Banking Group's assets, liabilities, interest income, interest expense, and other results of operations, in U.S. dollar terms. Due to the fluctuations of the exchange rate in 2019, the Group recorded U.S.$225 of losses arising from foreign currencies for the year ended 31 December 2019, as compared to a U.S.$251 million gain in 2018. See "*Risk Factors—Risks Relating to the Alfa Banking Group's business and industry—Significant depreciation or appreciation of the Rouble and fluctuations in foreign currency exchange rates may have a material adverse effect on the Alfa Banking Group*".

Interest Rate Environment and Funding

Changes in interest rates affect the Alfa Banking Group's operations. Over the periods covered by the Consolidated Financial Statements, movements in short- and long-term interest rates have affected both the Alfa Banking Group's interest income and interest expense, and the Alfa Banking Group's level of gains and losses on its securities portfolio. Interest rates can be affected by factors such as rates set by the CBR, inflation, competition among banks and general macroeconomic conditions and access to funding sources.

As the exchange rate of the Rouble against the U.S. dollar stabilized in 2018 and 2019, the CBR gradually reduced its key interest rate. The CBR's gradual transition to a neutral monetary policy coupled with the slowdown in the growth of consumer prices has created conditions for lower interest rates in 2018 and 2019. Lower interest rate margins were partially offset by a decrease in the cost of risk on new loans.

Average lending rates on the Russian interbank market may also fluctuate significantly. For example, the average Rouble interbank lending rate (31 – 90 days maturity) was 6.4 per cent. in December 2019, compared to 8.38 per cent. in December 2018. Average Rouble lending rates decreased for corporate borrowers and individuals during the course of 2018 and 2019. The decrease in the average interest rates in 2018 and 2019 was preliminary driven by lower inflation and overall improvement of liquidity in the banking sector. However, lower average interest rates may put pressure on the Alfa Banking Group's net interest margins. The following table, which is taken from statistical information produced by the CBR, presents the average interest rates earned by banks based in Russia on U.S. dollar and Rouble-denominated loans to corporate clients and average interest rates paid by such banks on Rouble-denominated deposits from retail clients.

	For the year ended 31 December	
	2019	**2018**
Loans to corporate clients in U.S. dollars (short-term loans)	4.8%	5.0%
Loans to corporate clients in RUB (loans of less than one year)	8.7%	8.9%
Deposits from retail clients in RUB (deposits of less than one year, including demand deposits)	5.4%	5.4%

The Alfa Banking Group's net interest margin ratio slightly decreased to 4.6 per cent. for the year ended 31 December 2019 from 4.8 per cent. for the year ended 31 December 2018 (see "*—Results of Operations for the Year Ended 31 December 2019 and 31 December 2019—Net Interest Margin Ratio*"). For the years ended 31 December 2019 and 2018, the Alfa Banking Group's primary source of interest income were loans and

advances to corporate customers and individuals. The Alfa Banking Group's interest income from loans and advances to corporate customers and individuals in aggregate amounted to 79.4 per cent. of its total interest income (including other similar income) for the year ended 31 December 2019, as compared to 81.9 per cent. for the year ended 31 December 2018. At the same time, the Alfa Banking Group's most significant portion of interest expense (including other similar expense) was attributed to interest payments on term deposits (legal entities and individuals) and current/settlement accounts which in aggregate accounted for 67.6 per cent. for the year ended 31 December 2019, as compared to 65.8 per cent. for the year ended 31 December 2018. The Alfa Banking Group placed particular focus on managing the funding costs through a steady inflow of client funds, which resulted in an increase of the customer accounts from individuals by 29.0 per cent. in the year ended 31 December 2019.

The average annual interest rate on the Alfa Banking Group's loans and advances to individuals decreased to 14.7 per cent. for the year ended 31 December 2019 from 16.5 per cent. for the year ended 31 December 2018. At the same time, the average annual interest rate on the Alfa Banking Group's loans and advances to corporate customers remained stable and around 8.1 per cent. for the year ended 31 December 2019 and 2018. The average interest rate paid by the Alfa Banking Group on term deposits of legal entities decreased to 5.6 per cent. for the year ended 31 December 2019 from 5.9 per cent. for the year ended 31 December 2018. The average interest rate paid by the Alfa Banking Group on amounts due to other banks remained stable and amounted to 5.4 per cent. for the year ended 31 December 2019 and 2018. The average interest rate paid by Alfa Banking Group on term deposits of individuals amounted to 4.5 per cent. for the year ended 31 December 2019 compared to 4.0 per cent for the year ended 31 December 2018. The average interest rate paid by the Alfa Banking Group on its debt securities issued increased to 6.8 per cent. for the year ended 31 December 2019 from 6.7 per cent. for the year ended 31 December 2018.

Fee and Commission Income

The Alfa Banking Group generates significant amounts of net fee and commission income, accounting for 49.3 per cent. and 50.9 per cent. of net margin (before credit loss allowance) in the years ended 31 December 2019 and 31 December 2018, respectively. Fee and commission income is a significant and stable source of income for the Alfa Banking Group, and is largely independent of market fluctuations in interest rates. The Alfa Banking Group's fee and commission income arises from activities such as commission on operations with plastic cards, fees from settlement transactions, agency commission on insurance operations, commission on guarantees issued and cash and foreign currency exchange transactions.

Loan Portfolio and Credit Loss Allowance

During periods of deteriorating economic activity, the ability of the Alfa Banking Group's borrowers to repay amounts due, and the value of the collateral that secures loans, may decrease. In particular, developments such as reduced corporate liquidity and profitability, foreign currency exchange rates fluctuations, restrictions on funding, increased unemployment, rising inflation, increased corporate and personal insolvencies and increased interest rates may adversely affect the ability of the Alfa Banking Group's customers to repay loans. Reduced creditworthiness amongst the Alfa Banking Group's customers also may tend to increase the Alfa Banking Group's credit loss allowance during such periods, possibly significantly, resulting in a possible decrease in the Alfa Banking Group's net margin after credit loss allowance. At the same time, the Alfa Banking Group's credit loss allowance is usually lower during periods characterised by stronger economic conditions.

The recovery of the Russian economy and gradual improvement of the credit quality of the Alfa Banking Group's customers has led to a decrease in the share of the Alfa Banking Group's overdue loans during 2018 and 2019. The Alfa Banking Group's credit loss allowance recorded during the year ended 31 December 2019 was U.S.$652 as compared to U.S.$261 million during the year ended 31 December 2018 due to the growth of the Alfa Banking Group's retail loan portfolio that contains risker loans and credit loss allowance for large loans to several unrelated corporate borrowers. As at 31 December 2019, 1.9 per cent. of the Alfa Banking Group's total gross loans and advances to customers were overdue (namely, loans with a delay of one day or more in payment of interest or principal) (U.S.$751 out of total gross loans and advances to customers), compared to 2.6 per cent. as at 31 December 2018 (U.S.$787 million out of total gross loans and advances to customers). See "*Risk Factors—Risks Relating to the Alfa Banking Group's business and industry—The Alfa Banking Group could face increased loan losses and decreased demand for its services from both corporate customers and individuals who are affected by any slowdown or weakening of the global, regional or Russian economies*".

Fluctuations in the Value of Securities

The value of the Alfa Banking Group's trading securities portfolio has fluctuated in the past and the value of the Alfa Banking Group's trading securities portfolio is likely to continue to fluctuate in the future, which may have an impact on the Alfa Banking Group's results of operations and the structure of the consolidated statement of

financial position. As at 31 December 2019, the Alfa Banking Group had U.S.$1,123 million (or 1.9 per cent. of its total assets) invested in financial assets at fair value through profit or loss and repurchase receivables relating to financial assets at fair value through profit or loss, compared to U.S.$871 million (or 1.8 per cent. of its total assets) as at 31 December 2018. The fair value of securities is based on market price.

Critical Accounting Estimates and Judgments in Applying Accounting Policies

The accounting policies of the Alfa Banking Group are integral to understanding its results of operations and financial condition.

The preparation of its consolidated financial statements requires the Alfa Banking Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. On an ongoing basis, the Alfa Banking Group's management evaluates its estimates and judgments, including those related to impairment losses on loans and advances, fair value of financial instruments, functional currencies, initial recognition of related party transactions, income taxes and other matters. Management bases its estimates and judgments on historical experience and on various other factors that it believes to be reasonable under the circumstances. Actual results may differ from these estimates and conditions, and such differences may be material. Refer to Note 4 to the Consolidated Financial Statements appearing elsewhere in this Base Prospectus for further details.

Payment of Dividends

In April 2019, ABH Financial declared and paid dividends on preference shares in the amount of U.S.$28 million.

Results of Operations for the Years Ended 31 December 2019 and 2018

The following table sets forth the principal components of the Alfa Banking Group's consolidated statement of profit or loss and other comprehensive income for the years indicated.

	For the year ended 31 December	
	2019	**2018**
	(U.S.$ millions)	
Interest income calculated using the effective interest method	3,695	3,266
Other similar income	273	205
Interest expense calculated using the effective interest method	(1,704)	(1,460)
Other similar expense	(14)	-
Deposit insurance expense	(133)	(91)
Net margin	**2,117**	**1,920**
Net credit loss allowance charge	(652)	(261)
Net margin after credit loss allowance	**1,465**	**1,659**
Fee and commission income	1,569	1,458
Fee and commission expense	(525)	(480)
Gains less losses arising from trading securities	27	(3)
Gains less losses arising from interest based derivatives	17	(4)
Gains less losses arising from foreign currencies	(225)	251
Gains less losses arising from investments	(5)	(11)
Gains less losses arising from acquisition of own debts	1	1
Impairment of goodwill	(10)	-
Gains less losses arising from investment properties	(4)	17
Loss on disposal of subsidiaries	-	(20)
Other provisions	(30)	(3)
Other operating income	13	5
Operating expenses	(1,318)	(1,236)
Profit before tax	**975**	**1,634**
Income tax expense	(271)	(313)
Profit for the year	**704**	**1,321**
Other comprehensive income/(loss) for the year	**324**	**(624)**
Total comprehensive income for the year	**1,028**	**697**

Net Margin

Net margin comprises total interest income calculated using the effective interest rate method and other similar income less total interest expense, other similar expense and deposit insurance expense.

The Alfa Banking Group's net margin before credit loss allowance charge for the year ended 31 December 2019 increased by 10.3 per cent. to U.S.$2,117 million from U.S.$1,920 million for the year ended 31 December 2018. This increase resulted from an increase in interest income in particular from a greater volume of loans to corporate customers and individuals.

Net Interest Margin Ratio

The net interest margin ratio comprises net interest income before credit loss allowance (excluding other similar expense and deposit insurance expense) expressed as a percentage of average interest-earning assets.

The Alfa Banking Group's net interest margin ratio for the year ended 31 December 2019 decreased to 4.6 per cent., compared to 4.8 per cent. for the year ended 31 December 2018. This decrease resulted primarily from reduction in market interest rate.

Interest Income

The Alfa Banking Group generates interest income on loans and advances to customers, due from other banks, debt investments at fair value through other comprehensive income and repurchase receivables, investments at amortized cost and repurchase receivables and other similar income.

The following table sets out the principal components of the Alfa Banking Group's interest income for the years shown:

	For the year ended 31 December	
	2019	**2018**
	(U.S.$ millions)	
Interest income		
Loans and advances to corporate customers	1,942	1,823
Loans and advances to individuals	1,210	853
Debt investments at fair value through other comprehensive income and repurchase receivables	206	193
Due form other banks	171	236
Investments at amortized cost and repurchase receivables	166	161
Total interest income calculated using the effective interest method	**3,695**	**3,266**
Other similar income	**273**	**205**

The Alfa Banking Group's total interest income for the year ended 31 December 2019 increased by 13.1 per cent. to U.S.$3,695 million from U.S.$3,266 million for the year ended 31 December 2018. This increase resulted primarily from increases in interest income from loans and advances to corporate customers and individuals.

Interest income from loans and advances to corporate customers

The Alfa Banking Group's interest income from loans and advances to corporate customers for the year ended 31 December 2019 increased by 6.5 per cent. to U.S.$1,942 million from U.S.$1,823 million for the year ended 31 December 2018. This increase mainly resulted from an increase in the average balance of loans and advances to corporate customers from U.S.$24,353 million to U.S.$26,813 million.

Interest income from loans and advances to individuals

The Alfa Banking Group's interest income from loans and advances to individuals for the year ended 31 December 2019 increased by 41.9 per cent. to U.S.$ 1,210 million from U.S.$853 million for the year ended 31 December 2018. This increase resulted from an increase of 58.7 per cent. in the average balance of loans and advances to individuals to U.S.$8,225 million for the year ended 31 December 2019 from U.S.$5,183 million for the year ended 31 December 2018 reflecting the Alfa Banking Group's continuing strategy of expanding of its retail operations. This increase was partially offset by a decrease in the average interest rate paid on loans and advances to individuals from 16.5 per cent to 14.7 per cent. attributed to declining market interest rates and development of mortgage products which have lower interest rates comparing to cash loans and credit cards.

Interest income from debt investments at fair value through other comprehensive income and repurchase receivables

The Alfa Banking Group's interest income from debt investments at fair value through other comprehensive income and repurchase receivables for the year ended 31 December 2019 amounted to U.S$206 million as

compared to U.S.$193 million for the year ended 31 December 2018 as a result of an increase in the average balance from U.S.$2,680 million for the year ended 31 December 2018 to U.S.$4,151 million for the year ended 31 December 2019. This increase was partially offset by a decrease of the average interest rate paid on such instruments from 7.2 per cent. for the year ended 31 December 2018 to 5.0 per cent. for the year ended 31 December 2019.

Interest income from amounts due from other banks

The Alfa Banking Group's interest income from amounts due from other banks for the year ended 31 December 2019 decreased by 27.5 per cent. to U.S.$171 million from U.S.$236 million for the year ended 31 December 2018. This decrease resulted primarily from a decrease in the average interest rate paid on amounts due from other banks (including correspondence accounts and overnight placements with other financial institutions) from 3.9 per cent for the year ended 31 December 2018 to 2.7 per cent. for the year ended 31 December 2019. This decrease was partially offset by an increase in the average balance from U.S.$5,992 million for the year ended 31 December 2018 to U.S.$6,401 million for the year ended 31 December 2019.

Interest income from investments at amortized cost and repurchase receivables

The Alfa Banking Group's interest income from investments at amortized cost and repurchase receivables increased to U.S.$166 million for the year ended 31 December 2019 from U.S.$161 million for the year ended 31 December 2018, due to an increase in the average interest rate paid from 6.4 per cent. for the year ended 31 December 2018 to 7.0 per cent. for the year ended 31 December 2019. *See – "Factors Affecting Results of Operations – Interest Rate Environment and Funding".*

Other similar income

The Alfa Banking Group's other similar income for the year ended 31 December 2019 increased by 33.2 per cent. to U.S.$273 million from U.S.$205 million for the year ended 31 December 2018.

Interest Expense

Interest expense includes all interest expense from debt securities issued, term deposits of legal entities and individuals, subordinated debt, due to other banks, current/settlement accounts, loan from the State Deposit Insurance Agency and other similar expense.

The following table sets out the principal components of the Alfa Banking Group's interest expense for the years shown:

	For the year ended 31 December	
	2019	2018
	(U.S.$ millions)	
Interest Expense		
Term deposits of legal entities	550	528
Term deposits of individuals	327	257
Current/settlement accounts	284	175
Debt securities issued	248	232
Due to other banks	130	105
Subordinated debt	103	105
Loan from the State Deposit Insurance Agency	62	58
Total interest expense calculated using the effective interest method	**1,704**	**1,460**
Other similar expense	**14**	**-**

The Alfa Banking Group's total interest expense for the year ended 31 December 2019 increased by 16.7 per cent. to U.S.$1,704 million from U.S.$1,460 million for the year ended 31 December 2018. This increase resulted primarily from increases in interest expense on current/settlement accounts and term deposits of individuals. These increases were partially offset by decrease in interest expense on subordinated debt.

Interest expense related to term deposits of legal entities

The Alfa Banking Group's interest expense related to term deposits of legal entities for the year ended 31 December 2019 increased by 4.2 per cent. to U.S.$550 million from U.S.$528 million for the year ended 31 December 2018. This increase resulted from a 9.5 per cent. increase in the average balance of term deposits of legal entities to U.S.$9,865 million for the year ended 31 December 2019 from U.S.$9,007 million for the year ended 31 December 2018. This increase was partially offset by a decrease in the average interest rate on term

deposits of legal entities to 5.6 per cent. for the year ended 31 December 2019 from 5.9 per cent. for the year ended 31 December 2018 in line with market trend.

Interest expense related to term deposits of individuals

The Alfa Banking Group's interest expense related to term deposits of individuals for the year ended 31 December 2019 increased by 27.2 per cent. to U.S.$327 million from U.S.$257 million for the year ended 31 December 2018. This increase was the result of 11.7 per cent. increase in the average balance of term deposits of individuals from U.S.$6,442 for the year ended 31 December 2018 to U.S.$7,195 for the year ended 31 December 2019 and an increase in the average interest paid on such deposits to 4.5 per cent. for the year ended 31 December 2019 from 4.0 per cent. for the year ended 31 December 2018.

Interest expense related to current/settlement accounts

The Alfa Banking Group's interest expense related to current/settlement accounts for the year ended 31 December 2019 increased by 62.3 per cent. to U.S.$284 million from U.S.$175 million for the year ended 31 December 2018. This increase resulted from an increase in the average balance of current/settlement accounts by 25.7 per cent. to U.S.$18,903 million for the year ended 31 December 2019 from U.S.$15,039 million for the year ended 31 December 2018 due to management of the funding costs through a steady inflow of client funds, including current accounts. This increase also reflected an increase in average interest rate paid on such accounts from 1.2 per cent. for the year ended 31 December 2018 to 1.5 per cent. for the year ended 31 December 2019.

Interest expense related to debt securities issued

The Alfa Banking Group's interest expense related to debt securities issued for the year ended 31 December 2019 increased by 6.9 per cent. to U.S.$248 million from U.S.$232 million for the year ended 31 December 2018. This reflected an increase in the average balance of debt securities issued during 2019 to U.S.$3,650 million as compared to U.S.$3,466 million in 2018 as a result of the issue of new Alfa Banking Group's debt securities during 2019. This increase also reflected an increase in the average interest rate paid on debt securities issued from 6.7 per cent. for the year ended 31 December 2018 to 6.8 per cent. for the year ended 31 December 2019.

Interest expense related to amounts due to other banks

The Alfa Banking Group's interest expense related to amounts due to other banks for the year ended 31 December 2019 increased by 23.8 per cent. to U.S.$130 million from U.S.$105 million for the year ended 31 December 2018.

Interest expense related to subordinated debt

The Alfa Banking Group's interest expense related to subordinated debt for the year ended 31 December 2019 decreased by 1.9 per cent. to U.S.$103 million from U.S.$105 million for the year ended 31 December 2018.

Interest expense related to the loan from the State Deposit Insurance Agency

The Alfa Banking Group's interest expense related to the loan from the State Deposit Insurance Agency for the year ended 31 December 2019 increased by 6.9 per cent. to U.S.$62 million from U.S.$58 million for the year ended 31 December 2018.

Credit loss allowance

The following table sets out details of changes in the credit loss allowance of loans and advances to customers as at and for the years indicated:

	For the year ended 31 December	
	2019	**2018**
	(U.S.$ millions)	
Credit loss allowance as at the beginning of the year	**888**	**944**
Credit loss allowance during the year	710	308
Amounts written off during the year as uncollectible	(456)	(292)
Unwinding of discount	12	8
Effect of translation to functional and presentation currency	43	(80)
Credit loss allowance as at the end of the year	**1,197**	**888**

The Alfa Banking Group's credit loss allowance recorded during the year ended 31 December 2019 was increased to U.S.$710 million as compared to U.S.$308 million during the year ended 31 December 2018 due to expansion of the Alfa Banking Group retail lending operations, which are generally more risky than corporate lending, and reflecting a one-off credit loss allowance recorded for a specific loan.

The credit loss allowance for the year ended 31 December 2019 differs from the amount presented in the consolidated statement of profit or loss and other comprehensive income due to a U.S.$58 million (including U.S.$47 million relating to loans and advances to individuals) recovery of amounts previously written off as uncollectible. The credit loss allowance for the year ended 31 December 2018 differs from the amount presented in the consolidated statement of profit or loss and other comprehensive income due to a U.S.$47 million (including U.S.$26 million relating to loans and advances to individuals) recovery of amounts previously written off as uncollectible. These amounts were credited directly to the net credit loss allowance charge line in the respective consolidated statements of profit or loss and other comprehensive income thereby decreasing the credit loss allowance presented therein.

The Alfa Banking Group's overall provisioning level as a percentage of the total gross loans and advances to customers amounted to 3.0 per cent. as at 31 December 2019 compared to 2.9 per cent. as at 31 December 2018.

As at 31 December 2019, 1.9 per cent. of the Alfa Banking Group's total gross loans and advances to customers were overdue (loans with a delay of one day or more in payment of interest or principal) (U.S.$751 million out of total gross loans and advances to customers of U.S.$39,840 million), compared to 2.6 per cent. of the Alfa Banking Group's total gross loans and advances to customers as at 31 December 2018 (U.S.$787 million out of total gross loans and advances to customers of U.S.$30,572 million). See "*—Selected Statistical and Other Information—Loans and advances to customers—Credit Loss Allowance*".

Net Non-Interest Income

The Alfa Banking Group generates non-interest income from net fee and commission income; gains less losses arising from trading securities, interest based derivatives, foreign currencies, investments, investment properties and acquisition of own debts; and other operating income.

The following table sets out the components of the Alfa Banking Group's net non-interest income for the years indicated:

	For the year ended 31 December	
	2019	**2018**
	(U.S.$ millions)	
Fee and commission income	1,569	1,458
Fee and commission expense	(525)	(480)
Net fee and commission income	**1,044**	**978**
Gains less losses arising from trading securities	27	(3)
Gains less losses arising from interest based derivatives	17	(4)
Gains less losses arising from foreign currencies	(225)	251
Gains less losses arising from investments	(5)	(11)
Gains less losses arising from acquisition of own debts	1	1
Impairment of goodwill	(10)	-
Gains less losses from investment properties	(4)	17
Other provisions	(30)	(3)
Other operating income	13	5
Loss on disposal of subsidiary	-	(20)
Total net non-interest income	**828**	**1,211**

The Alfa Banking Group's net non-interest income for the year ended 31 December 2019 decreased by 31.6 per cent. to U.S.$828 million from U.S.$1,211 million for the year ended 31 December 2018. This decrease was primarily due to an decrease in gains less losses arising from foreign currencies from a U.S.$251 million gain for the year ended 31 December 2018 to a U.S.$225 million loss for the year ended 31 December 2019.

Net fee and commission income

Net fee and commission income is calculated as fee and commission income less fee and commission expense.

The following table sets out the Alfa Banking Group's components of fee and commission income and fee and commission expense for the years indicated:

	For the year ended 31 December	
	2019	2018
	(U.S.$ millions)	
Fee and commission income		
Commission on operations with plastic cards	692	697
Commission on settlement transactions	539	467
Agency commission on insurance operations	166	139
Commission on cash and foreign currency exchange transactions	94	93
Commission on guarantees issued	28	24
Other	50	38
Total fee and commission income	**1,569**	**1,458**
Fee and commission expense		
Commission on operations with plastic cards	390	381
Commission for consulting services	29	27
Commission on settlement transactions	21	20
Commission on cash and foreign currency exchange transactions	6	4
Commission on transactions with securities	4	4
Other	75	44
Total fee and commission expense	**525**	**480**
Net fee and commission income	**1,044**	**978**

The Alfa Banking Group's net fee and commission income for the year ended 31 December 2019 increased by 6.8 per cent. to U.S.$1,044 million from U.S.$978 million for the year ended 31 December 2018. This increase was primarily due to an increase in commission on settlement transactions and agency commission on insurance operations and was partially offset by other fee and commission expenses.

Gains less losses arising from trading securities

The Alfa Banking Group's gains arising from trading securities for the year ended 31 December 2019 amounted to U.S.$27 million as compared to losses in the amount of U.S.$3 million for the year ended 31 December 2018.

Gains less losses arising from interest-based derivatives

The Alfa Banking Group's gains arising from interest-based derivatives for the year ended 31 December 2019 amounted to U.S.$17 million as compared to losses in the amount of U.S.$4 million for the year ended 31 December 2018.

Gains less losses arising from foreign currencies

The Alfa Banking Group's losses arising from foreign currencies for the year ended 31 December 2019 amounted to a U.S.$225 million loss compared to a U.S.$251 million gain for the year ended 31 December 2018 due to rouble appreciation in 2019.

Gains less losses arising from investments

The Alfa Banking Group's losses arising from investments for the year ended 31 December 2019 decreased to U.S.$5 million, compared to U.S.$11 million for the year ended 31 December 2018.

Other operating income

The Alfa Banking Group's other operating income for the year ended 31 December 2019 increased by 160 per cent. to U.S.$13 million from U.S.$5 million for the year ended 31 December 2018, was mainly due to several one-off incomes in 2019.

Operating Expenses

The following table sets out the major components of the Alfa Banking Group's operating expenses for the years indicated:

	For the year ended 31 December	
	2019	2018
	(U.S.$ millions)	
Staff costs	743	719
Computer and telecommunications expenses	92	80
Advertising and marketing	79	73

	For the year ended 31 December	
	2019	2018
	(U.S.$ millions)	
Expenses related to premises and equipment	64	59
Consulting and professional services	64	54
Depreciation of premises and equipment	58	55
Amortisation of intangible assets	57	61
Depreciation of right-of-use assets	37	-
Maintenance	19	21
Short-term and variable payment leases (2018: Rent)	18	58
Administrative expenses	15	16
Taxes other than income tax	7	5
Travel expenses	5	6
Other	60	29
Total operating expenses	**1,318**	**1,236**

Total operating expenses

The Alfa Banking Group's total operating expenses for the year ended 31 December 2019 increased by 6.6 per cent. to U.S.$1,318 million from U.S.$1,236 million for the year ended 31 December 2018. This increase was principally due to an increase in staff costs, computer and telecommunications expenses and other expenses.

Staff costs

The Alfa Banking Group's staff costs for the year ended 31 December 2019 increased by 3.3 per cent. to U.S.$743 million from U.S.$719 million for the year ended 31 December 2018. This increase reflects the expansion of the Alfa Banking Group.

Rent

The Alfa Banking Group's short-term and variable payment leases (2018: Rent) for the year ended 31 December 2019 decreased by 69 per cent. to U.S.$18 million from U.S.$58 million for the year ended 31 December 2018 due to implementation of IFRS 16 standard. For detailed description of the impact of adoption of new standards see Note 5 to the Consolidated Financial Statements.

Income Tax Expense

The Alfa Banking Group's income tax expense for the years ended 31 December 2019 and 31 December 2018 amounted to U.S.$271 million and U.S.$313, respectively.

The statutory corporate income tax rate applicable to the Russian subsidiaries of the Alfa Banking Group, which comprise the major part of the Alfa Banking Group's income, was 20 per cent. for each of the years presented. The statutory income tax rate applicable to the majority of income of the Alfa Banking Group from investment banking operations ranged from 15 per cent. to 20 per cent. for each year.

The following table sets forth the Alfa Banking Group's reconciliation of profit before tax to income tax expense for the years indicated:

	For the year ended 31 December	
	2019	2018
	(U.S.$ millions)	
Profit before tax	**975**	**1,634**
Theoretical tax charge at the statutory rate (2019: 20%, 2018: 20%)	195	327
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Non-deductible expenses	35	30
– Net result on activities taxed at different rates	3	(11)
– Perpetual loan participation notes	37	(44)
– Other	1	11
Income tax expense for the year	**271**	**313**

Profit

The Alfa Banking Group's profit for the year ended 31 December 2019 decreased to U.S.$704 million from U.S.$1,321 million for the year ended 31 December 2018 due to the increase in the credit loss allowance charge resulted from expansion of the Alfa Banking Group retail lending operations which are generally more risky than corporate lending and reflecting a one-off credit loss allowance charge recorded for a specific loan as well as losses arising from foreign currencies due to rouble appreciation.

Other Comprehensive Income for the Year

Other comprehensive income is related to debt investments at fair value through other comprehensive income (consisting of fair value gains less losses during the period and reclassification adjustments for losses included in profit or loss), the effect of the translation of the financial statements of foreign operations, net change in hedge of net investment in foreign operations and income tax recorded directly in other comprehensive income.

The following table sets out details of changes in other comprehensive income for the years indicated:

	For the year ended 31 December	
	2019	**2018**
	(U.S.$ millions)	
Items that may be reclassified subsequently to profit or loss:		
Debt investments at fair value through other comprehensive income:		
– Fair value gains less losses during the period	-	(14)
– Reclassification adjustments for losses included in profit or loss	-	6
Effect of translation of the financial statements of foreign operations	946	(1,497)
Net change in hedge of net investment in foreign operations	(773)	1,106
Income tax on items that may be reclassified to profit or loss	153	(219)
Items that will not be reclassified to profit or loss:		
Revaluation of premises	(3)	(7)
Income tax on items that will not be reclassified to profit or loss	1	1
Other comprehensive income / (loss) for the year	**324**	**(624)**

The Alfa Banking Group's other comprehensive income for the year ended 31 December 2019 amounted to U.S.$324 million as compared to other comprehensive loss of U.S.$624 million for the year ended 31 December 2018. This change in other comprehensive income was primarily caused by a positive effect of translation of the financial statements of foreign operations which resulted from fluctuations in the Rouble / U.S.$ exchange rate during 2019.

Cash Flows

The following table sets out selected cash flow data from the Alfa Banking Group's cash flow statements for the years indicated.

	For the year ended 31 December	
	2019	**2018**
	(U.S.$ millions)	
Net cash from operating activities	2,812	1,986
Net cash used in investing activities	(1.120)	(2,043)
Net cash used in financing activities	188	(228)
Net increase/(decrease) in cash and cash equivalents	**1,880**	**(285)**
Cash and cash equivalents at the beginning of the year	4,333	5,114
Effect of exchange rate changes on cash and cash equivalents	237	(496)
Cash and cash equivalents at the end of the year	**6,450**	**4,333**

Cash flows from Operating Activities

Cash from operating activities comprises cash flows from the main operating profit or loss items and net increase or decrease in: mandatory cash balances with central banks and repurchase receivables, financial assets at fair value through profit or loss and repurchase receivables, amounts due from other banks, loans and advances to customers, other financial assets and other assets and amounts due to other banks, customer accounts and other liabilities and other financial liabilities.

The Alfa Banking Group's net cash inflows in respect of its operating activities for the year ended 31 December 2019 increased to U.S.$2,812 million from U.S.$1,986 million for the year ended 31 December 2018. This increase resulted principally from U.S.$466 million increase of cash inflows from due to other banks in the year ended 31 December 2019 compared to nil cash inflows in the year ended 31 December 2018 and from increase of cash inflows from due from other banks. At the same time, the increase in cash inflows was partially offset by increased cash outflows in loans and advances to customers to U.S.$6,819 million in the year ended 31 December 2019 compared to U.S.$6,198 million cash outflows in the year ended 31 December 2018 reflecting an increase in the Alfa Banking Group's loan portfolio and by cash outflows in financial assets at fair value through profit or loss and repurchase receivables to U.S.$263 million in the year ended 31 December 2019 compared to cash inflows in the amount of U.S.$.636 million in the year ended 31 December 2018.

Cash flows used in Investing Activities

Cash from investing activities comprises cash flows from the acquisition of investments at fair value through other comprehensive income, the proceeds from the disposal and redemption of investments at fair value through other comprehensive income, the acquisition of investments at amortized cost, proceeds from redemption of investments at amortized cost, proceeds from the disposal of investments in associate, the acquisition of premises, equipment, intangible assets and investment properties, the proceeds from disposal of premises, equipment and investment properties.

The Alfa Banking Group's net cash outflows in respect of its investing activities for the year ended 31 December 2019 decreased to U.S.$1,120 million from U.S.$2,043 million for the year ended 31 December 2018. This change was mainly caused by increase of proceeds from disposal and redemption of investments at fair value through other comprehensive income to U.S.$11,027 million in the year ended 31 December 2019 compared to U.S.$9,791 million in the year ended 31 December 2018, which was partially offset by acquisition of investments at fair value through other comprehensive income in the amount of U.S.$12,109 million compared to U.S.$.11,615 million in the year ended 31 December 2018.

Cash flows used in Financing Activities

Cash from financing activities comprises proceeds from debt securities issued, repayment of debt securities issued, interest paid on debt securities issued, repayment of loan from the State Deposit Insurance Agency, interest paid on loan from the State Deposit Insurance Agency, proceeds from subordinated debt, repayment of subordinated debt, interest paid on subordinated debt, proceeds from perpetual loan participation notes, repayment of perpetual loan participation notes, interest paid on perpetual loan participation notes, dividends and repayment of lease liabilities. Fluctuations in cash flow relating to the Alfa Banking Group's financing activities are primarily attributable to the interaction between the Alfa Banking Group's fundraising using other borrowed funds and the Alfa Banking Group's repayment of those other borrowed funds, and hence also to both the amount of other borrowed funds raised by the Alfa Banking Group in any given period and the varying tenors of those borrowings.

The Alfa Banking Group's net cash inflows in respect of its financing activities for the year ended 31 December 2019 amounted to U.S.$188 million compared to net cash outflows in the amount of U.S.$228 million for the year ended 31 December 2018 (in each case inclusive of interest paid on borrowed funds). This change resulted principally from a decrease in repayment from debt securities issued to U.S.$528 million in the year ended 31 December 2019 from U.S.$1,315 million for the year ended 31 December 2018 and increase of proceeds from subordinated debt that was partially offset by increase in repayment of subordinated debt.

Financial Position

The following discussion of the Alfa Banking Group's assets and liabilities should be read in conjunction with "*Risk Management*".

The Alfa Banking Group's total assets as at 31 December 2019 increased by 26 per cent. to U.S.$59,466 million from U.S.$47,199 million as at 31 December 2018. The increase in total assets in 2019 was primarily due to increases in cash and cash equivalents, loans and advances to customers and investments.

Total Assets

The following table sets out the Alfa Banking Group's assets as at the dates indicated:

	As at 31 December	
	2019	**2018**
	(U.S.$ millions)	

	As at 31 December	
	2019	2018
	(U.S.$ millions)	
Cash and cash equivalents	6,450	4,333
Mandatory cash balances with central banks	422	336
Financial assets at fair value through profit or loss	1,120	863
Repurchase receivables relating to financial assets at fair value through profit or loss	3	8
Due from other banks	3,542	4,193
Loans and advances to customers	38,643	29,684
Investments	7,171	5,822
Repurchase receivables relating to investments	132	78
Other financial assets	724	980
Other assets	443	422
Premises and equipment and right-of-use assets	816	480
Total assets	**59,466**	**47,199**

Cash and Cash Equivalents

Cash and cash equivalents is composed of cash on hand, cash balances with central banks (other than mandatory cash balances), correspondent and settlement accounts with banks and financial institutions, and overnight placements with other banks.

The Alfa Banking Group's cash and cash equivalents as at 31 December 2019 increased by 48.9 per cent. to U.S.$6,450 million from U.S.$4,333 million as at 31 December 2018, reflecting Alfa Banking Group's strategy aimed at supporting liquidity buffer due to increase of customer accounts.

Financial Assets at Fair Value Through Profit or Loss and Repurchase Receivables relating to Financial Assets at Fair Value Through Profit or Loss

The Alfa Banking Group's financial assets at fair value through profit or loss and repurchase receivables relating to financial assets at fair value through profit or loss as at 31 December 2019 increased to U.S.$1,123 million from U.S.$871 million as at 31 December 2018 due to the Alfa Banking Group decision to allocate liquidity into its securities portfolio and repurchase transactions.

Due from Other Banks

Changes in amounts due from other banks are largely a function of the Alfa Banking Group's short-term liquidity position.

The Alfa Banking Group's amounts due from other banks as at 31 December 2019 decreased by 15.5 per cent. to U.S.$3,542 million from U.S.$4,193 million as at 31 December 2018. This decrease primarily relates to the Alfa Banking Group's decision to reduce its position due to lower rates in the interbank market.

Loans and Advances to Customers

The Alfa Banking Group's net loans and advances to customers as at 31 December 2019 increased by 30.2 per cent. to U.S.$38,643 million from U.S.$29,684 million as at 31 December 2018. The increase was driven by an increase in gross loans both to corporate customers and individuals due to increased volumes of lending reflecting the Alfa Banking Group's continuing efforts to increase its market share in the retail and MSME segments and new customers acquisition. The growth in the Alfa Banking Group's loan portfolio was generated by various credit products, such as cash loans and credit cards, successful development of mortgage products, as well as issuance of new loans to MSMEs and large corporate clients.

Investments and Repurchase Receivables relating to Investments

The Alfa Banking Group's investments and repurchase receivables relating to investments as at 31 December 2019 increased by 23.8 per cent. to U.S.$7,303 from U.S.$5,900 million as at 31 December 2018. This increase reflects the Alfa Banking Group's decision to focus on investing in assets providing a predictable income in the long term.

Total Liabilities

The following table sets out the Alfa Banking Group's liabilities as at the dates indicated:

	As at 31 December	
	2019	2018

	As at 31 December	
	2019	2018
	(U.S.$ millions)	
Due to other banks	2,448	1,872
Customer accounts	41,422	32,106
Debt securities issued	3,876	3,259
Loan from the State Deposit Insurance Agency	470	367
Subordinated debt	1,566	1,195
Other financial liabilities	1,126	648
Other liabilities	358	339
Deferred tax liability	58	215
Total liabilities	**51,324**	**40,001**

The Alfa Banking Group's total liabilities as at 31 December 2019 increased by 28.3 per cent. to U.S.$51,324 million from U.S.$40,001 million as at 31 December 2018. The increase in total liabilities was mainly caused by increases in amounts relating to customer accounts.

Customer Accounts

The following table sets out the composition of the Alfa Banking Group's customer account portfolio as at the dates indicated:

	As at 31 December	
	2019	2018
	(U.S.$ millions)	
Commercial organisations:		
Current/settlement accounts	8,530	6,041
Term deposits	8,722	5,974
Individuals:		
Current/demand accounts	13,058	9,989
Term deposits	7,563	6,459
State and public organisations:		
Current/settlement accounts	255	146
Term deposits	3,294	3,497
Total customer accounts	**41,422**	**32,106**

Current/settlement accounts of commercial organisations

The current/settlement accounts maintained by commercial organisations with the Alfa Banking Group as at 31 December 2019 increased by 41.2 per cent. to U.S.$8,530 million from U.S.$6,041 million as at 31 December 2018 mainly caused by expansion of the Alfa Banking Group's operations in the MSME corporate sector.

Term deposits of commercial organisations

The Alfa Banking Group's term deposits of commercial organisations as at 31 December 2019 increased by 46 per cent. to U.S.$8,722 million from U.S.$5,974 million as at 31 December 2018 due to growth of corporate customer base and expansion of Alfa Banking Group's business.

Current/demand accounts of individuals

The Alfa Banking Group's current/demand accounts maintained by individuals as at 31 December 2019 increased by 30.7 per cent. to U.S.$13,058 million from U.S.$9,989 million as at 31 December 2018 reflecting the Alfa Banking Group's continued focus on expanding its retail financial services and growing its customer base.

Term deposits of individuals

The Alfa Banking Group's term deposits placed by individuals as at 31 December 2019 increased by 17.1 per cent. to U.S.$7,563 million from U.S.$6,459 million as at 31 December 2018 due to increase in demand from retail customers and customer acquisition.

Current/settlement accounts of state and public organisations

The Alfa Banking Group's current/settlement accounts maintained by state and public organisations as at 31 December 2019 increased by 74.7 per cent. to U.S.$255 million from U.S.$146 million as at 31 December

2018.

Term deposits of state and public organisations

The Alfa Banking Group's term deposits of state and public organisations as at 31 December 2019 decreased by 5.8 per cent. to U.S.$3,294 million from U.S.$3,497 million as at 31 December 2018. The decrease in term deposits of state and public organisations was due to repayments of certain large deposits.

Debt Securities Issued, Loan from the State Deposit Insurance Agency and Subordinated Debt

Debt securities issued, loan from the State Deposit Insurance Agency and subordinated debt serve as an important funding source for the Alfa Banking Group.

The following table sets out the Alfa Banking Group's debt securities issued, loan from the State Deposit Insurance Agency and subordinated debt as at the dates indicated:

	As at 31 December	
	2019	**2018**
	(U.S.$ millions)	
Loan from the State Deposit Insurance Agency	470	367
Notes	1,809	1,633
Rouble denominated bonds	1,550	1,119
Promissory notes	369	367
Euro Commercial Paper Notes	126	120
Euro denominated bonds	12	12
U.S. Dollars denominated bonds	10	8
Subordinated debt	1,566	1,195
Total	**5,912**	**4,821**

The Alfa Banking Group's debt securities issued, loan from the State Deposit Insurance Agency and subordinated debt as at 31 December 2019 increased by 22.6 per cent. to U.S.$5,912 million from U.S.$4,821 million as at 31 December 2018 due to the Alfa Banking Group's operations on the capital markets.

Due to other Banks

The Alfa Banking Group engages in short-term interbank borrowings, primarily as part of its correspondent banking business and to regulate its liquidity.

The following table sets out the Alfa Banking Group's amounts due to other banks as at the dates shown:

	As at 31 December	
	2019	**2018**
	(U.S.$ millions)	
Correspondent accounts and overnight placements of other banks		
Russian Federation	458	364
Other countries	62	72
Term placements of other banks	1,647	1,161
Sale and repurchase agreements with other banks	138	159
Placements with the Central Bank of Russia		
Loans received under a secured lending programme	139	110
Term deposits	4	6
Total due to other banks	**2,448**	**1,872**

The Alfa Banking Group's amounts due to other banks as at 31 December 2019 increased by 30.8 per cent. to U.S.$2,448 million from U.S.$1,872 million as at 31 December 2018. This increase reflects the Alfa Banking Group's strategy to diversify its sources of funding.

Analysis by Segment

The Alfa Banking Group's primary format for reportable segment information is business segments. The Alfa Banking Group as at the date of this Base Prospectus describes its business in terms of three main business segments:

- *Corporate and investment banking*, which provides a broad range of commercial and investment banking services and products, including corporate lending, leasing, corporate deposit services, factoring, trade finance operations, structured corporate lending, securities trading, debt and equity capital markets, derivatives, structured financing, foreign exchange trading, corporate finance and merger and acquisition advisory services to large corporations, and other financial institutions;

- *Medium, small and micro banking*, which provides an extensive range of banking services, including customer current accounts, savings, deposits, settlements, cash services and provision of loans to small and medium businesses and individual entrepreneurs;
- *Retail banking*, which provides a wide range of retail banking services, including retail demand account and deposit services, credit and debit card services, lending (including consumer loans, personal instalment loans, credit card lending, car loans and mortgages), money transfers and private banking services to individuals; and
- *Treasury operations*, which manage the Alfa Banking Group's own funding activities and internal funding reallocation, liquidity and risk management activities and investment in liquid assets, as well as short-term money market and promissory note operations.

The accounting policies of the operating segments of the Alfa Banking Group are materially the same as those described in the summary of significant accounting policies as set out in the Consolidated Financial Statements except for: (i) use of a transfer pricing system, (ii) a different classification of certain lines of income and expenses, and (iii) some balances and operations are excluded from the segment analysis since they are monitored separately and on a less regular basis (including situations where the balance is not allocated and related income or expense is allocated for the segment analysis and vice versa). In accordance with the transfer pricing system used by the Alfa Banking Group funds are generally reallocated at interest rates set by the Treasury Department of the Alfa Banking Group, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer account balances. Consequently, financial statements line items in analysis by segment in accordance with IFRS 8 may not equal respective financial statements line items. Refer to Note "Segment Analysis" to the Consolidated Financial Statements for reconciliation of segment information to respective financial statement items.

The Alfa Banking Group has changed its segmentation by introducing a new reportable segment "Medium, small and micro banking". The segment reported revenue and profit before tax were greater than 10 per cent. of the combined reported revenue and profit before tax of all operating segments of the Alfa Banking Group for the year ended 31 December 2019 and as at 31 December 2019 the segment met the definition for the separate disclosure. The comparative segment information as at 31 December 2018 was adjusted by the extract of the new segment to provide the fair and relevant view.

The following tables set out segmental profit or loss information for the main reportable business segments of the Alfa Banking Group for the periods indicated:

	Corporate and investment banking	**Medium, small and micro banking**	**Retail banking**	**Treasury**	**Total**
Year ended 31 December 2019			*(U.S.$ millions)*		
Segment revenues:					
Total external revenues	2,233	982	1,976	320	5,511
Interest income from other segments	469	526	956	3,622	5,573
Fee and commission income from other segments	-	-	-	24	24
Total segment revenues	**2,702**	**1,508**	**2,932**	**3,966**	**11,108**
Segment result	**325**	**525**	**494**	**(8)**	**1,336**

	Corporate and investment banking	**Medium, small and micro banking**	**Retail banking**	**Treasury**	**Total**
Year ended 31 December 2018			*(U.S.$ millions)*		
Segment revenues:					
Total external revenues	2,149	729	1,610	368	4,856
Interest income from other segments	554	391	809	3,190	4,944
Fee and commission income from other segments	-	-	-	19	19
Total segment revenues	**2,703**	**1,120**	**2,419**	**3,577**	**9,819**
Segment result	**378**	**398**	**443**	**(79)**	**1,140**

The following tables set out segmental balance sheet information for the main reportable business segments of the Alfa Banking Group as at the dates indicated:

As at 31 December 2019	Corporate and investment banking	Medium, small and micro banking	Retail banking	Treasury	Total
			(U.S.$ millions)		
Total segment assets	30,287	4,040	9,971	10,661	**54,959**
Total segment liabilities	9,508	9,911	19,798	10,687	**49,904**

As at 31 December 2018	Corporate and investment banking	Medium, small and micro banking	Retail banking	Treasury	Total
			(U.S.$ millions)		
Total segment assets	26,615	2,675	5,775	8,201	**43,266**
Total segment liabilities	7,177	6,860	15,481	9,071	**38,589**

Credit Related Commitments and Performance Guarantees

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

	As at 31 December	
	2019	2018
	(U.S.$ millions)	
Unused credit cards limits	6,523	3,840
Performance guarantees	1,636	1,450
Corporate overdrafts	1,063	395
Import letters of credit	551	503
Financial guarantees	157	198
Export letters of credit	17	14
Total credit related commitments and performance guarantees	**9,947**	**6,400**

The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The total value of credit related commitments and performance guarantees increased by 55.4 per cent. to U.S.$9,947 million as at 31 December 2019, compared to U.S.$6,400 million as at 31 December 2018. The increase was mainly attributable to the increase in the unused credit cards reflecting the expansion of the credit card business.

Capital Commitments

As at 31 December 2019, the Alfa Banking Group had capital commitments of U.S.$95 million, of which U.S.$88 million related to construction expenditure and the modernisation of premises and U.S.$7 million related to the purchase and installation of new computer systems.

As at 31 December 2018, the Alfa Banking Group had capital commitments of U.S.$43 million, of which U.S.$9 million related to construction expenditure and the modernisation of certain office premises and U.S.$34 million related to the purchase and installation of new computer systems.

These amounts are not reflected in the Alfa Banking Group's balance sheet in the Consolidated Financial Statements, but are disclosed in Note "Contingencies and Commitments" to the Consolidated Financial Statements. The Alfa Banking Group's management has already allocated the necessary resources in respect of these commitments, and believes that future income and funding will be sufficient to cover this and any similar commitments in the future.

Derivative Financial Instruments

The Alfa Banking Group uses foreign exchange and other derivative financial instruments that are generally

traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at their fair value, which varies as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The table below sets out derivative contracts of the Alfa Banking Group as at the dates shown:

	As at 31 December			
	2019		2018	
	(U.S.$ millions)			
	Fair Value		Fair Value	
	Positive	Negative	Positive	Negative
Derivative financial instruments other than foreign exchange based forward and swap contracts	15	(20)	13	(40)
Foreign exchange based forward and swap contracts	475	(641)	787	(454)
Total	**490**	**(661)**	**800**	**(494)**

Derivative financial instrument assets

The Alfa Banking Group's derivative financial instrument assets decreased by 38.8 per cent. to U.S.$490 million as at 31 December 2019 from U.S.$800 million as at 31 December 2018, due to revaluation of contracts as a result of Rouble volatility.

Derivative financial instrument liabilities

The Alfa Banking Group's derivative financial instrument liabilities increased by 33.8 per cent. to U.S.$661 million as at 31 December 2019 from U.S.$494 million as at 31 December 2018, due to revaluation of contracts as a result of Rouble volatility.

Legal Proceedings

From time to time and in the normal course of business, claims against the Alfa Banking Group are received. On the basis of its own estimates and both internal and external professional advice, the Alfa Banking Group's management is of the opinion that no material losses exceeding the provision of U.S.$2 million recorded in the Consolidated Financial Statements will be incurred in respect of such claims as at 31 December 2019.

Tax Legislation

A significant part of operations of the Alfa Banking Group is undertaken in the Russian Federation. Russian tax legislation (including changes enacted at the end of the reporting period), is subject to varying interpretations when being applied to the transactions and activities of the Alfa Banking Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of tax review of transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the OECD. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. The legislation contains special rules for adjustment of transaction prices for tax purposes which includes transfer pricing rules as well as rules for securities and derivatives. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated.

The Alfa Banking Group includes companies incorporated outside of Russia. The tax liabilities of the Alfa Banking Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may impact the financial position and/or some operations of the Alfa Banking Group.

In 2014, the Anti-Offshore Law introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015,

"controlled foreign companies" income is subject to a 20 per cent. tax rate if the "controlled foreign company" is controlled by a legal entity and a rate of 13 per cent. if it is controlled by an individual. As a result, management reassessed the Alfa Banking Group's tax positions and concluded that this new legislation does not result in additional material deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Alfa Banking Group's operations to which the "controlled foreign companies" legislation will apply to.

As Russian tax legislation does not provide definitive guidance in certain areas, the Alfa Banking Group adopts, from time to time, interpretations of such uncertain areas that may be challenged by tax authorities. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Alfa Banking Group.

In addition to the aforementioned risks, the Alfa Banking Group estimates that as at 31 December 2019 and 31 December 2018 it had no other material probable or possible tax exposures. Any exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in the Consolidated Financial Statements if these are challenged by the authorities.

Regulatory compliance

The Alfa Banking Group provides financial services in Russia, Netherlands, Cyprus and other jurisdictions. Financial services are subject to regulation by authorities in connection with obtaining and renewing various licences and permits, as well as with ongoing compliance with existing laws and regulations and with the terms and conditions of the respective licences and permits. The failure to comply with the legal and regulatory requirements may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of licences and permits or in requirements to limit certain business activities.

In the normal course of business, the Alfa Banking Group must interpret and apply existing legal and regulatory requirements to its activities. From time to time matters of actual or potential non-compliance with existing legal or regulatory requirements may be identified. The management of the Alfa Banking Group is focused on the rectification of such matters known as at the date of this Base Prospectus and believes that such matters will not result in significant operating restrictions or material financial losses. No provisions have been recorded in this respect. See "*Risk Factors—Risks Relating to the Alfa Banking Group's Business and Industry—Failure of the Alfa Banking Group to comply with various corporate law and regulatory requirements may have a material adverse effect on its business, financial condition and results of operations*" and "*Description of the Alfa Banking Group—Major Subsidiaries—ATB*".

Capital Adequacy of Alfa Bank

Alfa Bank is required to comply with capital adequacy ratios set by the CBR. For the purposes of calculating Alfa Bank's capital adequacy ratios according to the CBR's requirements on RAR unconsolidated basis, Alfa Bank's principal assets are divided into five categories with different risk weightings. Under Russian law, the N1.0 Ratio that the banks are required to maintain is calculated (on an unconsolidated basis) as the ratio of a bank's owned funds (its capital) to the total amount of its risk weighted assets. The minimum N1.0 Ratio required by the CBR as at the date of this Base Prospectus is 8.0 per cent. In addition, banks are required to maintain the N1.1 Ratio and the N1.2 Ratio at or above 4.5 per cent. and 6.0 per cent., respectively. As at the date of this Base Prospectus, a capital conservation buffer of 2.5 per cent. and a capital buffer for systemically important credit organisations of 1 per cent. is applicable to Alfa Bank's minimum capital adequacy requirements. See "*—The CBR regulations phasing in Basel III in Russia could have an adverse effect on Alfa Bank, its capital ratios and its regulatory capital*" and "*The Banking Sector and Banking Regulation in the Russian Federation—Regulation—Mandatory Economic Ratios*" for further details on the capital and other mandatory economic ratios set by the CBR.

Alfa Bank's N1.0 Ratio amounted to 12.65 per cent. as at 1 January 2020, 13.52 per cent. as at 1 January 2019 and 12.04 per cent. as at 1 January 2018, which in each case exceeded the minimum required by the CBR. Alfa Bank's N1.1 Ratio and N1.2 Ratio as of 1 January 2020 amounted to 9.09 per cent. and 10.67 per cent., respectively, and 9.50 per cent. and 11.55 per cent., respectively, as of 1 January 2019 and amounted to 7.88 per cent. and 9.14 per cent., respectively, as of 1 January 2018, which in each case exceeded the minimum required by the CBR.

Capital Management of the Alfa Banking Group

The Alfa Banking Group's main objectives when managing capital are: (i) to comply with the capital requirements set by the respective central banks and debt covenants, (ii) to safeguard the Alfa Banking 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 Basel III of at least 8 per cent. The Alfa Banking Group's capital adequacy ratio is monitored monthly.

The following table sets forth the composition of the Alfa Banking Group's capital and the Alfa Banking Group's capital adequacy ratios as at the dates indicated in accordance with the Basel III:

	As at 31 December	
	2019	**2018**
	(U.S.$ millions except as otherwise stated)	
Common equity Tier 1 capital (CET 1)	6,973	6,088
Additional Tier 1 capital: instruments	966	943
Tier 1 Capital	7,939	7,031
Tier 2 Capital	971	332
Total Capital	**8,910**	**7,363**
Risk weighted assets	48,581	40,558
Capital adequacy ratios		
Tier 1 capital adequacy ratio[(1)]	16.3%	17.3%
Total capital adequacy ratio[(1)]	18.3%	18.2%

(1) Capital as a percentage of risk weighted assets.

The management of the Alfa Banking Group believes that both ABH Financial and Alfa Bank were in compliance with all externally imposed capital requirements as at 31 December 2019 and 31 December 2018.

Critical accounting estimates and judgements in applying accounting policies and adoption of new or revised standards and interpretations

The Alfa Banking Group's significant accounting policies and critical accounting estimates and judgements in applying accounting policies are described in Note 3 and Note 4 to the Consolidated Financial Statements, respectively.

The Alfa Banking Group adopted IFRS 16 in its consolidated financial statements from 1 January 2019 and adopted the changes to IAS 12 "Income Taxes" with effect from 1 January 2019.

For detailed description of the impact of adoption of new standards see Note 5 to the Consolidated Financial Statements.

RECENT DEVELOPMENTS

This Base Prospectus contains the Consolidated Financial Statements but does not contain any consolidated financial information subsequent to 31 December 2019. As a result, the financial information contained in this Base Prospectus does not reflect changes in the economic environment in which the Alfa Banking Group's business operated since 31 December 2019.

In January 2020, the Alfa Banking Group issued RUB15,000 million (equivalent of U.S.$240 million) Rouble denominated Eurobonds with maturity in January 2025 and coupon rate of 6.75 per cent. per annum.

In February 2020, the Alfa Banking Group repaid in full U.S.$250,000,000 subordinated notes issued in November 2014.

On 10 March 2020 ABH Financial declared dividends in the amount of U.S.$80 million.

DESCRIPTION OF THE ALFA BANKING GROUP

Overview

The Alfa Banking Group, of which Alfa Bank is a key part, is the largest privately-owned Russian banking group that offers a wide range of banking products and services principally in the Russian Federation, and conducts certain banking operations and financial services in the Netherlands, Cyprus and the United Kingdom. The Alfa Banking Group has three main segments:

- *Corporate and investment banking*, which provides a broad range of commercial and investment banking services and products, including corporate lending, leasing, corporate deposit services, factoring, trade finance operations, structured corporate lending, securities trading, debt and equity capital markets, derivatives, structured financing, foreign exchange trading, corporate finance and merger and acquisition advisory services to large corporations and MSMEs, and other financial institutions. As at 31 December 2019, the Alfa Banking Group has separated medium, small and micro banking business into new reportable segment in accordance with IFRS standards;
- *Retail banking*, which provides a wide range of retail banking services, including retail demand accounts, term deposit services, credit and debit card services, lending (including consumer loans, personal instalment loans, credit card lending, car loans and mortgages), money transfers and private banking services to individuals; and
- *Treasury operations*, which manage the Alfa Banking Group's own funding activities and internal funding reallocation, liquidity and risk management activities and investment in liquid assets, as well as short-term money market and promissory note operations.

As at 31 December 2019, the Alfa Banking Group had 825 offices throughout the Russian Federation and abroad, including subsidiaries and representative offices (along with their associated branches) in the Russian regions, The Netherlands, Cyprus and the United Kingdom, compared to 752 as at 31 December 2018.

According to surveys conducted by Banki.ru on the basis of RAR financial statements, as at 31 December 2019, Alfa Bank was the Russian Federation's fifth largest bank in terms of assets, equity and loans, as well as the largest privately-owned bank in terms of assets, loans and equity.

Alfa Bank is also the largest Russian privately-owned bank by retail demand deposits, with a 9.74 per cent. market share of retail demand deposits by value as at 31 December 2019, and 10.0 and 8.7 per cent. as at 1 January 2019 and 1 January 2018, respectively, according to calculations by Alfa Bank based on published CBR statistics.

As at 31 December 2019, the Alfa Banking Group had total assets of U.S.$59,466 million, total equity of U.S.$8,142 million, net loans and advances to customers of U.S.$38,643 million and customer accounts totalling U.S.$41,422 million, compared to total assets of U.S.$47,199 million, total equity of U.S.$7,198 million, net loans and advances to customers of U.S.$29,684 million and customer accounts totalling U.S.$32,106 million as at 31 December 2018.

For further detail on the Alfa Banking Group's results of operations and financial condition, see "*Operating and Financial Review of the Alfa Banking Group*".

Shareholders

The ultimate parent company of the Alfa Banking Group is ABH Holdings, a corporation incorporated under the laws of the Grand Duchy of Luxembourg, which owns 97.4 per cent. of the shares in ABH Financial directly (the remaining 2.6 per cent. of the shares in ABH Financial are held through Alfa Bank as at the date of this Base Prospectus). As at the date of this Base Prospectus, ABH Holdings is directly owned by seven shareholders in the following proportions:

Name	Percentage
Mikhail Fridman	32.8632%
German Khan	20.9659%
Alexei Kuzmichev	16.3239%
Petr Aven	12.4018%
UniCredit S.p.A	9.9%
The Mark Foundation for Cancer Research	3.8736%
Andrey Kosogov	3.6716%
Total	**100.00%**

For information regarding the exposure of the Alfa Banking Group to related parties, see "*Related Party Transactions*".

History and Structure of the Alfa Banking Group

Alfa Finance Holdings

Alfa Finance Holdings was incorporated in Luxembourg in May 1999 principally to function as a holding company of the main financial businesses of a group of companies that operated principally in the banking, investment, insurance and asset management segments (the "**Alfa Group**"). Commencing in December 1999, Alfa Finance Holdings effected a multi-stage reorganisation (the "**Reorganisation**") in order to:

- increase the transparency of the business by having a structure with a single parent company; and
- segregate the Alfa Group's banking and non-banking assets.

After the Reorganisation, Alfa Finance Holdings was the sole shareholder of four wholly-owned sub-holding companies, each corresponding to the four main business segments in which the Alfa Group operated: ABH Financial (corporate and investment banking), Alfa Telecom Limited (telecommunications), Alfa Petroleum Holdings Limited (oil trading and production) and Alfa Capital Stock Trading Limited (insurance).

In 2004, Alfa Finance Holdings effected a further restructuring of the Alfa Banking Group's ownership structure to further increase its transparency to allow it to comply with CBR requirements applicable to banks with retail operations and to participate in the Russian Deposit Insurance System. In early 2004, the then existing shareholders of Alfa Bank (holding 99.74 per cent. of its share capital) were consolidated into one entity JSC AB Holding. Further restructuring was carried out by transferring the ownership of ABH Financial from Alfa Finance Holdings to the then newly-formed ABH Holdings Corp (incorporated in 2004 in the British Virgin Islands). With effect from 31 December 2009, ABH Holdings Corp. transferred its domicile from the British Virgin Islands to Luxembourg, and changed its name to ABH Holdings. The registered office of ABH Holdings is 3, boulevard du Prince Henri, L-1724 Luxembourg, Grand Duchy of Luxembourg.

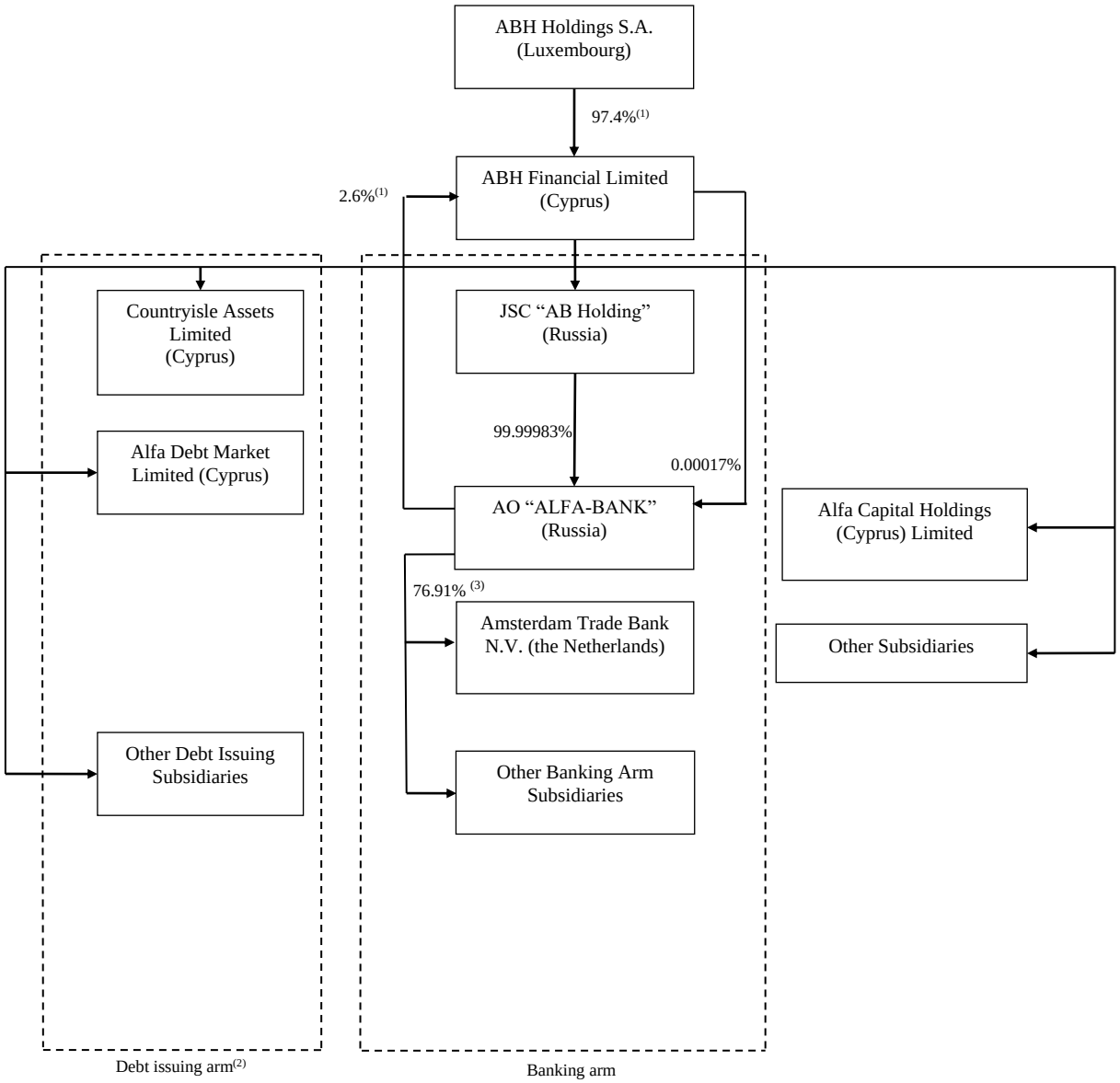
ABH Financial and the Alfa Banking Group

Originally named Alfa Bank Holdings Limited, ABH Financial was incorporated as a private company with limited liability under the laws of the British Virgin Islands on 3 November 1995, and is the parent company of the Alfa Banking Group.

In order to avail itself of the benefits of the EU regulated jurisdictions, effective 4 April 2011, ABH Financial changed its domicile from the British Virgin Islands to the Republic of Cyprus by transferring its registered office to Cyprus and continuing as a private limited liability company registered in Cyprus.

ABH Financial's registered office is Themistokli Dervi, 5, Elenion Building, 2nd Floor, P.C. 1066, Nicosia, Cyprus and phone number is +357 22555800. ABH Financial is registered with the Department of Registrar of Companies and Official Receiver of the Ministry of Commerce, Industry and Tourism of the Republic of Cyprus under No. 284510. Subject to certain exceptions, ABH Financial is authorised to engage in any act or activity that is not prohibited under the laws of the Republic of Cyprus.

As at the date of this Base Prospectus, the Alfa Banking Group had the following principal corporate structure. Unless otherwise stated, ownership is 100 per cent.:



(1) ABH Holdings S.A. owns 97.4 per cent. of the shares in ABH Financial directly (the remaining 2.6 per cent. of the shares in ABH Financial are held through Alfa Bank).

(2) The Debt Issuing Arm consists of special purpose vehicles that are used to raise funds internationally and their relevant holding companies. These entities do not have material assets apart from the contractual rights associated with their respective debt obligations or the shares in such special purpose vehicles, as the case may be.

(3) The 10.39 per cent. stake is held by ATB Holdings S.A., the 4.73 per cent. stake is held by ABH Holdings and 7.97 per cent. stake is held by ATB ESPP B.V.

Alfa Bank was established on 20 December 1990 as LLP CIB Alfa Bank, a partnership with limited liability. Alfa Bank was converted from a limited liability partnership (*Tovarischestvo s Ogranichennoi Otvetstvennost'u*) to a limited liability company (*Obschestvo s Ogranichennoi Otvetsvennost'u*) in line with Russian legislation on the status of such companies in 1996. In January 1998, LLC CIB Alfa Bank was reorganised as an open joint-stock company to increase management transparency and shareholder flexibility. Alfa Bank is registered with the CBR under No. 1326 and with the Moscow Registration Chamber under No. 001.937 and re-registered in the unified state register for legal entities under main state register number 1027700067328. Alfa Bank's registered office is at 27 Kalanchevskaya Str., Moscow 107078, the Russian Federation, and its telephone number is +7 495 620-91-91/ +7 495 974-25-15. On 26 December 2014, due to certain amendments in Russian corporate law, a change in Alfa Bank's official name from Open Joint Stock Company "ALFA-BANK" to Joint Stock Company "ALFA-BANK" was registered.

The Alfa Banking Group opened a wholly-owned subsidiary in Almaty, Kazakhstan in December 1994, the first

Russian bank to do so. On 29 June 2009, the Alfa Banking Group signed a call option agreement with ABH Holdings Corp. (known as ABH Holdings as at the date of this Base Prospectus) that effectively transferred to ABH Holdings Corp. all potential voting rights and economic benefits in its Kazakhstan subsidiary. See "*—Historical Relationship with Alfa Bank Kazakhstan*".

In March 2001, the Alfa Banking Group purchased a 100 per cent. share in ATB and became one of the first private Russian corporate banks to have an affiliate bank with a full banking licence in a European Union member state. See "*—Major Subsidiaries—ATB*".

The Alfa Banking Group previously operated a Ukrainian subsidiary, Alfa Bank Ukraine, together with its local branches. See "*—Historical Relationship with Alfa Bank Ukraine and the ABH Ukraine Group*". The Alfa Banking Group conducts related party transactions with the ABH Ukraine Group.

In 2008, Alfa Bank acquired an 85.02 per cent. stake in OJSC Bank Severnaya Kazna ("**Severnaya Kazna**"), a leading financial services provider in the Urals region of the Russian Federation, represented in Ekaterinburg, Chelyabinsk, Perm, Tyumen and other regional cities, which had 400,000 retail customers and 8,000 corporate customers at the time of acquisition. Its principal activities included lending to retail and MSME clients. During 2010, the Alfa Banking Group completed its acquisition by taking its shareholding in Severnaya Kazna to 100 per cent. On 22 March 2011, the shareholders of Alfa Bank approved the merger of Severnaya Kazna into Alfa Bank. Alfa Bank completed the merger with Severnaya Kazna on 2 June 2011.

The Alfa Banking Group legally owns shares in CJSC Alfa-Bank, a bank in Belarus ("**Alfa Bank Belarus**"), comprising a 30.7733 per cent. stake in Alfa Bank Belarus. The rights and economic benefits in relation to these shares have been contractually transferred to ABH Belarus Limited and are therefore not recorded in the financial statements of the Alfa Banking Group. See "*—Historical Relationship with Alfa Bank Belarus*".

On 29 August 2014, the CBR announced that Alfa Bank has won a tender for the financial rehabilitation of Baltiyskiy Bank, a regional Russian bank based in St. Petersburg and active in the North-Western regions of Russia with a significant base of customers of approximately 2 million clients. See "*—Major Subsidiaries—Baltiyskiy Bank*".

On 1 October 2018, Alfa Capital Holdings (Cyprus) Limited ("**Alfa Bank Capital**") transferred its equity stake in Alfa Bank to JSC "AB Holding" and ABH Financial as part of corporate reorganisation.

On 15 February 2019, Alfa Bank transferred its equity stake in Alfa Bank Capital to ABH Financial as a part of corporate reorganisation.

On 25 February 2019, General Shareholders' Meeting approved the reorganization of Baltiyskiy Bank and Alfa Bank in the form of merger with Alfa Bank being a surviving entity and resolved to notify the CBR and creditors of Alfa Bank and Baltiyskiy Bank regarding such reorganisation. On 8 May 2019, the merger was completed and Baltiyskiy Bank ceased to exist as a separate legal entity.

On 28 June 2019, Countryisle Assets Limited transferred its equity stake in Alfa Debt Market Limited (Cyprus) to ABH Financial as part of corporate reorganisation.

The Alfa Banking Group's Credit Ratings, Memberships and Licences

As at the date of this Base Prospectus, Moody's long-term local and foreign currency deposit rating of Alfa Bank is "Ba1/Ba1" (with a "stable" outlook), Standard & Poor's long-term and short-term credit ratings for Alfa Bank are "BB+/B" (with a "stable" outlook) and for ABH Financial are "BB-/B" (with a "stable" outlook) and Fitch's long-term and short-term credit ratings for Alfa Bank are "BB+/B" (with a "positive" outlook) and for ABH Financial are "BB/B" (with a "positive" outlook). As at the date of this Base Prospectus, ACRA's rating of Alfa Bank is AA+(RU) with "stable" outlook, and RAEX' rating of Alfa Bank is ruAA with a "stable" outlook.

Alfa Bank has been a member of SWIFT since 1994 and a participant of Euroclear since 1996. In addition, Alfa Bank is admitted to trading on the Moscow Exchange MICEX-RTS (the "**Moscow Exchange**"), the National Association of Security Markets Participants, Russia's primary electronic stock trading system. Alfa Bank is also a member shareholder of the InterBank Credit Union, a clearing institution connected to the Depositary Clearing Company.

The Alfa Banking Group operates in most sectors of the Russian financial markets and is regulated and supervised by the CBR. Alfa Bank is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a general banking licence issued by the CBR in January 1991 and reissued in January 2015. In 1998, Alfa Bank received a licence to deal in precious metals, which was reissued in January 2015 and in 2000, it received licences for depository and broker-dealer activities and in 2002 received a licence to act as a special depositary for various funds. In October 2013, Alfa Bank received a unified licence for provision of encryption services, distribution and servicing of encryption equipment, which was reissued in

March 2015 and July 2016. Alfa Bank also holds licences for working with state secret materials, for the electronic protection of confidential information. The Alfa Banking Group's subsidiaries and representative offices that operate in The Netherlands, Cyprus and the United Kingdom are regulated and supervised by the respective local regulatory authorities. The Alfa Banking Group has established a network of branches across Moscow, as well as in most major cities in the Russian Federation.

Competitive Strengths

The Alfa Banking Group's business is characterised by the following key strengths:

Strong Corporate and Investment Banking and Established Relationships with Leading Russian Companies

A key strength of the Alfa Banking Group is its corporate and investment banking segment. The Alfa Banking Group has a history of cooperation and strong relationships with leading Russian companies operating in various sectors of the Russian economy. The corporate and investment banking segment is the Alfa Banking Group's most significant business segment and the segment from which it derives most of its revenues. Corporate and investment banking generated total external revenues of U.S.$2,233 million for the year ended 31 December 2019 representing 40.5 per cent. of the Alfa Banking Group's total external revenues for the period, as compared to U.S.$2,149 million for the year ended 31 December 2018 (44.3 per cent.). See Note 30 to the Consolidated Financial Statements and "*Operating and Financial Review—Results of Operations for the year ended 31 December 2019 and 2018—Segment Analysis*".

The Alfa Banking Group believes that the global economic crisis provided it with an opportunity to strengthen its market position in its regions of operation and with its core customer segments, as a number of its competitors (and foreign competitors, in particular) cut back their operations in Russia. The Alfa Banking Group's collaboration with leading Russian companies is based upon a wide range of products and its in-depth knowledge of the industry sectors in which its customers operate, and of its customers' businesses. The tailor-made solutions that the Alfa Banking Group is able to offer its clients give it a competitive advantage over some of its competitors. The Alfa Banking Group also believes that the know-how, experience and reputation of the Alfa Banking Group, through its servicing of specialised industry sectors, such as commercial real estate development and construction, transport and logistics, trade and commerce, machinery, mass media and telecommunications, food industry, metallurgy, power generation and agriculture, gives the Alfa Banking Group an advantage over banks trying to enter such sectors. As at 31 December 2019, the Alfa Banking Group had about 540 thousand active corporate customers, compared to 447 thousand as at 31 December 2018.

Strong Franchise and Brand Recognition

The Alfa Banking Group is one of the leading Russian banking groups in terms of corporate and interbank lending, corporate current and retail accounts, retail deposits, fixed income and equity trading, foreign exchange, corporate finance advisory services, factoring, leasing and trade finance services. The Alfa Banking Group has also developed one of the most recognised brands in the Russian banking industry. Alfa Bank was named "Bank of Year" in 2018 by Banki.ru. Frank Research Group awarded Alfa Bank the title "Best Bank for premium customers" 2018.

Strong Shareholder Commitment to Support the Bank

The Alfa Banking Group is one of the main strategic assets of its shareholders. The Alfa Banking Group's shareholders have historically provided financial support to the Alfa Banking Group, including in 2009 with a capital contribution of U.S.$320 million as additional capital to ABH Financial to support it during the turbulence of the global economic crisis. Although under no continuing obligation and while the shareholders may in time withdraw excess capital, the Alfa Banking Group's shareholders have publicly expressed their commitment to provide support to the Alfa Banking Group in the future, if needed.

ABH Financial believes that it benefits from this commitment taking into account its position in the corporate structure and indirect controlling ownership of the share capital in Alfa Bank. Moreover, in order to comply with CBR regulations regarding shareholder/controlling person financial standing and/or for purposes of ensuring that one of their main strategic assets remains financially stable, the shareholders of the Alfa Banking Group may, if circumstances so require, elect to provide financial support to ABH Financial using the financial resources of Alfa Bank or otherwise. *Strong Management Team and Advanced Systems*

The Alfa Banking Group believes that its success is in large measure due to its strong management team, which combines Russian and Western expertise. Many of the Alfa Banking Group's senior managers have previously held senior positions at leading international financial institutions. The Alfa Banking Group's management team has also been instrumental in supporting the Alfa Banking Group's adoption of best practices from more

developed banking markets including the development and implementation of a modern information management system and advanced risk management procedures.

International Experience and Reputation

From its inception, the Alfa Banking Group has been active in the international markets and has strong relationships with many international financial institutions, which has allowed it to continue to access funding at lower cost and from a wider range of sources that many other non-State banks in Russia. Alfa Bank has an international reputation as a stable and reliable bank according to Global Reputation Index research conducted by Romir in 2010. In the aftermath of Russia's 1998 financial crisis, unlike many other Russian banks, Alfa Bank settled all of its obligations on outstanding forward contracts and fully repaid all of its other obligations as they came due.

Strategy

The central goal of the Alfa Banking Group's strategy for 2020 to 2022 is to become the most technologically advanced banking group in Russia, which, together with focused growth in key market segments and improved operating efficiency, will strengthen its position as the leading privately-owned Russian banking group.

The Alfa Banking Group is moving towards a holistic approach to its business, focusing on the total profitability derived from clients of the Alfa Banking Group as a whole, rather than on individual business divisions and incentivises its employees to follow this approach.

To achieve its strategic objectives, the Alfa Banking Group seeks to:

Shift to a New Technological Level

The Alfa Banking Group is committed to achieving a technological shift in its business, which management believes will allow it to offer the best-in-class services to customers, provide competitive advantages in the changing banking sector and will become the basis for increasing the Alfa Banking Group's profitability and market share. To achieve this goal, the Alfa Banking Group plans to invest substantial capital and resources into upgrading, developing and implementing advanced information technologies in its digital platform across its entire infrastructure and operations.

Mobile Banking Application

The Alfa Banking Group is dedicated to creating the best mobile banking application in Russia. The mobile banking application will become the central platform for convenient interaction with, and servicing of, retail customers, individual entrepreneurs and MSMEs. The mobile banking application will also be designed to be the lead acquisition tool in the retail segment. The mobile banking application will enable the Alfa Banking Group to offer customers an extensive range of financial products and services, including those that are currently only available in branches, and this functionality will be underpinned by a customer friendly interface, advanced security and first class customer support. The Alfa Banking Group will focus on ensuring that the functionality, security, breadth of options and reliability of the mobile banking application will be second to none on the Russian market. Whilst embracing a "mobile first" ideology, meaning that development will be geared towards bringing new products to the mobile platform first, the Alfa Banking Group will continue to develop other acquisition and communication channels and will focus on ensuring that customers obtain the best possible service both online and offline.

Paperless Bank

The Alfa Banking Group has always been at the forefront of banking digitalisation in Russia and it intends to continue its leading role by being the first banking group in Russia to develop and implement the concept of fully paperless banking. This concept envisages eliminating paper document flow by automating and transferring the functions of the back, middle and front office to a digital platform and limiting paperwork to instances required by law or customers. Management believes that paperless banking, on the basis of a secure and easy to use digital platform, will create a more productive and customer friendly experience that will drive increases in productivity and operational efficiency. The Alfa Banking Group plans to introduce advanced technologies for purposes of implementing this component of its overall technological strategy, including the use of biometrics and widespread implementation of electronic digital signatures. At the same time, the Alfa Banking Group intends to ensure that safety of customer data always remains a number one priority and the transition to paperless banking will be fully integrated with all applicable compliance and legal requirements.

A New Generation Branch Network

In line with the goal of developing its retail banking business, the Alfa Banking Group has plans to transform its branch network which will offer customers a qualitatively new experience. Supported by efforts to transform the

Alfa Banking Group's operations into paperless form, the new branches will enable secure identification and swift servicing of customers by means of smartphones, significantly cut down on paperwork and introduce new means of cross-selling. Shifting routine operations to the online digital platform will allow front office staff to focus on sales and enhance customer engagement. The first stage of the initiative will involve launching the new format in test mode in select locations and, after making any necessary adjustments on the basis of collected data and customer feedback, the new format will be rolled out on country wide scale.

Focus on Developing the Retail Banking Business

The Alfa Banking Group's general strategic objectives is to develop its retail banking business with a particular focus on technological innovations in retail financial services. As part of this objective, the Alfa Banking Group aims to increase its retail customer base, which it segments into different groups based on income, with particular focus on premium segment clients: mass affluent and affluent, for which the Alfa Banking Group implements tailored product offerings and service standards. The Alfa Banking Group's aspiration is to become the main transaction bank for its retail clients, by providing superior client experience, expanding the number of products and services offered to clients, enhancing value proposition and increasing client satisfaction rate.

The Alfa Banking Group has identified a number of key products which it expects will be the focus of growth in the near future: credit cards, cash loans and mortgage loans. The markets for these products are very competitive and in some cases dominated by state-owned banks. The Alfa Banking Group plans to successfully compete in these markets by providing a unique combination of the quality of its products, transparency, customer friendly approach and attention to customer needs. In terms of its mortgage business, which is targeted at the mass affluent demographic, the Alfa Banking Group is planning to consolidate its position as a key player that offers mortgage solutions on the basis of an advanced technological platform, whilst keeping a tight control over underwriting standards and risk management.

The Alfa Banking Group plans to support the growth of the retail business by significant investments in information technologies with the centrepiece being the development of a best-in-class mobile banking application. The revamped mobile banking application will act as the lead channel for customer sales and interaction. See "*—Shift to a New Technological Level*" above. The Alfa Banking Group is committed to improving customers' experience and expanding its online channels to provide the most innovative and technologically advanced services to its clients. Recent examples of such novelties include the implementation of the Fast Payment System, instant card issuances, chat bots, virtual meeting rooms for private banking clients, and biometrics in remote banking. These technological developments assist the Alfa Banking Group in increasing customer satisfaction because retail processes are simplified, time required to service clients are shortened and clients obtain greater control over the financial services that they are receiving.

The Alfa Banking Group is planning to upgrade its branch network that management believes will greatly increase customer satisfaction, decrease costs and provide new cross-selling opportunities. In addition, the Alfa Banking Group is focused on maintaining its leading position in retail current accounts, deposits, private banking and other segments of its retail business.

The Alfa Banking Group also intends to put emphasis on cross-selling its products to existing customers, modernising its procedures and systems, discontinuing or exiting unprofitable products and services, and packaging existing products in order to increase fee income, as well as increasing margins, reducing costs and continuing the strengthening and optimising of its operational infrastructure. An important focus area is minimising credit risks with up-to-date risk assessment models and the development and improvement of the Alfa Banking Group's in-house loan collection capabilities.

Grow and Diversify the Corporate Banking Business

Substantial growth of its business with clients in the micro and small and medium business segments will remain at the forefront of the Alfa Banking Group's corporate banking strategy. The Alfa Banking Group identifies the medium corporate business segment as clients with annual revenues between RUB350 million and RUB10 billion and the micro and small business segment as clients with annual revenues that are less than RUB350 million.

The Alfa Banking Group is committed to growing the customer base and loan portfolios in the mass and medium corporate business segments. For these purposes, the Alfa Banking Group will focus on strengthening its product range, offering excellent customer service and building long-term relationships, whilst identifying new niches, and structuring services to satisfy the particular requirements of its clients. The Alfa Banking Group intends to develop and expand the product line it offers to corporate clients, including through the provision of tailored made financing solutions, cash and liquidity management, financial services in public procurement and start-up businesses, leasing, trade finance and factoring. The Alfa Banking Group also aims to diversify the income streams of its corporate business by continuing to develop its payments processing and acceptance business and

continuing to promote new high-margin products. Underpinning these efforts will be the Alfa Banking Group's investments in advanced technological solutions and digital platform that will provide corporate clients easier access to banking products and financial services, including via a range of remote banking applications, and significantly decrease paperwork in everyday banking operations. See "*—Shift to a New Technological Level*" above. The Alfa Banking Group believes that operating a cutting edge digital platform to be an advantage over peers, such as the online banking and trading platforms, and aims to develop new solutions and productivity enhancements for the corporate segment.

In terms of the large corporate business segment, which includes clients with annual revenues in excess of RUB10 billion, the Alfa Banking Group will focus on issuing loans to top tier borrowers to "blue chip" and state sector clients, ensuring that it remains the bank of first choice for these customers and exploiting synergies and cross-selling between its corporate, investment and retail banking businesses. Furthermore, another aim with respect to the corporate banking segment is the enhancement of the Alfa Banking Group's business model, by focusing on the efficiency of operations.

Further diversification of revenue streams and increasing the proportion of profit from fee and commission services will remain a goal for the Alfa Banking Group's corporate banking business. For this purpose, the Alfa Banking Group plans to continue offering a wider and more sophisticated range of fee and commission services to its corporate client base, as well as engage in cross-selling such services to its borrowers across each of the corporate business segments. Such additional services, will generate additional non-interest income for the corporate banking segment and help to develop and support the Alfa Banking Group's corporate client base.

The Alfa Banking Group will also continue to monitor the performance of its corporate loan portfolio and may exit or scale back its lending activities in industry sectors that become associated with higher risks, decreased profitability or affected by any market downturn or economic instability.

Further Develop Investment Banking Operations

The Alfa Banking Group plans to develop further its investment banking business both in the Russian Federation and internationally. The Alfa Banking Group's investment banking team aims to develop and leverage off existing relationships with the Alfa Banking Group's corporate customers, as well as to expand its sales force to increase client penetration. The merger of the corporate and investment banking segments allows the Alfa Banking Group to more easily cross-sell its investment banking services to existing clients of the Alfa Banking Group, to capitalise on its industry sector expertise and understanding of the businesses and risks of its customers and to expand its role as an arranger in the local and international debt capital and loan markets, as well as the advanced technological solutions developed for investment banking customers.

Increasing Operational Efficiency

The Alfa Banking Group places particular focus on increasing operational efficiency. In particular, the Alfa Banking Group is committing capital to make technological advancements in its digital platform, including transitioning to paperless banking and transforming its branch network taking. See "*—Shift to a New Technological Level*" above. Moreover, Alfa Banking Group will continuing implementing a management culture aimed at continually optimizing its operations. The Alfa Banking Group has implemented and will continue to implement and satisfy all necessary capital adequacy and risk management requirements established by local regulators and best market practices. In addition, the internal infrastructure is being strengthened by implementing a responsive IT strategy, which focuses on both external customers and internal requirements of various departments.

Attracting and Retaining High-Calibre Staff

The Alfa Banking Group's employment strategy is to attract and retain high-calibre employees at all levels, in particular those with international professional experience, and internationally-recognised higher level qualifications. The Alfa Banking Group's Human Resources strategy is focused on talent management, leadership development, increasing in efficiency of staff. Talent management cycle includes talent acquisition, on-boarding programmes, performance management, career planning, training and engagement for results. The Alfa Banking Group's training and development function is designed to develop employees' management and sales skills. Particular focus is placed on developing managerial skills for junior and middle management. The Alfa Banking Group provides staff with performance incentives to contribute towards the fulfilment of the Alfa Banking Group's business goals. The Alfa Banking Group has established a core set of values, which its employees are encouraged to share, and a model of leadership competences, linked with values, for all levels of staff.

Principal Business Activities

During each of the periods covered by the Consolidated Financial Statements, the Alfa Banking Group's principal business activities have consisted of corporate and investment banking and retail banking. The Alfa Banking Group provides segmental information in the Consolidated Financial Statements for four business segments: corporate and investment banking, medium, small and micro banking, retail banking and treasury.

For the year ended 31 December 2019, corporate and investment banking generated external revenues of U.S.$2,233 million, medium, small and micro banking generated external revenues of U.S.$982 million, retail banking generated external revenues of U.S.$1,976 million, and treasury generated external revenues of U.S.$320 million, or 40.5 per cent., 17.8 per cent., 35.9 per cent. and 5.8 per cent. of the Alfa Banking Group's total external revenues, respectively.

For the year ended 31 December 2018, corporate and investment banking generated external revenues of U.S.$2,149 million, medium, small and micro banking generated external revenues of U.S.$729 million, retail banking generated external revenues of U.S.$1,610 million, and treasury generated external revenues of U.S.$368 million, or 44.2 per cent., 15.0 per cent, 33.2 per cent. and 7.6 per cent. of the Alfa Banking Group's total external revenues, respectively.

See "*Operating and Financial Review of the Alfa Banking Group—Analysis by Segment*" for a further discussion of the revenues and segment results generated by the Alfa Banking Group's respective business segments.

Corporate and Investment Banking

The Alfa Banking Group merged its corporate banking business and investment banking business in 2009 and it continues to develop cross-selling opportunities between its corporate and investment banking customers. The combined corporate and investment banking segment includes lending; bank account, deposit and settlement services; trade finance; factoring; corporate finance; equities; fixed income and foreign exchange.

The Alfa Banking Group's corporate and investment banking operations generated external revenues of U.S.$2,233 million for the year ended 31 December 2019, compared to U.S.$2,149 million for the year ended 31 December 2018.

Corporate Customer Base and Segmentation

The Alfa Banking Group provides corporate banking products and services to a variety of corporate and governmental entities. The Alfa Banking Group divides its corporate clients by revenue: (i) large corporate business segment, which includes clients with annual revenues in excess of RUB10 billion; (ii) medium corporate business segment, which includes clients with annual revenues between RUB350 million and RUB10 billion; and (iii) micro and small business segment, which includes clients with annual revenues that are less than RUB350 million..

Since 2010 the Alfa Banking Group has developed a separate business platform to provide banking services for clients with an annual turnover of less than RUB350 million – a micro and small business segment which combines features of the Alfa Banking Group's retail banking and MSME banking businesses. Since 2014 the Alfa Banking Group has begun to place particular emphasis on developing and strengthening its relationships with the medium corporate business segment, as it believes it can benefit from and substantially expand offering its relatively low risk fee and commission services to such clients. Medium corporate business became a separate block in 2018 owing to record clientele growth and the need to separate between medium business and micro and small business objectives. Over the past few years the Alfa Banking Group has continuously developed its expertise in medium, small and micro banking services, which resulted in introduction of new reportable segment "Medium, small and micro banking" as it met the requirements of separate disclosure under the IFRS standards. See "*—Medium, small and micro banking*".

Large corporate and investment banking business segment, medium corporate business segment and micro and small business segment are governed by three heads which reports directly to the CEO of Alfa Bank.

The Alfa Banking Group also focuses on "blue chip" and state sector clients in a number of natural resources sectors, including mining and metals, oil and gas, agrochemicals, petrochemistry and energy. As at 31 December 2019, the Alfa Banking Group had approximately 540 thousand corporate customers, compared to 447 thousand as at 31 December 2018. The priority corporate banking sectors in which the Alfa Banking Group aims to expand its business as at the date of this Base Prospectus are agriculture, power generation, leasing, agriculture and the food industries, telecommunications, retail, chemistry and petrochemistry. In addition, many of the Alfa Banking Group's corporate banking customers are engaged in the trade and commerce, finance and investment, power generation, metallurgy, oil, gas and refinery, mining and metals, manufacturing, agrochemicals, energy, telecommunications and media. See "*Selected Statistical and Other Information—Loans and advances to customers—Economic Sector Concentration*" and "*Selected Statistical and Other Information—Loans and advances to customers—Customer Concentration*".

Lending

The Alfa Banking Group offers a wide range of credit products to corporate clients, including loans, credit lines, overdrafts and bank guarantees. The Alfa Banking Group's total gross loans and advances to corporate customers as at 31 December 2019 and 31 December 2018 amounted to U.S.$29,398 million and U.S.$24,499 million, respectively, of which 90.6 per cent., or U.S.$26,638 million and 91.2 per cent., or U.S.$22,350 million, respectively, comprised corporate loans (excluding reverse sale and repurchase agreements with corporate clients, finance lease receivables and advances on lease operations).

While the pricing of loans is dependent upon the cost of funding as set out by the Alfa Banking Group's Treasury Department, the corporate and investment banking department is given some flexibility to structure loans (together with other value-added services) to satisfy clients' needs while generating the return required by the Alfa Banking Group's Treasury Department. Loans are available in Roubles, U.S. dollars, Euro and in certain other foreign currencies. Generally, loans in foreign currencies are only extended to Russian borrowers that have revenue sources in the corresponding currency. The Alfa Banking Group continues to develop its portfolio of medium-term (one to three years) and long-term (three to ten years) loans to corporate entities concentrating on low- and moderate-risk segments. See "*Selected Statistical and Other Information*". In terms of collateral, the majority of loans to corporate clients are unsecured as the Alfa Banking Group's policy is to focus on extending financing to quality and low risk borrowers. Most of the Alfa Banking Group's loans to borrowers in the construction, real estate and railway sectors are collateralized and approximately 30 per cent. of the loan portfolio to borrowers in the RUB350 million and RUB3.5 billion customer group are generally secured by collateral.

During 2019 and 2018, the Alfa Banking Group has provided loans to Russian trade and commerce, power generation and distribution companies, retail chains, food production, mining and metals, energy, banking, transport and agrochemicals companies and companies in other growing industry sectors such as telecommunications and media.

As at 31 December 2019, individuals accounted for the largest portion of the Alfa Banking Group's loans and advances to customers (26 per cent.), followed by oil industry companies (12 per cent.), food industry and agriculture (9 per cent.), finance and investment companies (7 per cent.), trade and commerce (7 per cent.) and real estate and construction (7 per cent.). As at 31 December 2018, individuals accounted for the largest portion of the Alfa Banking Group's loans and advances to customers (20 per cent.), followed by oil industry companies (13 per cent.), real estate and construction (9 per cent.), food industry and agriculture (9 per cent.), finance and investment companies (8 per cent.) and trade and commerce (7 per cent.). See "*Selected Statistical and Other Information —Economic Sector Concentration*".

The Alfa Banking Group's credit products for corporate entities also include guarantees, comprising loan guarantees, performance guarantees, advance guarantees, payment guarantees, customs guarantees, VAT guarantees and bid bonds. Loan guarantees secure the repayment of a loan; performance guarantees secure obligations to deliver goods or provide services under export contracts; advance guarantees secure refunds of advance payments received under export contracts if the relevant obligations are not fulfilled; payment guarantees secure payment obligations under import contracts; customs guarantees secure payments of customs duties; VAT guarantees secure client's obligations to pay back VAT refunds to the tax authorities in the case the tax authorities conclude that VAT refunds were not correctly paid; and bid bonds secure obligations incurred through parties' participation in tenders.

The Alfa Banking Group is continuing to develop and to offer more sophisticated credit products, including products in the fields of financial leasing, factoring, project financing, merger and acquisition financing and the refinancing of the investment portfolios of specialised financial entities such as leasing companies and property investment funds.

Bank Account, Deposit and Settlement Services

In addition to lending, the Alfa Banking Group provides its corporate clients with a wide range of bank account, deposit and settlement services. Current/demand accounts and settlement services remain a key focus for the Alfa Banking Group in line with its strategy to continue to have a source of relatively low cost funding from deposit accounts and increase the proportion of profit from fee and commission services from services provided to customers, including settlement services.

As at 31 December 2019, customer accounts held with the Alfa Banking Group totalled U.S.$41,422 million, of which U.S.$17,252 million (or 41.6 per cent.) was held by commercial organisations and U.S.$3,549 million (or 8.6 per cent.) was held by state and public organisations. As at 31 December 2018, customer accounts held with

the Alfa Banking Group totalled U.S.$32,106 million, of which U.S.$12,015 million (or 37.4 per cent.) was held by commercial organisations and U.S.$3,643 million (or 11.3 per cent.) was held by state and public organisations.

The Alfa Banking Group's bank accounts for corporate entities include current and term accounts in Roubles and in certain foreign currencies (predominantly U.S. dollars and Euro), as well as special-purpose accounts such as payment accounts used to settle obligations with Russian counterparties and current accounts denominated in foreign currencies used for currency operations. Companies operating across the Russian Federation are able to use services through the Alfa Banking Group's branch network and through a number of remote access channels. The Alfa Banking Group provides payment and settlement services to its clients through its branches and other channels, such as the Internet as well as through its correspondent banking partners in the Russian Federation and abroad. The Alfa Banking Group also provides payment services to foreign subsidiaries of Russian clients.

In 2009, the Alfa Banking Group was also selected as the settlement bank for the Russian Association of Auto Insurers. As at 31 December 2019, the Alfa Banking Group had opened 308 settlement, trading and guarantee fund accounts within the framework of this project. In 2010, the Alfa Banking Group, along with several other banks, was selected to provide corporate and retail banking services to engineering companies within the framework of investment projects with JSC RUSNANO, the Russian state company responsible for developing and commercialising the Russian nanotechnology sector. As at 31 December 2019, the Alfa Banking Group had opened 80 settlement accounts to implement investment projects with JSC RUSNANO.

In 2012, the National Association of Liability Insurers appointed the Alfa Banking Group as its authorised credit organisation to settle accounts with other member insurance companies for obligatory public liability insurance related to damage caused by the dangerous installation of equipment. As at 31 December 2019, the Alfa Banking Group has opened 129 settlement, trading and guarantee fund accounts for participants of this project. Starting from June 2013, insurance companies that are members of the Russian Association of Auto Insurers and the National Association of Liability Insurers settle accounts relating to mandatory automobile third party insurance, mandatory hazardous facility insurance and mandatory carrier liability insurance through a specialized Insurance Payment System. These insurance companies settle accounts relating to Mandatory automobile third party insurance, Mandatory Hazardous Facility Insurance and Mandatory Carrier Liability Insurance using the Insurance Payment System. Alfa Bank is the exclusive settlement bank of the Insurance Payment System operator.

In 2019, the Alfa Banking Group had generated profit in the amount of U.S.$5.1 million from the above mentioned projects. Starting from December 2017, the Alfa Banking Group participates in settlement transactions between insurance companies in connection with subrogation claims under car insurance policies.

In addition to traditional banking services, the Alfa Banking Group offers innovative technological solutions in the Russian market to enable its clients to reduce their payment processing costs and centralise their cash flow management by using cash management products and the Alfa Banking Group's 24-hour IT channels. Since 2008, the Alfa Banking Group has offered standardised product and service sales and delivery platform across the Russian Federation providing clients with online e-banking and other remote services ("**Alfa-Client Online**") and centralised paying processes. In April 2012, a new version of Alfa-Client Online was introduced ("**Alfa Business Online**"), which provides access to a broader spectrum of products and services than Alfa-Client-Online. The Alfa Banking Group is currently considering its strategy for developing the remote banking platform for its corporate clients. See "*—IT Infrastructure—Alfa—Client Online*".

Trade Finance

The Alfa Banking Group provides a wide range of trade finance products for its corporate customers, including issuing import, export and stand-by letters of credit, issuing letters of guarantees and related services. The Alfa Banking Group also provides pre-export financing for corporate entities. In addition, the Alfa Banking Group provides import financing using funds from foreign banks and support from export credit agencies that provide long-term facilities to finance imports of capital goods. The total volume of trade finance transactions in the year ended 31 December 2019 was approximately U.S.$2,700 million, compared to U.S.$2,600 million in the year ended 31 December 2018. The Alfa Banking Group closed about 1,962 trade finance deals in more than 50 countries in 2019 and about 1,300 trade finance deals in 2018. The Alfa Banking Group won the Best Trade Finance Providers 2018 award as the best Russian provider of world trade finance services. Corporate clients of the Alfa Banking Group are able to issue uncovered letters of credit through Alfa-Business Online, which significantly cuts the time of issuing an uncovered letter of credit and enables the client to monitor the status of the processes at every stage. In 2018, the Alfa Banking Group launched a program for subsidizing export loans in collaboration with the Russian Export Center, and actively supported clients importing Belarusian hardware with subsidies provided under the Belarus export support program. The Alfa Banking Group is currently focused on developing trade finance product available online, developing new trade finance products, continues to

develop financing for Russian exports, including interest rate subsidies programme of Russian Export Center and collaboration with the Export Insurance Agency of Russia.

Equities

The Alfa Banking Group's equities business runs one of the Russian Federation's leading brokerages and is an active participant on all major exchanges where Russian securities are traded, including the Moscow Exchange and the GDR/ADR markets in London and New York.

The equities business specialises in: distribution of equity offerings, equity sales and trading (both on behalf of clients and on the Alfa Banking Group's own account), block trades, equity derivatives and equity research. Based upon its experience of operating in the financial markets of Russia and the CIS, one of the Alfa Banking Group's most important strategic objectives is to offer its clients the opportunity to invest in the securities of issuers from these growing economies.

The Alfa Banking Group's equities research department analyses overall market conditions and macroeconomic trends and produces independent research consisting of industry and company-specific reports. It forms the core of the Alfa Banking Group's expertise in monitoring current developments and evaluating investment opportunities in the Russian Federation and the CIS.

The Alfa Banking Group's London operations are organised through a branch of Alfa Capital Cyprus, which is a member of the London Stock Exchange. It is authorised by the Cyprus Securities Exchange Commission ("**CySEC**") and regulated by the UK Financial Services Authority to provide brokerage and investment banking services and to distribute research to UK and European institutional clients. The Alfa Banking Group's London operations provide a platform through which the Alfa Banking Group works to help institutional investors and hedge fund clients in the UK and continental Europe access deals in the Russian Federation and other CIS countries. The Alfa Banking Group's equities business is supported by Alfa Capital Cyprus, see "*—Major Subsidiaries—Alfa Capital Holdings (Cyprus) Limited*".

The equities business has also developed an Internet-based trading platform called Alfa Direct Service (Russia) ("**Alfa Direct**"), which has serviced tens of thousands of retail clients across the Russian Federation since 2000. Alfa Direct provides clients with financial information on stock exchange quotations, analytical materials and financial news from Interfax and Prime-TASS, and allows them to trade online in securities, currencies, investment units, derivatives and other financial products on Russian exchange and over the counter markets, as well as offers financing, depository, brokerage and other financial services. The number of client accounts with Alfa Direct was 181,034 as at 31 December 2019, which represented a 31.5 per cent. increase compared to 137,707 as at 31 December 2018. Cumulative trading volumes through Alfa Direct increased to approximately U.S.$20,217 million during the year ended 31 December 2019 as compared to approximately U.S.$18,751 million during the year ended 31 December 2018. The Alfa Banking Group is constantly developing and enhancing its Alfa Direct offering. The Alfa Banking Group plans to launch an updated platform for Alfa Direct that will aim to process instructions and transactions faster and will contain features to better meet the needs of professional investors and increase the volumes of the Alfa Direct business.

In 2018, the Alfa Banking Group has started developing its equity capital markets business and participated in several public market mandates, including pre-marketing of several IPOs. The Alfa Banking Group continues to develop stocks trading, including building relationships with institutional investors in the Russian stock market.

The Alfa Banking Group places focus on development of complex investment banking infrastructure for foreign investors interested in investing in Russian securities market. This initiative includes building a special platform through which relevant investment banking services could be rendered.

Fixed Income

The Alfa Banking Group's fixed income department engages in a wide range of brokerage services and market-making operations, as well as syndicated lending. Its priority products are Rouble corporate bonds, U.S. dollar or Euro-denominated Eurobonds issued by Russian issuers and syndicated loans. In 2018 the Alfa Banking Group won the 2018 Loans Cbonds Awards for «Best Investment Bank on CIS Syndication Market.»

In 2019, the Alfa Banking Group acted as arranger for 31 domestic bond issues (excluding placements for members of the Alfa Banking Group) in the aggregate amount of RUB316.6 billion, including bond issues for AFK Sistema, Azbuka Vkusa, Baltisky Leasing, Detsky Mir, Element Leasing, Eurasia Drilling Company, Europlan LC, EvrazHolding, Group of companies "Legenda", Group of companies "Pioner", Lenta, LSR Group, Magnit, PIK-Corporation, Novotrans, O'KEY, RESO-Leasing, RUSNANO, Sberbank, Setl Group, SUEK-Finance, TransContainer, and X5 Retail Group. In 2018, the Alfa Banking Group acted as arranger for twelve domestic bond issues (excluding placements for members of the Alfa Banking Group) in the aggregate amount of RUB90 billion, including bond issues for Central Exurban Passenger Company, GTLK (3), Element Leasing,

Europlan, KOKS, Legenda, Nizhnekamskneftekhim, SUEK, TransContainer and Uralkali.

In 2019, the Alfa Banking Group conducted 3 domestic offerings in the aggregate principal amount of RUB 23 billion. The Alfa Banking Group registered new programme of subordinated multicurrency bonds with total amount RUB50 billion and successfully placed debut subordinated RUB5 billion issue under Russian law. In 2018, the Alfa Banking Group conducted seven domestic offerings in the aggregate principal amount of RUB45 billion and U.S.$20 million.

IThe Alfa Banking Group's fixed income department also engages in margin trading, repo trading (including repos with both domestic Rouble bonds and Eurobonds), financing backed by promissory notes, debt buy-backs, structured products and derivatives. It develops new, customised structured products for its clients, including principal protected notes (linked to the performance of Russian or other equity markets and issued from a platform arranged and maintained by the Alfa Banking Group), credit default swaps, repackaged corporate loans, total return swaps, first to default swaps and loan basket refinancing, many of which are entered into on a back-to-back basis, whereby the Alfa Banking Group seeks to hedge its risk by entering into equivalent transactions with other market participants.

The Alfa Banking Group's fixed income department offers a full range of global over-the-counter market derivatives, including derivatives based on foreign exchange rates, interest rates and precious metals and provides the Alfa Banking Group's corporate clients with hedging solutions for their foreign exchange, commodity and interest rate risks. Over the past few years, the Alfa Banking Group has organized a series of major public offerings for Belarusian banks of the first echelon, such as Belarusbank, Belagroprombank, the Belarus Development Bank, and others, and has created proper expertise on the Belarusian finance market.

In addition, the Alfa Banking Group also provides its services through the arrangement of, and participation in, syndicated loans placed both in Russia and in the international primary and secondary markets. Participation in syndicated loans helps the Alfa Banking Group to maintain its corporate relationships, and to develop new ones. The Alfa Banking Group acted as an arranger of syndicated loans on a number of transactions alongside Russian and foreign banks, including two syndicated loans for Belarusbank, two syndicated loans for Alfa Bank Belarus, one syndicated loan for the Development Bank of Republic of Belarus in 2015, one syndicated loan for Belarusbank, Belagroprombank, the Development Bank of Republic of Belarus, Russian Copper Company and SUEK in 2016, one syndicated loan for INTEGRA in 2017, one syndicated loan for Alfa Bank Belarus, Amsterdam Trade Bank, Belarusbank, The Bank Moscow-Minsk and Aktyubinsk Copper Company in 2018 and one syndicated loan for SUEK and Alfa-Leasing and one syndicated loan for AlfaMobil in 2019. The total volume of these syndicated loans was approximately equal to U.S.$4 billion. A number of large Russian and CIS banks participated as lenders in the above mentioned syndicated loans, including, among others: Asian-Pacific Bank, Bank Intesa (Moscow branch), Bank Zenit, Eurasian Development Bank (Kazakhstan), ING, Otkritie Bank, Moscow Credit Bank, NATIXIS, Société Générale, Sberbank, Transcapitalbank and others. The Alfa Banking Group also acted as an arranger of syndicated loans to Absolut Bank, Gomelenergo, RESO-LEASING, Belagroprombank, Belarusbank, ChTPZ Group, Moscow Refinery Plant, Tabac-Invest, Evrotorg, Belorusneft, Naftan, Kernel Group and Russian Cooper Company in 2013 and 2014.

The Alfa Banking Group also received the prestigious Loans Cbonds Awards - 2018 in nomination "The Best Investment Bank in the CIS syndicated loan market".

Foreign Exchange Department

As at the date of this Base Prospectus, the Alfa Banking Group maintains market making positions on the domestic and international foreign exchange markets with proprietary and client driven operations on the bank-to-bank market and the Moscow Exchange. In addition to traditional Rouble/U.S. dollar transactions, according to the Moscow Exchange, the Alfa Banking Group executes over 11 per cent. of the total trading volume of other CIS currencies. According to internal estimates, the Alfa Banking Group executes over 35-45 per cent. of the total trading volume of G10 currencies in Russia. The Alfa Banking Group is an active participant in the international FOREX markets with a continuous-linked settlement limit totalling U.S.$3 billion. According to the Alfa Banking Group's internal estimates, the Foreign Exchange Department's turnover on the interbank foreign exchange market reached U.S.$2.1 trillion in the year ended 31 December 2019 compared to approximately U.S.$1.9 trillion in 2018. The Alfa Banking Group believes that it remains one of the biggest inter-bank market maker and a technological leader in the field of conversion operations. The Alfa Banking Group offers its clients both regular conversion transactions and complex products, such as forex risk hedging using derivatives. See also "*Equities*" for a description of Alfa Direct, which provides customers (including retail customers) with the ability to trade in foreign currencies online. The Alfa Banking Group continues working on providing FOREX services through a Russian subsidiary of the Alfa Banking Group. The Alfa Banking Group occupied the 27th position in the global rating, being the only representative of Russia in the Euromoney Top-30

global rating.

Corporate Finance

The Alfa Banking Group's corporate finance unit provides advisory services and transactional support in relation to the following areas: general corporate strategy; leveraged buyouts; mergers and acquisitions advice and execution; mezzanine finance and private equity; the structuring and execution of equity offerings, including initial public offerings and private placements. In providing all these services, the Alfa Banking Group's corporate finance division draws on both its local knowledge and its international expertise to advise clients on investment both within and into markets in the Russian Federation and the CIS. The corporate finance unit has established relationships with European, Turkish, US and Chinese banks to expand its international reach and increase deal origination from these regions.

Medium, small and micro banking

As at 31 December 2019, the Alfa Banking Group has separated medium, small and micro banking business into new reportable segment in accordance with IFRS standards. Small and micro banking block segment combines features of the Alfa Banking Group's retail banking and MSME banking businesses. and aims to serve and develop the micro and small corporate segment (companies as well as individual entrepreneurs with an annual turnover of less than RUB350 million). As at 31 December 2019, the Alfa Banking Group maintained 297 offices specifically designed to cater for clients in the micro and small business segment. Medium corporate business became a separate block in 2018 due to the need to separate between medium business and micro and small business objectives. The heads of the medium business and micro and small business segments report directly to the CEO of Alfa Bank.

The Alfa Banking Group aims to continue to expand the customer base of its medium, small and micro banking business and offer a variety of transactional services (such as current accounts, settlement services, payroll and other operations), as well as lending facilities to such clients. Amongst such products, the Alfa Banking Group provides a special payment card (Alfa Cash) which allows clients to place and withdraw cash held on the account of such clients' legal entities as well as process payments using such cash. In the second half of 2019 the Alfa Banking Group launched a new program in respect of credit card products. Pursuant to this program the Alfa Banking Group provides a new payment card (Alfa Business) instead of Alfa Cash, as at 31 December 2019, 57,033 of such cards (accounting for 14.3 per cent. of all credit cards provided to corporate clients) were issued by the Alfa Banking Group. The Alfa Banking Group makes available to such clients financing options such as unsecured lending in the amount of up to RUB30 million and overdraft facilities in the amount of up to RUB60 million. In addition, it is actively promoting and developing non-banking services in this segment, including the Client Club (a network of Alfa Bank's partners with whom clients can cooperate and receive discounts or benefits), legal services support (such as assistance with company registration), various insurance products and a personal manager service.

Retail Banking

The Alfa Banking Group's retail banking operations focus on deposit taking, current accounts (including debit cards), lending (including primarily personal instalment loans and credit cards, consumer finance and mortgage lending and car loans) and certain ancillary services such as foreign exchange, which was introduced in 2012. The retail banking segment has been the Alfa Banking Group's fastest growing segment in recent years. The Alfa Banking Group launched a new strategy in 2019 to expand its retail loan portfolio and increase the volumes of personal instalment loans issued and credit cards provided to customers as well as to increase its mortgage portfolio.

The Alfa Banking Group is present in all Russian cities with a population above 1,000,000 and in nearly all cities with a population above 500,000 (except for Makhachkala and Astrakhan). The Alfa Banking Group's retail banking operations generated external revenues of U.S.$1,976 million for the year ended 31 December 2019, as compared to U.S.$1,610 for the year ended 31 December 2018.

Customer Base

The Alfa Banking Group provides retail banking products and services to a variety of retail customers, with different levels of income. Although the Alfa Banking Group has in the recent past at times increased volumes of loans to individuals with a below average income level, it is currently focusing on lending to retail customers in the mass affluent and affluent segments. As at 31 December 2019, the Alfa Banking Group had approximately 6.1 million active retail customers, compared to 5.0 million as at 31 December 2018. According to calculations by Alfa Bank based on published CBR statistics, as at 1 January 2020, Alfa Bank had a 9.74 per cent. share of the Russian market in terms of retail demand deposits by value, compared to 10.0 per cent. as at 1 January 2019

and 8.7 per cent. as at 1 January 2018, making Alfa Bank the largest privately-owned bank in Russia in terms of retail demand deposits as at 1 January 2020. Alfa Bank also had a 5.26 per cent. share of the Russian market in terms of the amount of cash loans making Alfa Bank the third largest bank in the Russian Federation in terms of cash loans under surveys conducted by Frank Research Group on the basis of RAR financial statements. According to Frank Research Group as at 31 December 2019, Alfa Bank had a 5.5 per cent. market share for all retail loans (excluding mortgage loans), making Alfa Bank the third largest bank in the Russian Federation in terms of retail loans (excluding mortgage loans).

As at 31 December 2019, gross loans to retail customers (comprising credit card and personal instalment loans, consumer loans, mortgage loans and reverse sale and repurchase receivables relating to individuals) accounted for U.S.$10,442 million (or 26.2 per cent. of the Alfa Banking Group's gross loans and advances to customers), compared to U.S.$6,073 million (or 19.9 per cent. of the Alfa Banking Group's gross loans and advances to customers) as at 31 December 2018.

Customer accounts

As at 31 December 2019, customer accounts amounted to U.S.$41,422 million, of which U.S.$20,621 million (or 49.8 per cent. of total customer accounts) were individual accounts. Of these individual accounts, as at 31 December 2019, U.S.$13,058 million (or 63.3 per cent.) comprised current/demand accounts, and U.S.$7,563 million (or 36.7 per cent.) comprised term deposits.

As at 31 December 2018, customer accounts amounted to U.S.$32,106 million, of which U.S.$16,448 million (or 51.2 per cent. of total customer accounts) were individual accounts. Of these individual accounts, as at 31 December 2018, U.S.$9,989 million (or 60.7 per cent.) comprised current/demand accounts, and U.S.$6,459 million (or 39.3 per cent.) comprised term deposits.

Based on its experience, the Alfa Banking Group believes that current/demand account holders are more likely to be loyal to the Alfa Banking Group than individuals without current/demand accounts with the Alfa Banking Group and are more likely to make use of its full range of services. Further, because such accounts represent a relatively low cost source of funding for the Alfa Banking Group due to the low interest rates payable on the balances on such accounts, the Alfa Banking Group continues to focus on increasing the number of current and demand retail accounts held with it, particularly through its customers for whom the Alfa Banking Group runs their payroll schemes.

The Alfa Banking Group constantly reviews its product range and offers index-linked deposits, multicurrency deposits and deposits that allow customers to select the precise term they require, and offers a wide range of functions to its customers on-line. Term deposits are offered generally for a term of up to a year.

The Alfa Banking Group provides a number of ancillary services to retail customers in the Russian Federation. It buys, sells and exchanges all major foreign currencies and cashes foreign payment instruments. Individuals can make direct payments from their bank accounts and pay for goods and services via the Internet with their Alfa Banking Group debit cards. Retail customers of the Alfa Banking Group are able to transfer funds domestically and internationally through the Alfa Bank correspondent banking network and rent safe deposit boxes to store valuables.

Alfa Bank is a member of the Russian Deposit Insurance System, which guarantees the full repayment of deposits up to a maximum of RUB1,400,000 per individual in the event that the banking licence of a Russian bank is withdrawn or the CBR imposes a moratorium on payments made by that Russian bank.

During 2018 and 2019 Alfa Bank also launched some seasonal savings accounts. Interest income on the accounts is calculated on the basis of daily balance and applicable interest rate depends on the period of storage of funds on the account.

In 2019, the Alfa Banking Group has also joined the Faster Payments System, a pilot project of the CBR, which is set to enable individuals to make instant transfers to each other using only a mobile phone number regardless of in which banks the sender and recipient have their accounts.

Personal instalment loans and credit and debit cards

The Alfa Banking Group views personal instalment loans and credit and debit cards as priority areas for potential growth in general due to the considerable prospects of these products in the Russian market. The total gross personal instalment loans and credit card loans and advances to customers extended by the Alfa Banking Group totalled U.S.$8,525 million as at 31 December 2019, compared to U.S.$5,392 million as at 31 December 2018.

The Alfa Banking Group offers its retail clients personal instalment loans ranging from RUB50,000 to RUB5,000,000 for terms of between one to five years. The maximum loan limit for new clients that are not part of any salary or corporate programme is currently set at RUB1,500,000. For mass instalment loan programmes,

the maximum maturity is set at 60 months for cash loans and at 84 months for refinance programmes (for payroll clients). The refinance programmes allows the Alfa Banking Group's clients to combine loans of other banks into one, which in turn allows to settle debt with one comfortable payment, reduce the amount of monthly payments and get additional funds. The Alfa Banking Group particularly focuses its personal instalment loans business on premium clients, the employees of payroll customers and its existing customer base. The Alfa Banking Group plans to make more personal instalment loans to employees of payroll customers as it believes this customer segment represents a lower credit risk due to the fact they earn higher incomes and because the Alfa Banking Group can more accurately evaluate the individuals' ability to service a loan due to the Alfa Banking Group's knowledge of their employer, and their credit histories and employment.

The Alfa Banking Group also offers its retail clients VISA and MasterCard debit and credit cards. The card-holders pay annual and transaction-based fees for using the cards. As at 31 December 2019, the Alfa Banking Group had in issue approximately 13.8 million credit and debit cards. As at 31 December 2019, there were approximately 7.15 million active cards. Retail clients can apply for these cards via the Alfa Banking Group's branches or over the Internet. The Alfa Banking Group uses special risk-assessment software to approve credit card applications, allowing it to expedite credit decisions once the customer presents certain documents, such as a passport and an additional document, for example, a driving licence. Retail clients are offered classic/standard, gold and platinum versions of VISA and MasterCard credit cards. Credit cards generally have limits of up to 160 per cent. of a customer's monthly income and 88 per cent. of issued credit cards have a 100 calendar day grace period. Alfa Bank has also introduced a credit card product ("Bystraya" (Fast)), which allows customers to obtain a credit card within 15 minutes at points-of-sale. In November 2014, the Alfa Banking Group launched a new card product called "Twins" which allows retail customers access to debit and credit accounts using a single payment card. The Alfa Banking Group believes this product is unique for both Russian and foreign banking markets. As at 31 December 2019, Alfa Banking Group had issued 68,777 "Twins" cards, 17 per cent. of which were active.

The Alfa Banking Group has developed a number of loyalty co-branded programmes involving its credit card business such as Aeroflot-Alfa Bank, RZD-Alfa Bank, AlfaTravel-Alfa Bank, Alfa-Miles-Alfa Bank, World of Tanks-Alfa Bank, World of Tanks Blitz-Alfa Bank, World of Warships-Alfa Bank, Perekrestok-Alfa Bank, Pyaterochka-Alfa Bank, Wargaming Premium-Alfa Bank, Yandex.Plus-Alfa Bank and Yandex.Taxi-Alfa Bank. The Aeroflot-MasterCard allow holders to accumulate points (miles) as they pay for goods and services. Another credit card programme is co-branding with retailers Perekrestok and Pyaterochka. As at 31 December 2019, the Alfa Banking Group had in issue 796,000 credit and debit co-branded cards, 67.3 per cent. of which were active.

Consumer finance

The Alfa Banking Group's total gross consumer finance loans and advances amounted to U.S.$49 million as at 31 December 2019, compared to U.S.$127 million as at 31 December 2018. As at 31 December 2019, the Alfa Banking Group's consumer finance business was active in 77 regions of the Russian Federation and its offices present in 54 regions of the Russian Federation and had approximately 0.9 million customers, compared to 82 regions and 1.7 million customers as at 31 December 2018.

In 2018, the Alfa Banking Group ceased to provide its consumer finance products through offline points-of-sale and focused solely on the online lending, which has lower operational costs combined higher return on equity. The Alfa Banking Group believes that this type of financing will continue to provide the Alfa Banking Group with new clients to whom it can cross-sell other products and plans to develop new technologies which will allow to simplify the process of financing.

Mortgage lending

The Alfa Banking Group's total gross retail mortgage loan portfolio totalled U.S.$1,810 million as at 31 December 2019, U.S.$519 million as at 31 December 2018.

As at 31 December 2019, the Alfa Banking Group offered mortgage loans to retail customers in Moscow and twenty-five other regions of the Russian Federation. Since February 2016 the Alfa Banking Group has been offering its mortgage products in selected cities across Russia. These products include loans for apartments in the primary and secondary residential real estate market, the refinancing of mortgages originated by other banks, as well as general loans secured by a pledge of real estate.

In 2019 the Alfa Banking Group modified its products relating to mortgage lending and introduced new procedures for review of the applications of the customers. As a result of implementation of new products, the Alfa Banking Group offers more attractive to the clients and the process of review and approval of customers' applications is faster and more customers-friendly.

Alfa Bank retail branches

As at 31 December 2019 and 31 December 2018, the Alfa Banking Group had 525 and 492 retail banking branches, respectively, and 3,946 and 3,765 ATMs in operation, respectively.

The Alfa Banking Group's retail banking business is conducted through its network of branches, which aim to provide easy-to-understand, convenient and efficient service to individuals and small businesses. Most of the Alfa Banking Group's branches offer customers 24-hour access to their accounts through telephone, Internet and self-service channels. Branches offer customers a range of checking and savings accounts in Roubles, U.S. dollars and Euros; credit cards; overdraft facilities; instant cash transfers; pre-paid cash cards and safe deposit boxes. The Alfa Banking Group offers its customers different tariff plans with tiered levels of service.

The Alfa Banking Group uses "micro" branches, which offer a more streamlined range of services to customers, as part of its strategy to increase its retail banking presence across Russia and particularly in the Russian regions, without incurring the cost of establishing traditional branches.

The Alfa Banking Group's focus on developing the profitability of its retail operations means that it takes a careful approach to developing and maintaining its branch network. As further discussed under "*—Property*" below, most of the Alfa Banking Group's branches are operated under contracts for the period of more than one year. The Alfa Banking Group carefully considers the viability of maintaining a branch at a given location upon expiration of its lease. If an increase in rent makes a branch uneconomic, the Alfa Banking Group relocates the branch. In the Moscow area, this has resulted in the Alfa Banking Group closing some branches in central locations, which were initially chosen to raise the profile of the Alfa Banking Group's retail operations. These branches were relocated to residential, or so called "dormitory" areas. The Alfa Banking Group's management believes this policy will increase the branch network's profitability.

Ensuring high standards of quality and consistency in its retail operations is a key focus for the Alfa Banking Group. To this end, it conducts a variety of operational audits and tests. These include "mystery shopper exercises", where branches are anonymously inspected to check the quality of service delivery, approximately four times each quarter. The Alfa Banking Group also performs a variety of consumer survey operations, including Internet voting on the performance of branches, and "voice of the customer" exercises, which involve the Alfa Banking Group conducting surveys to obtain feedback customers' views by telephone.

In June 2018, the Alfa Banking Group launched a service allowing to transfer a debt from a credit card of another bank. In addition, in June 2018, the Alfa Banking Group launched a special action of cash loans with 10.99 per cent. rate and the debit and credit cards of AlfaTravel.

Remote retail services

One of the Alfa Banking Group's highest priorities for its retail business remains the development of infrastructure to provide its customers with convenient, easy-to-use remote banking services. As a result, the Alfa Banking Group has installed several hundred ATMs capable of receiving cash deposits and developing remote customer service channels and, in particular, Internet and mobile banking. Since 2007, the Alfa Banking Group has sought to increase the functionality of its Internet banking service, "Alfa-Click", by adding payment options for mobile phone services, Internet, utilities, replenishment of Alfa Direct brokerage accounts and enabling customers to invest in mutual funds managed by LLC "Alfa Capital". The number of active users of Alfa-Click was 0.4 million individuals as at 31 December 2019, compared to 0.8 million individuals as at 31 December 2018. The Alfa Banking Group has also developed a mobile phone based access system, "Alfa-Mobile", which offers the same service options as Alfa-Click, and has also developed an SMS banking service. The number of active users of Alfa-Mobile was 2,898 thousand individuals as at 31 December 2019, compared to 3,300 thousand individuals as at 31 December 2018. Additionally, in 2017 the Alfa Banking Group introduced a digital delivery service, which consists in instant tokenisation of a new card and allows not to wait for the plastic card to be issued to get access to the banking product. In 2019, the Alfa Banking Group introduced some new features for Alfa-Mobile users such as autopays, rating system and QR code payments.

Private Banking

In January 2006, the Alfa Banking Group established a programme for VIP clients with demand accounts, term deposits or the Alfa Banking Group investment products of at least U.S.$1,000,000 for clients in Moscow and U.S.$500,000 for clients in other regions. The programme offers clients a qualified personal financial advisor, segregated VIP customer service areas in separate VIP branches and priority service in other branches of the Alfa Banking Group.

In 2006 the Alfa Banking Group also launched its first A-Club. A-Club clients have access both to an exclusive range of private banking services and products, and 24-hour support from a personal manager. Additional benefits include access to a global ATM network that provides for the reimbursement of commissions charged

on withdrawals from the ATMs of third party banks. Private banking clients are also able to transact, including via payment cards, in up to eight different currencies. As at 31 December 2019, sixteen private banking offices have been opened in the following cities: Moscow, St. Petersburg, Tyumen, Chelyabinsk, Samara, Krasnodar, Krasnoyarsk, Novosibirsk, Nizhny Novgorod, Rostov-on-Don, Vladivostok, Novokuznetsk and Ekaterinburg. As at 31 December 2019, more than 6,545 clients belonged to the A-Club, compared to approximately 6,155 clients as at 31 December 2018. The Alfa Private was recognized as the best brand in the private banking industry award by Frank Research Group in 2019.

In 2017, the Alfa Banking Group launched new products for its clients, such as mortgage lending and letters of credit in foreign currencies. The improved premium service package provides VIP clients unlimited free access to priority pass business lounges in airports.

In February 2017, the Alfa Banking Group launched the exchange traded bonds "Alpha-Robots" which were developed specifically for Alfa Private clients. In June 2017, the new project of Alfa Private has been launched – structured notes of third party issuers are available for Alfa Private clients, which can be bought on the brokerage account in Alfa-Direct.

In 2019, A-Club increased its investment assets by more than 30% with brokerage and asset management accounting for the biggest portions of rendered services. In addition, in early 2019, A-Club launched its advisory services to its clients in accordance.

Treasury

Alfa Bank's Treasury Department has historically been responsible principally for the Alfa Banking Group's liquidity and interest risk management functions and maintenance of open foreign exchange positions as directed by the Asset and Liability Management Committee, as well as methodological and analytical functions. In 2009, the Treasury Department was reorganised so that the foreign exchange operations were transferred to the Foreign Exchange Department of the Corporate and Investment Banking division. In addition to determining the price of allocation of funds within the Alfa Banking Group, as at the date of this Base Prospectus, the Treasury Department functions now include the Alfa Banking Group's asset and liabilities management and money market operations. See "*Risk Management*" below for a further discussion of the Asset and Liability Management Committee and its operations.

In 2013, the Alfa Banking Group's Russia/CIS Financial Institutions department within the Treasury was merged with its International Financial Institutions department, previously within the Trade Finance department, in order to further develop the Alfa Banking Group's financial institutions business. The Financial Institutions department operates the Alfa Banking Group's correspondent banking business and manages general relationship issues with foreign banks.

As at 31 December 2019, Alfa Bank had a global correspondent network involving more than 1,084 institutions with whom authenticated SWIFT send and receive RMA keys are established. As at 31 December 2019, Alfa Bank had over 314 Nostro accounts with leading banks worldwide (including the United States, Western Europe, Asia and CIS), and in over 23 currencies both for customer clearing and foreign exchange operations. International and domestic clearing is carried out through SWIFT. Alfa Bank's counterparties in the international clearing operations include, among others, Commerzbank AG, Bank of New York Mellon, Bank of America, Deutsche Bank, Citibank, RBI AG, ING, Bank of China, J.P. Morgan and Deutsche Trust Company Americas. The Alfa Banking Group believes that its developed global correspondent network, as well as the availability of different credit facilities from the international banking community, have been among the key elements of its growth.

The Alfa Banking Group's treasury operations generated external revenues of U.S.$320 million for the year ended 31 December 2019 compared to U.S.$368 million for the year ended 31 December 2018.

Asset and Liability Management Functions/Interest Rate Management

Alfa Bank's Treasury Department supports the Asset and Liability Management Committee in carrying out the asset and liability management functions, as well as the interest rate management functions, of the Alfa Banking Group. This entails, amongst other things, the analysis, monitoring and management of the Alfa Banking Group's liquidity, foreign currency and interest rate positions under the authorities granted to it by the Asset and Liability Management Committee. In order to calculate its exposures, the Alfa Banking Group produces a consolidated balance sheet for its Russian operations on a daily basis, and intends to expand this practice to include its international operations. The Alfa Banking Group calculates its international operational exposures to ALM risks on a daily basis based on information obtained through its operations systems and on monthly basis based on its consolidated balance sheet. The Alfa Banking Group exploits special ALM system for its

monitoring process, as well as to improve its market risk management and transfer pricing systems. The Alfa Banking Group's liquidity is monitored on a daily basis, and interest rate risk is assessed on a weekly basis. See "*Risk Management—Interest Rate Risk*". As part of its liquidity management process the Alfa Banking Group has a portfolio of debt investments at fair value through other comprehensive income, which is intended to complement the correspondent account cash management of the Treasury Department and provide an additional buffer for the Alfa Banking Group's liquidity requirements. As at 31 December 2019, debt investments at fair value through other comprehensive income amounted to U.S.$4,840 million compared to U.S.$3,388 million as at 31 December 2018. The Treasury Department also makes recommendations concerning lending rates to the Asset and Liability Management Committee and transfer pricing rates between the Alfa Banking Group's different divisions. In order to improve the interface between the Treasury Department and other divisions of the Alfa Banking Group, and in particular with the Alfa Banking Group's investment banking and corporate banking businesses, the Treasury Department has introduced a treasury marketing unit. The Asset and Liability Management Committee establishes balance sheet structure limits, which the asset and liability management unit of the Treasury Department monitors on a monthly basis. The Asset and Liability Management Committee establishes liability concentration limits, which the middle office monitors weekly. The Financial Institutions department (which currently combines operations with both Russia/CIS and international financial institutions) coordinates the provision of services (including setting and utilisation of credit limits) for, and develops relationships with financial institutions, which are Alfa Bank's clients, and focuses on increasing the effectiveness of cooperation and cross-sales to financial institutions.

Major Subsidiaries

ATB

ATB was incorporated in October 1994 in Amsterdam, the Netherlands, and holds a full banking licence from the Dutch Central Bank (De Nederlandsche Bank N.V.). In March 2001, the Alfa Banking Group acquired a 100 per cent. interest in ATB. On 22 October 2015, ATB issued new shares which were acquired by ATB Holdings S.A., a company whose share capital is indirectly held by the shareholders of the Alfa Banking Group, for a total consideration of EUR20 million. The new shares were issued by ATB to increase its share capital. As a result of this share issuance by ATB, the Alfa Banking Group's shareholding in ATB has been reduced to 90.1 per cent. from 100 per cent. held prior to the share issuance. In December 2015, the Alfa Banking Group increased its shareholding in ATB to 92.2 per cent. and the shareholding of ATB Holdings S.A. then amounted to 7.8 per cent. In April 2016, ATB increased its share capital by receiving a EUR50 million subordinated loan from ABH Holdings and converting an existing EUR55 million subordinated loan owed to the Alfa Banking Group into newly issued shares. In June 2016, ATB further increased its share capital by converting a U.S.$35 million subordinated loan owed to the Alfa Banking Group into newly issued shares. In December 2016, ATB issued new shares which were acquired by ATB Holdings S.A. for a total consideration of Euro 20 million. In December 2017, ATB issued new shares which were acquired by ATB ESPP B.V. In December 2019 ATB's share capital was increased by 5 million Euro by an additional issue of shares. The Alfa Banking Group is planning to increase ATB's share capital by converting an outstanding subordinated loan. The conversion will be conducted following the receipt of all necessary consents from the Dutch authorities. As the result of these transactions as at the date of this Base Prospectus the share capital of the ATB amounts to 116.4 million Euro and the Alfa Banking Group's shareholding in ATB amounts to 72.70 per cent., while the remaining stake is held by ATB Holdings S.A., ABH Holdings S.A. and ATB ESPP B.V. in the amount of 10.39 per cent. of shares, 7.49 per cent. of shares and 9.42 per cent. of shares, respectively. ATB focuses on the entire spectrum of international commodity finance (grain, metals and energy) as well as shipping and asset based financing. ATB serves a wide spectrum of customers active in all aspects of international trade (commodity traders, ship owners or companies otherwise involved in the global logistics chain). ATB is the main correspondent bank of Alfa Bank for Euro-denominated clearing services. In June 2017, ABH Holdings contributed 15 million Euro to the share capital of ATB.

During 2015, ATB recorded significant additional credit loss allowance which (1) impacted the ability of ATB to temporarily comply with certain regulatory capital ratio requirements and (2) led to the Dutch banking regulator in March 2016 to require ATB to maintain its regulatory capital ratio at a level higher than the previously required minimum. During 2016 the Alfa Banking Group implemented certain measures including the increase of ATB's capitalisation, disposal of some of ATB's loan exposures and other measures aimed at providing capital support to ATB. Following the implementation of such measures in 2016, ATB was in compliance with all regulatory requirements as at 31 December 2019 and the date of this Base Prospectus.

As at the date of this Base Prospectus, ATB is being examined by the Fiscal Information and Investigation Service of the Netherlands for possible breaches of the Money Laundering and Financing of Terrorism (Prevention) Act by ATB. As at the date of this Base Prospectus, there are no indications that this may cause ATB to cease being a going concern. It is unclear which consequences the examination may have. Possible

punitive measures may include a fine, which is expected to be not material for the Alfa Banking Group.

Alfa Capital Cyprus

Alfa Capital Cyprus was incorporated in Cyprus on 23 April 1996. As at the date of this Base Prospectus, ABH Financial owns a 100 per cent. stake as at the date of this Base Prospectus.

Alfa Capital Cyprus's principal activities are transactions in Russian equity and debt securities and investments, the investment of surplus cash into bonds, deposits, loans and other financial instruments, and the provision of financial services to members of the Alfa Banking Group. Alfa Capital Cyprus is licenced by the CySEC to engage principally in brokerage activities and proprietary trading. The licence entitles Alfa Capital Cyprus to operate both locally and outside Cyprus.

The Alfa Banking Group's management has decided to curtail the number of foreign currency exchange services offered to Russian retail clients via Alfa Capital Holdings Limited. Such services are primarily offered through Limited liability company "Alfa-Forex", a Russian subsidiary of the Alfa Banking Group that received the applicable CBR licenses in December 2018.

Historical Relationship with Alfa Bank Ukraine and the ABH Ukraine Group

The Alfa Banking Group previously operated a Ukrainian subsidiary Alfa Bank Ukraine together with its local branches. In August 2006, the Alfa Banking Group disposed of a 51.0 per cent. interest in Alfa Bank Ukraine to ABH Ukraine Limited (a company controlled by ABH Holdings). The Alfa Banking Group's remaining holdings in Alfa Bank Ukraine were further diluted to 16.2 per cent. after Alfa Bank Ukraine closed an offering of capital shares on 3 November 2006, and by 31 January 2007, the holding had been fully divested.

In 2010 and 2011, Alfa Bank acquired for cash consideration of U.S.$116 million newly issued shares, comprising 19.9 per cent. of the outstanding shares of Alfa Bank Ukraine, a subsidiary of the ABH Ukraine Group, and the Alfa Banking Group simultaneously entered into a sale and purchase agreement with ABH Ukraine Limited, parent of the ABH Ukraine Group, whereby (i) the Alfa Banking Group agreed to transfer immediately to ABH Ukraine Limited all voting rights, rights for representation in governance bodies of Alfa Bank Ukraine and rights for future distributions arising from the shares, (ii) the Alfa Banking Group agreed not to transfer the shares to any other party other than ABH Ukraine Limited and (iii) the Alfa Banking Group and ABH Ukraine agreed to execute transfer of the shares from the Alfa Banking Group to ABH Ukraine Limited at any date indicated by the Alfa Banking Group or by ABH Ukraine Limited but in any case before 31 December 2014 and in exchange for payment by ABH Ukraine Limited of U.S.$116 million. The performance of ABH Ukraine Limited under the above contract was guaranteed by ABH Holdings. The Alfa Banking Group concluded that as a result of above transactions the Alfa Banking Group purchased and immediately sold the shares in the ABH Ukraine Group. On 31 March 2014, Alfa Bank transferred to the ABH Ukraine Group legal title to shares representing a 19.9 per cent. interest in Alfa Bank Ukraine which were sold by the Alfa Banking Group in 2010 and 2011.

The Alfa Banking Group previously cooperated with Alfa Bank Ukraine by extending loans to certain of Alfa Bank Ukraine's clients, in amounts that were too large for Alfa Bank Ukraine to undertake independently. In July 2010, the Alfa Banking Group decided to transfer to Alfa Bank Ukraine loans it had advanced to Alfa Bank Ukraine's clients and no longer extends loans directly to Alfa Bank Ukraine's clients. See "*Related Party Transactions*" for further discussion of the Alfa Banking Group's dealings with Alfa Bank Ukraine. On 31 December 2013, the Alfa Banking Group in exchange for U.S.$132 million agreed (a) to transfer without any deduction and without any delay to ABH Holdings any amount due from the ABH Ukraine Group in relation to a subordinated loan of U.S.$132 million as at 31 December 2013 outstanding from the ABH Ukraine Group to the Alfa Banking Group and (b) not to sell or pledge the subordinated loan. The Alfa Banking Group recorded this transaction as disposal of this subordinated loan in exchange for the consideration receivable. As at 31 December 2019, the Alfa Banking Group's on-balance sheet exposure to the ABH Ukraine Group was insignificant.

Historical Relationship with Alfa Bank Kazakhstan

On 29 June 2009, the Alfa Banking Group signed a call option agreement with ABH Holdings, whereby in exchange for an option premium of U.S.$63 million ABH Holdings received a right to acquire for a fixed consideration, and at any time until 31 December 2019, shares representing a 100 per cent. interest in JSC SB Alfa Bank Kazakhstan ("**Alfa Bank Kazakhstan**"). On 20 October 2009, all rights and obligations under the call option were assigned to ABH Kazakhstan Limited ("**ABH Kazakhstan**"). In accordance with the call option agreement, (i) the Alfa Banking Group is required to ensure that during the option period ABH Kazakhstan has a majority in the Board of Directors of Alfa Bank Kazakhstan and (ii) any income received by the Alfa Banking Group from Alfa Bank Kazakhstan after 29 June 2009 is to be transferred to ABH Kazakhstan following the exercise of the option. On 31 December 2009, the call option agreement was supplemented to provide that any

income received by the Alfa Banking Group from Alfa Bank Kazakhstan be transferred to ABH Kazakhstan within 30 days of receipt of such amounts even if this occurred before the exercise of the option. The call option agreement, as supplemented, effectively transferred to ABH Kazakhstan all potential voting rights and economic benefits relating to Alfa Bank Kazakhstan. The call option was prolonged till 31 December 2024. The Alfa Banking Group accounted for this transaction as a disposal of its interest in Alfa Bank Kazakhstan.

In February 2012 and October 2012, Alfa Bank Kazakhstan issued additional shares, comprising 70.4 per cent. and 38.3 per cent. of shares of Alfa Bank Kazakhstan at the date of issue, which were acquired by the Alfa Banking Group. Simultaneously with the acquisition of these shares, the Alfa Banking Group signed call option agreements with respect to the newly-issued shares with ABH Kazakhstan, whereby in exchange for an option premium totalling U.S.$30 million, ABH Kazakhstan received a right to acquire for fixed consideration, and at any time until 31 December 2024, these newly issued shares in Alfa Bank Kazakhstan.

Historical Relationship with Alfa Bank Belarus

The Alfa Banking Group legally owns shares in Alfa Bank Belarus, comprising a 30.7733 per cent. stake in Alfa Bank Belarus. The Alfa Banking Group initially acquired a 19.3 per cent. stake in Alfa Bank Belarus in 2012. Following the legal accession of CJSC "Alfa Bank Finance" to Alfa Bank Belarus in 2013, the Alfa Banking Group's shareholding in Alfa Bank Belarus decreased to 11.8 per cent. In December 2014, the Alfa Banking Group's stake in Alfa Bank Belarus was increased to 55.1 per cent. as a result of an additional share issuance conducted by Alfa Bank Belarus. In December 2017, Alfa Bank Belarus issued new shares which were acquired by ABH Belarus Limited, as a result of this transaction, the Alfa Banking Group shareholding in Alfa Bank Belarus has been reduced to 35.90 per cent. In October 2018 ABH Belarus acquired new shares in Alfa Bank Belarus as result of a legal accession of OJSC "Non-banking credit and financial organization Home Credit" to Alfa Bank Belarus. As a result of this transaction, the Alfa Banking Group shareholding in Alfa Bank Belarus has been reduced to 30.7733 per cent. The rights and economic benefits in relation to the Alfa Banking Group's stake in Alfa Bank Belarus have been contractually transferred to ABH Belarus Limited and are therefore not recorded in the financial statements of the Alfa Banking Group.

Competition in the Russian Banking Market

The Alfa Banking Group faces significant competition in Russia and other markets where it operates. The Alfa Banking Group's major competitors include:

- *Corporate banking*: Sberbank, VTB, Gazprombank, Otkritie Bank, Raiffeisen Bank, Tinkoff Bank, Modulbank, Uralsib, UniCredit Bank, Promsvyazbank and Rosbank, as well as a number of other national and regional banks and certain western banks.
- *Retail banking*: Sberbank, VTB, Raiffeisenbank, Citibank, Russian Standard Bank, Home Credit and Finance Bank, Russian Agricultural Bank, OTP Bank (Russia), Tinkoff Bank, Otkritie Bank and Sovkombank.
- *Investment banking*: Sberbank CIB, Gazprombank, VTB Capital and a number of foreign investment banks.

IT Infrastructure

The Alfa Banking Group places a great emphasis on having a reliable and secure IT system to support its growth and continues to implement a number of IT projects to support and increase the efficiency of its banking operations. As at 31 December 2019 and 31 December 2018, the Alfa Banking Group had capital commitments related to the purchase and installation of new computer systems in the amount of approximately U.S.$44 million and U.S.$49 million, respectively. See "*Strategy – Shift to a New Technological Level*".

Credit Risk Management Programme

In 2006, Alfa Banking Group launched its Enterprise Credit Risk programme, implementing a wide range of management processes and systems to support all of its business lines. Aspects of this programme included:

- implementation of Fair Isaac's Strategy Manager and Debt Manager software systems;
- implementation of Experian's Hunter system (anti-fraud);
- implementation of Experian's Scoring system (Strategy Manager);
- implementation of Experian's Behaviour Score system; and

- integration of the Alfa Banking Group's systems with some national credit bureaus including Experian Interfax and the National Bureau of Credit Histories.

In 2015, implementation of a software system for transparency of risk management in accordance with Basel II and Basel III was completed.

Computer Centre

In the first quarter of 2012, the Alfa Banking Group introduced a new data centre in Moscow. This was designed to increase the volume of information that could be stored and processed through the Alfa Banking Group's IT systems, to improve the efficiency of the work of the Alfa Banking Group's employees, to digitise a number of processes that were previously conducted manually and to improve the services offered to clients. Increasing storage area for the Alfa Banking Group's servers was a key goal of the project and the Alfa Banking Group intends the data centre to support its server storage requirements for the coming years. The production of the central banking system Equation was increased by installation of an additional processor. In 2018, the prospective IBM Power 8 platform for the central banking system, which enables further business growth, was put into operation. Moreover, in 2019 the Alfa Banking Group implemented a new project aimed at increase in productivity of the central bank system. As a result of the implementation the storage capacity of the central banking system increased by 200 per cent. and new Power 9 platform, which enables further business growth of Alfa Banking Group in the medium term, was put into service. In addition, Alfa Bank's information systems were upgraded in accordance with requirements of IFRS 9.

Alfa-Client Online

Alfa-Client Online is a standardised product and service sales and delivery platform across the Russian Federation providing corporate clients with online e-banking and other remote services and centralised paying processes. Alfa Business Online, a new version of Alfa-Client Online, was introduced in April 2012, when a number of Moscow-based clients were connected to the new version, which provides access to a broader spectrum of products and services than the original Alfa-Client Online. The Alfa Banking Group is currently considering its strategy for developing the remote banking platform for its corporate clients. As at 31 December 2019, Alfa-Client Online was used by 19,654 of the Alfa Banking Group's corporate clients and Alfa Business Online was used by 1,173,834 of the Alfa Banking Group's corporate clients.

Business Continuity and Disaster Recovery

Alfa Banking Group continues to make considerable investments in disaster recovery infrastructure in order to ensure continuity of its operations in the event of any technological system failure. The IT and business departments have developed business continuity plans, which are detailed action plans to ensure the execution of critical processes and operations in case of IT systems failure. The Alfa Banking Group's key systems and data are independently kept in two data centres and are also stored through an external specialist service provider. The data centres and key offices of the Alfa Banking Group are connected to backup power systems for use in emergencies and the Alfa Banking Group has an agreement with an energy company for the supply of power in the event of any medium or long-term power cuts. A new data conservation project called PAC AVAYA launched in 2013 helps to minimise risks of cessation of work of Alfa Bank call centre and its soft collection system.

Retail Business Information Technologies

The Alfa Banking Group has a strong focus on further expansion of remote services for retail clients and on becoming the leader in the Russian market not only in e-banking services, but in the entire area of Internet payments.

The Alfa Banking Group has a CRM system, which includes operations, analysis, tailored customer service and sales elements and enables the optimisation of secondary sales processes. The CRM system is aimed at improving client loyalty on the basis of an individual approach, providing the retail business with new opportunities to manage sales and develop secondary sales.

All Alfa Bank clients can access an updated Internet version of Alfa-Click Internet platform, which has a new design and functions. The screen and navigation menu, as well as the introduction of selectable applications, aim to provide to the client a user-friendly, clear and informative functionality and improve their transactional operations. The Alfa-Mobile mobile application was also developed on the basis of iOS (iPhone/iPad) and Android platforms. Alfa Bank pays attention to the quality and speed of providing services and information to its clients and is planning to replace retail lending processes and implement CRM to automatise processes of acquisition of salary-based clients.

The payroll service of the Alfa Banking Group operates on AZON system that enables the creation of platforms for the implementation of new payroll products and a platform for self-service payroll projects. For the purposes of client protection and to reduce the risk of fraud arising from the use of various remote service channels (such as Alfa-Click and Alfa-Mobile) the Alfa Banking Group implemented an anti-fraud Intellinx system. This system automatically blocks unauthorised on-line transactions and suspicious operations and transfers them to an operator. In 2013, the Alfa Banking Group completed the implementation of the new Opics 3.1 platform that provides support for the increase in the number of transactions executed by the Corporate and Investment Department and switched to modern versions of ancillary software.

In the first half of 2016, the Alfa Banking Group successfully completed the instalment of software allowing its ATMs to process card payments made via the National Payment Card System. In the first half of 2016, the Alfa Banking Group introduced a multi-purpose protocol to integrate Alfa-Click and Alfa-Mobile with various services providers, including payment systems used by its retail clients.

In 2018, a biometric data collection system was launched in the pilot offices of the Alfa Banking Group. Functionality of the system involves the collection of a biometric profile (face and voice) and its transfer to a Unified Biometric System. The system is a key element of the remote identification mechanism, which will allow customers to receive financial services without visiting the bank.

In the remote channels of work with clients, the functionality for working with investment tools has been implemented. This expands the ability of customers to manage their funds.

To improve services provided to multinational clients (MNC), holders of corporate cards, Alfa Bank implemented a new project "Integration with SmartData by MasterCard". Such clients now have access to SmartData – a personal platform for management of financial information relating to card transactions.

Alfa Bank also introduced services of online registration of sole proprietors making this process easier for its clients.

Obligations to the European regulators (MiFID Programme)

The Alfa Banking Group has implemented its MiFID Programme which allows all information systems of the Alfa Banking Group's European operations to meet the requirements of local regulators (for example, CySEC and the UK Financial Conduct Authority).

Tax and anti-money laundering reporting programmes

The Alfa Banking Group developed a "Tax Reporting" programme which is an end-to-end solution for the calculation of taxes and preparation of tax reports for the Russian Federal Tax Service. This programme is used for the calculation of taxes with respect to all operations of the Alfa Banking Group with securities and loans. In addition, the Alfa Banking Group recently launched a system based on Actimize-AML platform that automatises responses to requests from the Russian anti-money laundering state agency (Rosfinmonitoring) and allows the automatic exchange of documentation with Rosfinmonitoring via the channels of the CBR.

Credit rating system

The Alfa Banking Group has developed and implemented a credit rating system which prepares qualitative analysis of a corporate borrower's financial condition, a credit risk assessment of a borrower and monitors such borrower's financial performance.

Transaction Processing System

In order to improve management of its derivatives business, the Alfa Banking Group introduced an IT system for processing credit default swaps. This assisted the Alfa Banking Group with its risk management and was introduced in line with the CBR Regulation 372-P "On Procedures for Conducting the Bookkeeping Derivative Financial Instruments" dated 9 July 2011, which introduced stricter requirements for the keeping of manual records by Russian banks of certain activities.

Human Resources Management

The Alfa Banking Group launched the SAP Human Capital Management (HCM) in 2013. This system allows to automatise business processes relating to human resources management.

Employees

As at 31 December 2019, the Alfa Banking Group had 26,359 employees compared to 27,359 as at 31 December 2018. As at 31 December 2019, 10,553 employees were located in Moscow, 15,516 employees were located

elsewhere in the Russian Federation and 190 were located outside of the Russian Federation. As at 31 December 2018, 10,564 employees were located in Moscow, 16,595 employees were located elsewhere in the Russian Federation and 200 were located outside of the Russian Federation. Staff costs accounted for 56.4 per cent. of the Alfa Banking Group's operating expenses in 2019 and 58.2 per cent. in 2018. The Russian market for qualified financial institution personnel, especially for junior and middle management, is highly competitive and the level of turnover of junior bank employees is high, in particular, in the retail banking business. See "*Risk Factors—Risks Relating to the Alfa Banking Group's Business and Industry—The Alfa Banking Group may be unable to recruit or retain experienced and/or qualified personnel*". The Alfa Banking Group cooperates with a number of leading Russian universities to attract top tier graduates to ensure the Alfa Banking Group's competitiveness in the future and provides competitive compensation.

The Alfa Banking Group sets its compensation level by reference to independent industry guides to ensure that its compensation packages are competitive. The Alfa Banking Group offers financial incentives and longer term goals to minimise staff turnover and to encourage its staff to be results-driven. These include sales incentive programmes (primarily for retail unit employees) and annual performance bonuses based on achievement in relation to key performance indicators. Long-term incentive programmes include long-term contracts, bonuses and "shadow" stock option packages for key employees. The compensation and benefits department closely monitors the regional labour markets and develops financial incentives, based upon international best practices, which measure both short- and long-term performance in order to maintain a competitive level of employee compensation.

Property

With the exception of several buildings and premises in central Moscow as well as certain properties in other regions of Russia, the Alfa Banking Group leases its corporate headquarters as well as substantially all of the space of its existing branch locations mostly on short-term leases in order to assist it to maintain flexibility. See "*—Retail Banking — Alfa Bank retail branches*". The Alfa Banking Group expects that most of its future branch locations will also occupy leased properties. See also "*Operating and Financial Review of the Alfa Banking Group—Contingencies, Commitments and Derivative Financial Instruments—Operating Lease Commitments*".

Litigation

The Alfa Banking Group is from time to time the subject of legal proceedings and other investigations in the ordinary course of its business (see "Operating and Financial Review of the Alfa Banking Group—Legal Proceedings"). As at the date of this Base Prospectus, the Alfa Banking Group is not involved in any governmental, legal or arbitration proceedings, which might have a material adverse effect on its business, financial condition and results of operations.

MANAGEMENT

ABH Financial

General Meeting of Shareholders of ABH Financial

Pursuant to Cypriot law and the memorandum and articles of association of ABH Financial, certain decisions with respect to ABH Financial are decided by the general meeting of the shareholders of ABH Financial. The main powers of the general meeting of the shareholders of ABH Financial include, but are not limited to, the power:

- to remove members of the Board of Directors;
- to declare dividends on shares;
- to review copies of balance sheets and the reports of the Board of Directors and Auditor reports;
- to adopt amendments to the articles of associations and proposals to dissolve or liquidate ABH Financial;
- to capitalise any part of profits to reserve accounts;
- to increase share capital; and
- to redeem or cancel outstanding shares.

Board of Directors of ABH Financial

The business of ABH Financial is managed by the directors acting collectively as the Board of Directors of ABH Financial in accordance to the provisions of the Articles of Association of ABH Financial.

The Board of Directors of ABH Financial may pass resolutions to authorize one or more Directors of ABH Financial to exercise all the powers of ABH Financial to incur debt, guarantee, secure or mortgage its assets and issue debt instruments, debenture stock and other securities and generally to undertake any business activity within the objects clause of its Memorandum of Association and which is not by law required to be resolved upon by the shareholders in General Meeting. In addition, the Board of Directors may create various governing committees from time to time and appoint officers and agents of ABH Financial and may also convene general meetings of shareholders. The Managing Director of ABH Financial, Andriy Glavatskyy, is entitled to individually represent ABH Financial.

The following table sets out the members of the Board of Directors of ABH Financial as at the date of this Base Prospectus.

Name	Position
Pavel Nazarian.....	Member of the Board of Directors of ABH Financial, Director
Andriy Glavatskyy.....	Member of the Board of Directors of ABH Financial, Director, Managing Director
Marios Clerides.....	Member of the Board of Directors of ABH Financial, Director
Despina Saphiris	Member of the Board of Directors of ABH Financial, Director
Tatiana Alekseeva.....	Member of the Board of Directors of ABH Financial, Director

The business address of Mr. Marios Clerides is Klimentos 28, 1061 Nicosia, Cyprus. The business address of Mr. Andriy Glavatskyy Pharou 18, Nirvana Seaside Gardens, Pervolia, 7560 Larnaka, Cyprus. The business address of Ms. Despina Saphiris is Tripoleow 11, Flat/office 31, Strovolos, 2023 Nicosia, Cyprus. The business address of Mr. Pavel Nazarian is flat 6, 30 Bolshoi Afanasievki pereulok, Moscow, Russia. The business address of Ms. Tatiana Alekseeva is Skakovaya Street 15, Building 2, Flat/office 174, Moscow, Russia. Abacus Secretarial Limited has been a secretary of ABH Financial since 4 April 2011.

A brief biographical description of the members of Board of Directors of ABH Financial is set out below.

Pavel Nazarian

Pavel Nazarian currently serves as Secretary of the Board and Managing Director of ABH Holdings S.A., an international banking group operating in the Russian Federation, the Netherlands, the United Kingdom, Ukraine, Kazakhstan, Cyprus, and Belarus. On 11 March 2015, Pavel was elected a board member of ABH Financial

Limited. He is also the Chairman of Alfa Capital Holdings (Cyprus) and Alfa Asset Management (Europe). Between 1999 and 2002, he served as CFO of Alfa Bank Holdings Ltd., the ultimate holding company of the Alfa Banking Group. Pavel received his Master of Engineering from the Bauman Moscow State Technical University and Master of Economics with Honors from the Moscow International Marketing and Management Academy. He is a graduate of Senior Executive and Mergers & Acquisitions executive programs at London Business School. He also completed Corporate Restructuring, Financial Instruments & Markets, and Valuation programs at Harvard Business School, and graduated from the Strategic Management in Banking and Leading from the Chair executive programs at INSEAD.

Andriy Glavatskyy

Born in 1977 in Ukraine, Andriy Glavatskyy is a graduate of the National State University of Economics, Kiev, Ukraine. Mr. Glavatskyy joined the Alfa Banking Group in 2000. Before joining the Alfa Banking Group, he worked for several years in the banking industry in Kiev, Ukraine, specialising in equities trading and operations. Mr. Andriy Glavatskyy has been a member of the Board of Directors of ABH Financial since 4 April 2011, where he supervises the day-to-day activities of the Company. He is also a Non-Executive Director at Alfa Capital Holdings (Cyprus) and its UK branch.

Marios Clerides

Marios Clerides was educated at the London School of Economics (BSc, MSc, PhD). Joined Hellenic Bank in 1982 as Head of Planning & Research. Thereafter, he assumed additional responsibility for Cards & Retail Services, Investment banking, and Treasury and International Banking. In 2001 Marios became Chairman of the Cyprus Capital Markets Commission on a five-year contract. He then returned to Hellenic Bank in 2006 to become Group Risk Officer and Deputy CEO. In 2013 took the Job of the CEO of the Coop Bank; resigned in September 2015. He is currently a member of the National Council of Economic Advisors, chairperson of the Cyprus Economic Society and member of the Council of the Centre of Economic Research of University of Cyprus. He is also teaching Cyprus Banking System and Cyprus Money & Capital Markets to M.Sc. & MBA students at the University of Cyprus. Mr. Clerides has been a member of the Board of Directors of ABH Financial since 3 November 2015.

Despina Saphiris

After graduating from the Warwick Business School, Despina had qualified as an ACA with KPMG Cyprus and became a member of the ICAEW in 2007. Her experience in KPMG included the leading of the statutory audit of a number of listed and public interest entities, both in Cyprus and overseas, as well as the review and submission of the entities' tax information with the Cyprus Tax Authorities. In 2009, she moved to Abacus Ltd acting as the manager of the portfolios of high net worth individuals and other smaller groups. In 2011, Ms. Saphiris joined the Internal Audit Department of the Cyprus Cooperative Bank, whereby she was involved in the compilation of the Internal Audit Manual of the Cooperative Sector, in forensic auditing projects as well as in onsite monitoring and audit of the Internal Control System. In 2016, Ms. Saphiris became the Head of Performance Measurement and Monitoring of banking activities of the sector, monitoring the performance, establishing strategies, and creating relevant tools. Ms. Saphiris was appointed to the Board of ABH Financial Limited on 23 March 2017.

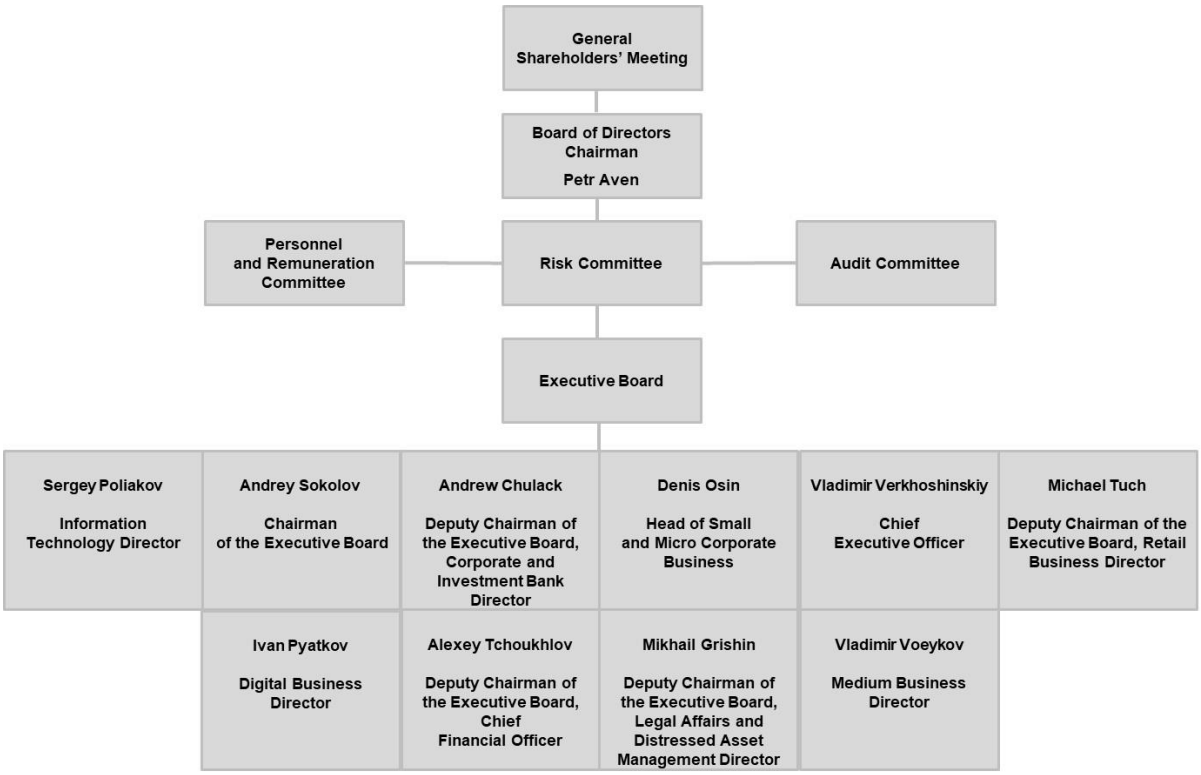
Tatiana Alekseeva

Born in 1975, Tatiana Alekseeva graduated from Don State Academy of Service, qualified as an economist with major in accounting and audit, in 1997. Ms. Alekseeva joined Alfa Bank in 2006 as a lead economist, where she was gradually promoted and became the Head of IFRS reporting in the end of 2011. Before joining Alfa Bank, she worked for several years in the banking industry in Moscow and other cities of Russia.

In September 2003 Ms. Alekseeva was qualified by Certificate of competence in banking audit. Since 2004, after qualification by Diploma in International Financial Reporting Standards, Tatiana Alekseeva has specialized in IFRS reporting in banking sector. Ms. Tatiana Alekseeva serves as a member of the Board of Directors of ABH Financial since May 2018.

Alfa Bank

In line with other Russian banks, Alfa Bank is managed through a multi-tier system of governing bodies comprising the General Shareholders' Meeting, the Board of Directors, the Executive Board and the Chairman of the Executive Board. The following chart shows Alfa Bank's organisational structure as at the date of this Base Prospectus:



The General Shareholders' Meeting is the highest governing body of Alfa Bank. The shareholders elect the Board of Directors at the General Shareholders' Meeting, which is responsible for the general management of Alfa Bank, including coordination of its overall strategy and general supervision. The Board of Directors elects members of the Executive Board, which is the collective executive body of Alfa Bank, and the Chairman of the Executive Board, who oversees the Executive Board. Day-to-day activities of Alfa Bank are overseen by the Chairman of the Executive Board and the Executive Board. Certain powers are delegated by the Chairman of the Executive Board to his deputies, members of the Executive Board, department heads and various committees. A brief description of each of the General Shareholders' Meeting, the Board of Directors, the Executive Board and the Chairman of the Executive Board is set out below.

General Shareholders' Meeting

The shareholders of Alfa Bank, through actions taken at the General Shareholders' Meeting, are the highest governing body of Alfa Bank. The powers of the shareholders at the General Shareholders' Meeting are set forth in the Joint-Stock Companies Law, Alfa Bank's charter and Alfa Bank's internal Regulations of the General Shareholders' Meeting. General Shareholders' Meetings are convened at least once a year pursuant to the Joint-Stock Companies Law, Alfa Bank's charter and internal Regulations of the General Shareholders' Meeting. Within the competence of the General Shareholders' Meeting are corporate actions such as the following:

- amendments to Alfa Bank's charter (unless otherwise is provided by law);
- reorganisation or liquidation of Alfa Bank, appointment of a commission to liquidate Alfa Bank and approval of preliminary and final liquidation balances;
- determination of the number of members of the Board of Directors, election and removal of members of the Board of Directors;
- determination of the number, the nominal value and the class/type of authorised shares and the rights granted by such shares;
- changes in Alfa Bank's share capital;
- approval of Alfa Bank's external auditor;
- decision on declaration (payment) of dividends;

- approval of Alfa Bank's annual reports and financial statements;
- determination of the procedures of General Shareholders' Meeting;
- approval of major transactions;
- distribution of profits;
- splits or consolidation of Alfa Bank's shares;
- redemption by Alfa Bank of issued shares in circumstances contemplated by Russian legislation;
- approval of certain internal documents of Alfa Bank's governing bodies;
- approval of filing applications for the delisting of shares of Alfa Bank and/or other convertible securities;
- approval of Alfa-Bank's participation in holding companies, financial and industrial groups, associations and other groups of commercial organisations; and
- other items in accordance with law.

Corporate decisions proposed at the General Shareholders' Meeting generally are adopted by a simple majority of shareholders holding voting shares present at the meeting (subject to a minimum quorum requirement of the presence of shareholders holding at least 50 per cent. plus one share of the placed voting shares of Alfa Bank). However, pursuant to the Joint-Stock Companies Law, the following decisions must be approved by a three-quarters majority vote of the voting shares present at the General Shareholders' Meeting of Alfa Bank:

- amendments to Alfa Bank's charter;
- reorganisation or liquidation of Alfa Bank, appointment of a commission to liquidate Alfa Bank and approval of preliminary and final liquidation balances;
- major transactions involving assets in excess of 50 per cent. of the balance sheet value of the assets of Alfa Bank;
- determination of the number, the nominal value and the class/type of authorised shares and the rights granted by such shares;
- redemption by Alfa Bank of its issued shares;
- any issuance of shares or securities convertible into ordinary shares by closed subscription;
- approval of filing applications for the delisting of shares of Alfa Bank and/or other convertible securities; and
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case constituting more than 25 per cent. of the number of issued ordinary shares.

The annual General Shareholders' Meeting must be convened by the Board of Directors between 1 March and 30 June of each year, and its agenda must include the following items:

- determination of the number of and the election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements;
- approval of the distribution of profits, including approval of annual dividends, if any; and
- approval of an external auditor.

Board of Directors

The Board of Directors is responsible for matters of general management, with the exception of those matters that are within the exclusive authority of the General Shareholders' Meeting. The activities of the Board of Directors are carried out in accordance with Alfa Bank's charter, Alfa Bank's internal Regulations of the Board of Directors and applicable law. The Board of Directors meets as often as necessary and exercises exclusive authority over certain matters. Such matters include, for example:

- determination of Alfa Bank's business priorities, approval of the Alfa Bank's development strategy;
- convening of annual and extraordinary General Shareholders' Meetings;

- approval of the agenda of a General Shareholders' Meeting, determination of the record date for shareholders entitled to participate in a shareholders' meeting and other issues in connection with, preparation for and holding of General Shareholders' Meetings;
- determination of the price (pecuniary estimate) of Alfa Bank's property, offering price or its determination mechanics and the price of securities to be repurchased in cases where it is provided for in the Joint-Stock Companies Law;
- placement of Alfa's Bank bonds or other securities, except for shares, bonds and other securities convertible into shares;
- repurchase of Alfa Bank's shares, bonds and other securities in certain circumstances provided for by the Joint-Stock Companies Law;
- formation of the Executive Board, election and removal of the Chairman of the Executive Board, deputies of the Chairman of the Executive Board and members of the Executive Board;
- recommendations on the fees payable for the services of an external auditor;
- approval of the results of issuance of shares;
- recommendations on the amount of dividends on shares and the payment procedure therefor;
- the use of Alfa Bank's reserve fund and other funds;
- approval of Alfa Bank's internal documents, except for those documents the approval of which fall within the competence of its shareholders or other governing bodies;
- the establishment of branches and representative offices and their liquidation;
- approval of major transactions in the circumstances contemplated by the Joint-Stock Companies Law;
- establishment of internal control system;
- approval of the Alfa Bank's risk/capital management strategy, including ensuring equity/capital/liquidity sufficiency to cover risks for the Alfa Bank as a whole and separate lines of its business, and approval of the procedure of management of the risks most important for the Alfa Bank and control over implementation of such procedure;
- approval of the Alfa Bank's human resources policy;
- approval of certain credit facilities to connected persons that exceed established limits;
- determination of the committees of the Board of Directors and approval of relevant regulations, election and removal of the Chairman of the Board of Directors' committees and members of the Board of Directors' committees;
- appointment of Alfa Bank's share registrar, approval of the terms of the agreement with the registrar and termination of the agreement with the registrar; and
- other items in accordance with law.

According to the Joint-Stock Companies Law, the election of the Board of Directors at the General Shareholders' Meeting must be conducted through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of members of Alfa Bank's Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote at a General Shareholders' Meeting.

According to the Joint-Stock Companies Law, members of the Executive Board may not comprise more than a quarter of the members of the Board of Directors.

Alfa Bank's charter provides that its Board of Directors should consist of not less than five members. As at the date of this Base Prospectus, there are ten members of Alfa Bank's Board of Directors.

The name, position and certain other information for each current member of the Board of Directors of Alfa Bank are set forth below.

The Board of Directors of Alfa Bank consists of:

Name	Position
Petr Aven.....	Chairman of the Board of Directors of Alfa Bank
Oleg Sysuev	First Deputy Chairman of the Board of Directors of Alfa Bank
Vladimir Verkhoshinskiy	Member of the Board of Directors of Alfa Bank, First Deputy Chairman of the Executive Board, Member of the Executive Board, Chief Executive Officer
Artem Leontev	Member of the Board of Directors of Alfa Bank
Mikhail Fridman.....	Member of the Board of Directors of Alfa Bank
Andrey Kosogov	Member of the Board of Directors of Alfa Bank
Alexey Marey.....	Member of the Board of Directors of Alfa Bank
Andrew Baxter	Member of the Board of Directors of Alfa Bank
Oscar Hartmann	Member of the Board of Directors of Alfa Bank
Marat Atnashev	Member of the Board of Directors of Alfa Bank

The business address of Messrs. Fridman, Sysuev Verkhoshinskiy, Baxter, Marey, Kosogov and Aven is 27 Kalanchevskaya Street, 107078, Moscow, Russia. The business address of Mr. Hartmann is 1 Mihaylovskiy proezd, bld. 1, 109029, Moscow, Russia. The business address of Mr. Leontev is 97 Vavilova street, 117335, Moscow, Russia. The business address of Mr. Atnashev is 11 Bolshoy Savvinskiy per., 119435, Moscow, Russia.

A brief biographical description of the members of Alfa Bank's Board of Directors is set out below.

Mr. Petr Aven

Born in 1955 in Moscow, Petr Aven received a Ph.D. in Economics in 1980 from Moscow State University. Mr. Aven served as President of Alfa Bank from 1994 until 2011, and as such was responsible for Alfa Bank's overall strategy and for relations with business and government leaders in Russia and abroad. He is the Chairman of the board of directors of ABH Holdings and the Chairman of the Board of Directors of Alfa Bank. Prior to joining Alfa Bank, Mr. Aven was Minister of Foreign Economic Relations for the Russian Federation between in 1991 and 1992 and served as Russia's representative to the G-7. An economist by training, Mr. Aven spent several years at the International Institute for Applied Systems Analysis in Laxenburg, Austria (1989-1991). In addition to his role at Alfa Bank, Mr. Aven is Chairman of the Board of Directors of AlfaStrakhovanie PLC and a member of the Supervisory Board of JSC Alfa Bank Ukraine. He is a member of the Board of the Russian Union of Industrialists and Entrepreneurs, member of the Presidium of the Russian International Affairs Council. He is also a Board member of the Russian Economic School and a trustee of the Centre for Economic Policy Research in Great Britain, a member of President's Council on International Activities of Yale University in USA. Mr. Aven is a member of the Board of Trustees of the Pushkin State Museum of Fine Arts and a trustee of the Royal Academy of Arts in Great Britain. From 2007 to 2017, Mr. Aven was the Chairman of the Russia-Latvia Business Council. He is a professor at the State University - Higher School of Economics and the author of numerous scientific papers and articles on Economic and Trade Issues. Mr. Aven often lectures on economic developments in Russia. He was awarded with the Russian Federation Order of Honour and is a holder of a number of international awards. Mr. Aven serves as a director of the Board of Directors of LetterOne Holdings S.A. since 25 October 2013 and the Board of Directors of Letterone Investment Holdings S.A. since 11 November 2015. In June 2019, All-Russian public organization "Russian Football Union" elected Mr. Petr Aven in the Board of Trustees as Member. Since 27 September 2019 Mr. Aven has also served as a director of the Board of Directors of LetterOne Core Investments S.a.r.l.

Mr. Vladimir Verkhoshinskiy

Born in 1981 in Yakutsk, Russia, Vladimir Verkhoshinskiy graduated with honors from the Financial Academy under the Government of the Russian Federation in 2003 with a degree in Finance and Credit and holds a Master of Business Administration and a Public Management Program degrees from Stanford University (USA). Mr. Verkhoshinskiy was appointed as Chief Executive Officer of Alfa Bank on 30 July 2018, was elected as a member of the Board of Directors of Alfa Bank on 18 September 2018 and was elected as First Deputy Chairman of the Executive Board, member of the Executive Board of Alfa Bank on 3 October 2018. Prior to joining Alfa Bank Mr. Verkhoshinskiy held various positions at VTB Group. Mr. Verkhoshinskiy also held various positions at Citibank (Moscow), VR Capital investment fund and McKinsey&Co. Since 21 November 2018 Mr. Verkhoshinskiy is also a member of the Supervisory Board of FinTech Association. In 9 January 2020 he also was elected as a director to the Board of directors of AlfaStrakhovanie PLC.

Mr. Oleg Sysuev

Born in 1953 in Kuybishev, Russia, Oleg Sysuev graduated from the Kuibyshev Aviation Institute (Samara) in

1976. Formerly, he worked as the First Deputy Head of the Administration of the President of the Russian Federation from 1998 to 1999, Vice-Premier of the Russian Government and Minister of Labour and Social Development from 1997 to 1998, and Mayor of Samara City from 1992 to 1997. Mr. Sysuev was appointed to Alfa Bank's Board of Directors in 1999. In addition to his role at Alfa Bank, Mr. Sysuev is a member of the Expert Council of the Government of the Russian Federation. Mr. Sysuev serves as a member of the board of directors of AlfaStrakhovanie PLC and Alfa-Bank Kazakhstan. Mr. Sysuev also serves as an Advisor of the main Executive Director of JSC Trading House Perekrestok since April 2016, which after the reorganization in 2019 is now X5 Corporate center LLC. Since July 2017, Mr. Sysuev also serves as a member of the board of directors of Management Company Rosvodokanal. Mr. Sysuev also serves as an advisor to the CEO of Management Company Rosvodokanal. Mr. Sysuev has published numerous articles on the structures of post-Soviet Russia. Mr. Sysuev is also a Chairman of the Board of the Charitable Foundation for Scholarship and Social and Charitable Programs "Alfa-Chance", a Chairman of the Board of the Charitable Foundation for saving seriously ill children "Life Line", a Chairman of the Board of Foundation for the promotion of entrepreneurship "SOZIDANIE".

Mr. Artem Leontev

Born in 1974 in Perm, Mr. Leontev graduated from Perm State University (Russia) with a degree in Accounting and Audit (1995), and with a degree in Law (1998). He received his BA (Hons) degree from Brighton University (UK) (1996), and holds an MBA Degree from Durham University (UK). Starting from 2011 and up to 2018, Mr. Leontev was employed by Basovy Element Group and held a position of Deputy CEO being responsible for HR, and prior to that he was Director of Corporate Governance and Internal Control within the same group. Between 2006 and 2008, Mr. Leontev worked in Audit Department of Deloitte & Touché CIS. Artem Leontev also held various financial and management positions in Russian, British, and Australian companies. Artem Leontev is a fellow of the Association of Chartered Certified Accountants. Mr. Leontev was elected to the Board of Directors of Alfa Bank in September 18, 2018. He served as Director of Asset Management at CTF Consultancy Limited till October 2019. He was a member of the Board of Directors of ABH Holdings till October 2019. Since September 2019 Mr. Leontev has served as a member of the Board of Directors of AlfaStrakhovanie PLC. From July 2018 till October 2019 Mr. Leontev was a member of the Board of Directors of Management Company Rosvodokanal. From October 2018 till November 2019 Mr. Leontev was also a member of the Supervisory Board of A1 Investment Holdings S.A.

Mr. Mikhail Fridman

Born in 1964 in Lvov, Ukraine, Mikhail Fridman graduated from Moscow University of Alloys and Steel in 1986 with an MS in Engineering. Mr. Fridman served as the Chairman of the Board of Directors of Alfa Bank from 1994 until Mr. Johann Jonach succeeded him in 2008. In addition to his role with Alfa Bank, Mr. Fridman also serves as a member of the Board of Directors of VEON Ltd. (former VimpelCom Ltd.), and member of the Supervisory Board of X5 Retail Group N.V. In November 2005, Mikhail Fridman was elected to Russia's Public Chamber, which comprises business and social leaders who have made significant contributions to Russia. It oversees official bodies and also reviews and advises on legislative initiatives undertaken by the Russian Government. Mr. Fridman serves as the member of the Board of Directors of LetterOne Holdings S.A. and the member of the Board of Directors of Letterone Investment Holdings S.A. and also as a member of the Board of Directors of ABH Holdings. Since October 2018 Mr. Fridman is also a member of the Supervisory Board of A1 Investment Holdings S.A. Since 27 September 2019 Mr. Fridman has also served as a member of the Board of Directors of Letterone Core Investments S.a.r.l.

Mr. Andrey Kosogov

Born in 1961 in Sillamae, Estonia, Andrey Kosogov graduated from the Moscow Energy Institute in 1987. He began his career in banking in 1992 as Chairman of the Board of Directors and CEO of Alfa Capital, an investment company. From 1992 to 1995, he was Chairman of the Board of Directors of Alfa Capital Investment Fund, a forerunner of Alfa Bank's mutual fund. From 2001 until 2005, he was First Deputy Chairman of the Executive Board of Alfa Bank with responsibility for investment activities and asset management. Since February 2006, Mr. Kosogov has been a member of the Board of Directors of Alfa Bank. From 2002 until 2008 Mr. Kosogov was a member of the Board of Directors of Kievstar. Since September 2011, Mr. Kosogov has served as a member of the Board of Directors of Alfa-Capital Asset Management Company and in March 2018 he was elected the Chairman of the Board of Directors of Alfa-Capital Asset Management Company. From 2003 to 2007 he was the Chairman of the Board of Directors of AlfaStrakhovanie PLC and. since 2001, Mr. Kosogov has served as a member of the Board of Directors of AlfaStrakhovanie PLC. He is also a member of the Board of Directors of ABH Holdings, a member of the Board of Directors of Rissa Investments N.V. Mr. Kosogov serves as a member of the Board of Directors of LetterOne Holdings S.A. since 25 October 2013 and of the Board of Directors of Letterone Investment Holdings S.A. since 11 November 2015. Mr Kosogov also serves as an an

advisor of JSC AB Holding. Mr. Kosogov was elected as a director of the Board of directors of Letterone Core Investments S.a.r.l. in September 2019.

Mr. Alexey Marey

Born in 1977 in Moscow, Alexey Marey graduated with honours from Moscow Aviation Institute's Economics Department in 1999. Mr. Marey joined Alfa Bank in September 2004, as Head of Distribution in Moscow. Before joining Alfa Bank, he was a business development manager and regional sales manager at Danone from 1999 to 2004. Prior to his time with Danone, he worked at Gillette International (Moscow) in the area of logistics (1997-1999) and as a logistics manager at Duracell Batteries N. V. (1996-1997). Mr. Marey was appointed Head of Retail Business of Alfa Bank in April 2007. He also served as General Management Director and as Deputy CEO of Alfa Bank until November 2017. Mr. Marey was a member of the Executive Board of Alfa Bank since 2007 until 2017. In 2012 Mr. Marey was elected to the Board of Directors of Alfa Bank. Mr. Marey is also a member of the Board of Directors of Rissa Investments N.V., of the Board of Directors of QIWI plc and of the Board of Directors of AlfaStrakhovanie PLC.

Mr. Andrew Baxter

Born in 1966 in South Africa, Andrew Baxter graduated from the University of the Witwatersrand (Johannesburg) in 1987-1988 with Bachelor's degrees in Commerce and Accountancy. He later qualified as a Chartered Accountant (S.A.), having passed the South African Institute of Chartered Accountants' final qualifying examination and completed his Articles of Clerkship with Deloitte & Touche in December 1990. Before joining Alfa Bank in 2005, Mr. Baxter worked at the SUN Group. Initially employed in 1999 as CFO of one of SUN's portfolio companies, he was promoted as CFO to SUN Group in 2000 and soon thereafter in 2001 promoted to Partner and Head of Moscow office of the SUN Group. Prior to his work with the SUN Group, he worked at Renaissance Capital, The US Russia Investment Fund, CS First Boston and Deloitte & Touche, all based either in Moscow or Johannesburg. Mr. Baxter was the Chief Financial Officer of Alfa Bank from 2005 to 31 July 2013 and was the Deputy Chairman of the Executive Board of Alfa-Bank from 2006 to 31 July 2013. On 26 June 2013, Mr. Baxter was elected to the Board of Directors of Alfa-Bank. His primary areas of responsibility are finance and investor relations. Mr. Baxter was also a member of the Board of Directors of ABH Financial till 27 March 2020. He also serves as a member of the Board of Directors of ABH Holdings S.A. and a member of the Supervisory Board of ATB. He was a member of the Supervisory Board of JSC "Ukrsocbank" from February 2017 till December 2019. He serves as a member of the Supervisory Board of JSC Alfa Bank Ukraine. Since December 2019 Mr. Baxter also serves as member of the Supervisory Board of ATB ESPP B.V.

Mr. Oscar Hartmann

Born in 1982 in Dzhambul, Oscar Hartmann graduated from Otto Beisheim School of Management in 2007 with a degree in International Management and International Economics. He also received an MBA degree in the University of Hawaii in 2008. Mr. Hartmann was elected to the Board of Directors of Alfa Bank in June 2017. Since January 2009, he also serves as Chairman of the Executive Board of LLC Privat Trade.

Mr. Marat Atnashev

Born in 1977 in Moscow, Marat Atnashev graduated from State University of Management in 1999 with a degree in Power Engineering. He also received an MBA degree in INSEAD Business School in 2002 and an MPA degree in Harvard Kennedy School in 2016. Mr. Atnashev was elected to the Board of Directors of Alfa Bank in January 2020. He also serves as member of the Boards of Directors of ABH Holdings S.A., JSC "Alfa Strakhovanie" and LLC UK "Rosvodokanal". Since December 2018 Mr. Atnashev has acted as a director of the Board of Directors of Investment Company A1. He also serves as director of Asset Management at CTF Consultancy Limited.

Executive Board and Chairman of the Executive Board

The day-to-day management of Alfa Bank is carried out by the Executive Board and the Chairman of the Executive Board of Alfa Bank.

Together with the Executive Board, the Chairman of the Executive Board is responsible for implementing decisions of the General Shareholders' Meeting and the Board of Directors. The Chairman of the Executive Board is authorised, among other things, to act on behalf of Alfa Bank without any express grant of authority, to dispose of Alfa Bank's property in accordance with Alfa Bank's charter, to determine the guidelines of the internal audit and control systems in Alfa Bank and to issue internal orders concerning Alfa Bank's day-to-day operations. The Members of the Executive Board are elected by the Board of Directors for a term of two years.

On 31 August 2011, the Board of Directors elected Mr. Andrey Sokolov as the Chairman of the Executive Board of Alfa Bank. On 24 June 2019, Mr. Sokolov was re-elected as the Chairman of the Executive Board of Alfa Bank starting from 24 June 2019.

The Executive Board is Alfa Bank's collective executive body. Its activities are coordinated by the Chairman of the Executive Board and are regulated by applicable Russian law, Alfa Bank's charter and internal Regulations of the Executive Board. The Executive Board meets at least weekly and makes its decisions by a simple majority vote (subject to a quorum requirement of one-half of its members). In accordance with Alfa Bank's charter, the decisions of the Executive Board may be taken in the form of simultaneous attendance or absentee voting, including by ballot, which can be delivered by email, fax, courier letters, inhand delivery and any other means which enable to ascertain the date of its receipt.

Functions that are not allocated to the General Shareholders' Meeting, the Board of Directors or the Chairman of the Executive Board remain within the purview of the Executive Board. In particular, the Executive Board is charged, among other things, with the following functions:

- developing principles for Alfa Bank's day-to-day management;
- implementing decisions taken by Alfa Bank's shareholders and the Board of Directors;
- determination of Alfa Bank's personnel policy and control over implementation thereof;
- procuring Alfa Bank's compliance with law;
- approval of the risk management processes and procedures for capital and stress testing based on Alfa Bank's risk and capital management strategy;
- determination and approval of limits and terms of Alfa Bank's lending;
- approving instructions, rules, regulations and other internal documents, including (without limitation) credit, accounting, marketing, labour, financing and other policies, except for those that are within the responsibility of other governing bodies of Alfa Bank;
- conferring powers and/or determining the procedure of conferring powers to head officers, other officers and employees of the Alfa Bank; and
- functions not delegated to Alfa Bank's shareholders or the Board of Directors.

As at the date of this Base Prospectus, the Executive Board has nine members. The name, position and certain other information for each member of the Executive Board are set out below.

Name	**Position**
Andrey Sokolov	Chairman of the Executive Board
Andrew Chulack.....	Deputy Chairman of the Executive Board, Corporate and Investment Bank Director, Member of the Executive Board
Alexei Tchoukhlov.....	Deputy Chairman of the Executive Board, Chief Financial Officer, Member of the Executive Board
Mikhail Grishin	Deputy Chairman of the Executive Board, Legal and Distressed Asset Management Director, Member of the Executive Board
Vladimir Verkhoshinskiy	First Deputy Chairman of the Executive Board, Member of the Executive Board, Chief Executive Officer
Denis Osin.....	Member of the Executive Board, Small and Microbusiness Director
Vladimir Voeykov.....	Member of the Executive Board, Medium Business Director
Ivan Pyatkov	Member of the Executive Board, Digital Business Director
Michael Tuch	Deputy Chairman of the Executive Board, Retail Business Director
Sergey Poliakov	Member of the Executive Board, Director of Information Technologies

The business address of all members of the Executive Board is 27 Kalanchevskaya Street, 107078, Moscow, Russia. A brief biographical description of those members of Alfa Bank's Executive Board is set forth below.

Mr. Andrey Sokolov

Born in 1955 in Moscow, Andrey Sokolov graduated from Moscow State University with a degree in Mathematics in 1977. Prior to joining Alfa Bank, Mr. Sokolov was Chairman of the Board of Directors of RESO-Garantia, the Deputy Chairman of the Board of Directors of MDM Commercial Bank and the First Deputy Chairman of the Executive Board of Konversbank. Mr. Sokolov was appointed the First Deputy Chairman of the Executive Board of Alfa Bank in July 2007. Before that, he served as Deputy Chairman of the Executive Board of Alfa Bank (2003-2007). In 2011, Mr. Sokolov was appointed Chairman of the Executive

Board of Alfa Bank. On 19 June 2019, Mr. Sokolov was re-elected as the Chairman of the Executive Board of Alfa Bank starting from 24 June 2019. He is also a member of the Supervisory Board of ATB.

Mr. Andrew Chulack

Born in 1970 in Lvov, Andrew Chulack graduated from the Moscow Institute of Physics and Technology and holds an MBA Degree from the University of Southern California. From 2006 to 2008, Mr. Chulack worked at Deutsche Bank AG where he led investment banking and corporate business in Russia and the CIS and was responsible for working with large Russian and Western corporations. Before that, he worked at Merrill Lynch Group as Managing Director of M&A. Since May 2019, Mr. Chulack is Deputy Chairman of the Executive Board of Alfa Bank, a member of the Executive Board, where he also serves as Corporate and Investment Bank Director. He was also elected as a member of the Executive Board of LLC Alfa-leasing in June 2019.

Mr. Alexei Tchoukhlov

Born in 1975 in Leningrad (now St. Petersburg), Alexei Tchoukhlov graduated from Institut d'Etudes Politiques de Paris in 1999. In 1999 Mr. Tchoukhlov joined the Société Générale Group where he worked for 7 years in the General Inspection department conducting internal audits and various specific projects within numerous subsidiaries of the Société Générale Group in more than 10 countries. Between 2006 and 2008, Mr. Tchoukhlov was involved in the acquisition of Rosbank by the Société Générale Group and the subsequent integration of Rosbank into the Société Générale Group. Mr. Tchoukhlov served as a Deputy Chairman of the Executive Board, as a member of the Executive Board and as Head of Accounting and Finance of Rosbank from 2009 to February 2013. Mr. Tchoukhlov joined Alfa Bank in April 2013 as a Financial Director. In August 2013 Mr. Tchoukhlov was appointed as Chief Financial Officer and was elected as Deputy Chairman of the Executive Board. Mr. Tchoukhlov serves as a member of the Board of Directors and a member of Executive Board of SCI La Bucede. Since July 2017, Mr. Tchoukhlov is a member of the Supervisory Board of Alfa Bank Belarus, where he also serves as chairman of the Supervisory Board. Since December 2018, Mr. Tchoukhlov is a member of the Board of Directors of LLC Alfa-Leasing, where he also serves as chairman of the Board of Directors.

Mr. Mikhail Grishin

Born in 1970 in Moscow, in 1993 Mikhail Grishin graduated from Moscow State Institute of Radio Engineering, Electronics and Automation and in 1997 from Kutafin Moscow State Law University. From 1993 to 1994, Mr. Grishin worked in JSC "Aerosoft" as a programmer. Mr. Grishin joined Alfa Bank in 1994 and worked in legal department. In 2002, he was appointed as Head of Legal Department. Under his leadership, Alfa Bank's legal department was selected as the best legal department among credit organisations. In 2013, Mr. Grishin was appointed as a Deputy Chairman of the Executive Board and in June 2015 was elected as a member of the Executive Board. Mr. Grishin was a member of the Board of Directors of OOO "Sentinel Credit Management" from 7 September 2011 till 6 September 2019. Since March 2019 Mr Grishin has served in Alfa-Bank on a position – Deputy Chairman of the Executive Board, Legal Affairs and Distressed Asset Management Director, member of the Executive Board.

Mr. Denis Osin

Born in 1972 in Moscow, Denis Osin graduated from the Moscow State University of Printing Arts, specialization "Accounting and Audit". From 1995, he worked in FMCG sector companies. He began as sales representative, was moving steadily through the ranks and has grown to a regional manager. Among his employers were companies such as Kraft Foods, Hochland, Perfetti Van Melle, and Schweppes. He joined Alfa Bank in July of 2006. He worked in such departments as "Retail Banking", "Corporate and Investment Banking", where he held the position of Regional Sales Director. Then Mr. Osin moved to MSME department, where he was the Director of sales and distribution, and in April 2015 was appointed for the position of Head of Mass Corporate Business. Mr. Osin is also a Member of the Board of Directors of Alfa-Bank Kazakhstan. In October 2016 was nominated for the Member of Board of Directors LLC Alfa-Leasing. Since April 12, 2018, he was appointed to the position of Head of Small and Medium Corporate Business and elected to the position of Member of the Executive Board. Since February 2019 Mr Osin serves in Alfa-Bank on a position – Small and Microbusiness Director, member of the Executive Board.

Mr. Vladimir Verkhoshinskiy (see the information in "The Board of Directors" description above)

Mr. Vladimir Voeykov

Vladimir Voeykov has many years of experience in the retail and corporate banking business. Prior to joining

Alfa-Bank, he held the position of Deputy Chairman of the Management Board of JSCB RUSSIAN CAPITAL (AO). Vladimir was responsible for developing business with retail clients and corporate clients of all segments, as well as for managing the regional sales network. From 2011 to 2015, he worked at OJSC The Bank of Moscow as Senior Vice President and Member of the Management Board, where he developed business with small and medium-sized clients. In 2008-2011, he held the position of Senior Vice President at OJSC NOMOS-Bank. From 1996 to 2008, he worked in the bank OJSC VTB Bank in positions from Leading Specialist of the Lending Department to Vice-President – Head of Regional Business Department. Vladimir Voeykov is responsible for the formation and implementation of a long-term development strategy of the bank in the medium business segment. Since February 2019 Mr. Voeykov serves in Alfa-Bank on a position – Medium Business Director, member of the Executive Board. He is also a member of the Board of Directors of LLC Alfa-Leasing and of the Board of Directors of JSC Commercial Bank "Poydem!". He also serves as a Development Adviser of JSC Commercial Bank "Poydem!".

Mr. Ivan Pyatkov

Ivan Pyatkov has been working in the banking sector for over 20 years. Prior to joining Alfa-Bank, Ivan was in charge of VTB's digital business, and since 2013 he headed the department of retail products, e-business and CRM at the Bank of Moscow. In 2011–2013 he worked at Promsvyazbank in the capacity of the retail products and segments department director. In 2006–2011 he was in charge of sales development at VTB24. From 2001 to 2006, he headed the Sakhalin branch of the Bank of Moscow. Ivan Pyatkov graduated with honors from the Russian State University of Trade and Economics in 1999. He has an additional education in the field of management according to the UK Open University programs (The Open University Business School). In 2012, he completed a leadership program in London at The University of Chicago Booth School of Business. Since November 2018 Ivan Pyatkov serves in Alfa Bank as Director of Digital Business and Innovations. Since February 2019 Mr. Pyatkov serves in Alfa-Bank on a position – Director of Digital Business, member of the Executive Board. He also serves in JSC Alfa-Bank (Kazakhstan) as a Director of the Board of Directors.

Mr. Michael Tuch

Michael Tuch was educated at the University of Maryland in the United States with a degree in Economics and Finance. After graduation from the University in 1998 he started his career at GE Capital, where he managed projects in 12 countries and developed businesses in the USA, Mexico and Russia. Held role of CFO at GE Money Bank Russia. Since 2007, joined «Svyaznoy» group, as Executive Vice President and in 2013 became CEO of the company. In early 2016, Michael Tuch was appointed to the position of Executive Director of the retail chain M.Video. Since 2017 Michael Tuch serves in Alfa Bank as Head of Retail Business. Since April 2019, Mr. Tuch serves in Alfa-Bank on a position – Director of Retail Business, Deputy Chairman of the Executive Board, member of the Executive Board. From September 2017 till September 2019 he served as a Director in the Board of Directors of LLC Sentinel Credit Management. He also serves in Alfa-Capital Asset Management Company as member of the Board of Directors.

Mr. Sergey Poliakov

Sergey Poliakov was born on October 6, 1960 in Moscow. He holds a Master of Mathematics and Cybernetics from the Courant Institute of Mathematical Sciences. From 1995, he led IT projects at Morgan Stanley in various capacities. Then Mr. Poliakov moved to Deutsche Bank, where he worked in management positions until 2005. In 2006 he joined Quadriserv as Managing Director of Technology and Strategic development. From May 2013 till December 2019, Mr. Poliakov was Director of Information Technologies and the Member of the Management Board at the Moscow Exchange. In January 2019 he joined Alfa Bank as Director of Information Technologies and in July 31, 2019 was nominated for the Member of the Executive Board. Since August 26, 2019 Mr. Poliakov serves in Alfa-Bank on a position – Director of Information Technologies, member of the Executive Board.

Supervisory Bodies

In addition to the managerial bodies described above, Alfa Bank has various supervisory bodies to facilitate corporate governance, including on the Board of Directors level, the Personnel and Remuneration Committee and Audit Committee.

Audit Committee

Internal control is a process performed by the Board of Directors, Executive Board and other Alfa Bank employees to provide reasonable assurance regarding the reliability of financial reporting, safeguarding of assets,

effectiveness and efficiency of operations and compliance with applicable laws, regulations, internal policies and procedures. The Audit Committee of Alfa Bank was established in 2014 and consists of three members and the current members are Mr. Andrew Baxter (the Chairman of the Audit Committee), Mr. Marat Atnashev and Mr. Oleg Sysuev.

The primary function of the Audit Committee is to assist Alfa Bank in overseeing internal audit processes, reviewing financial reports, monitoring quality assurance of corporate governance and maintaining effective corporate control. The Audit Committee have the authority to conduct any investigation they consider necessary or appropriate in order to fulfil their duties. The Audit Committee have unrestricted access to the independent auditors, the internal audit department, and anyone else within the Alfa Bank, and may require any officer or employee or independent auditors to attend a meeting with the Audit Committee or with any members of, or consultants or advisers to, the Audit Committee.

Personnel and Remuneration Committee

The Personnel and Remuneration Committee consists of three members and the current members of the committee are Mr. Petr Aven (the Chairman of the Personnel and Remuneration Committee), Mr. Andrew Baxter and Mr. Marat Atnashev.

Risk Committee

The Risk Committee was established in November 2018 and consists of three members. Current members of the Risk Committee are Mr. Andrew Baxter (the Chairman), Mr. Marat Atnashev and Mr. Alexey Marey. The Risk Committee of the Board of Directors is responsible for preliminary consideration, analysis and proposals to the Board of Directors of the following key subjects: oversight the risk and capital management strategy, establishing risk appetite, monitoring the effectiveness of the risk management system, improvement of risk-culture and "Three lines of defence" model, internal ratings-based (the "**IRB**") models and validation.

Conflicts of Interest

As set out in the biographies above, certain of Alfa Bank's directors and executive officers also serve as directors or officers, or hold shareholdings, in other companies. Furthermore, additional directorships, officerships or shareholdings could be obtained or appointed to such persons in the future. As a result, potential conflicts of interest exist between these directors' and officers' duties to the Alfa Banking Group and their duties arising from their positions or shareholdings in such other entities. Such other entities may directly or indirectly provide services that compete or may in the future compete with the services offered by the Alfa Banking Group or may receive loans or other financing from the Alfa Banking Group. In February 2014, the Board of Directors of Alfa Bank adopted specific internal regulations aimed at preventing conflicts of interest in Alfa Bank which, *inter alia*, establish criteria for identifying and determining conflicts of interest, measures that need to be taken in order to prevent or to clear any conflicts of interest.

OWNERSHIP

Overview

As at the date of this Base Prospectus, the ultimate parent company of the Alfa Banking Group is ABH Holdings, a corporation incorporated under the laws of the Grand Duchy of Luxembourg, which owns 97.4 per cent. of the shares in ABH Financial directly (the remaining 2.6 per cent. of the shares in ABH Financial are held through Alfa Bank). ABH Financial in turn is the sole shareholder of JSC AB Holding, a Russian joint-stock company, which together with ABH Financial owns 100 per cent. of Alfa Bank's outstanding shares. See "*Description of the Alfa Banking Group—ABH Financial and the Alfa Banking Group*" for details of the principal corporate structure of the Alfa Banking Group.

ABH Holdings

As at the date of this Base Prospectus, the authorised share capital of ABH Holdings is U.S.$431,415.76, comprising 43,141,576 ordinary registered shares with a nominal value of U.S.$0.01 each, of which 43,141,576 fully-paid shares have been issued.

ABH Financial

As at 31 December 2019 and the date of this Base Prospectus, the issued share capital of ABH Financial was and is U.S.$1,264,800,000 divided into 1,258,476,000 registered fully paid ordinary shares and 6,324,000 registered fully paid preference shares with a nominal value of U.S.$1.00 each.

Shareholder	Number of Ordinary Shares	Number of Preference Shares	Nominal Value Per Share	Percentage of Total Share Capital
			(U.S.$)	%
ABH Holdings S.A.	1,225,591,200	6,324,000	1.00	97.4
Alfa Bank	32,884,800	–	1.00	2.6

Alfa Bank

As at 31 December 2019, the share capital of Alfa Bank was RUB59,587,623,000 and is divided into 59,587,623 ordinary registered shares with a nominal value of RUB1,000 each.

The following table sets forth the legal shareholders of Alfa Bank as at 31 December 2019:

Shareholder	Number of Ordinary Shares	Nominal Value Per Share	Percentage of Total Share Capital
		(RUB)	%
JSC AB Holding[(1)]	59,587,523	1,000	99.99983
ABH Financial Limited	100	1,000	0.00017
Total	**59,587,623**	**1,000**	**100.0**

(1) Wholly owned by ABH Financial.

RISK MANAGEMENT

Overview

The Alfa Banking Group is focused on systematically exploiting available opportunities to achieve its growth targets without losing sight of the related risks. The Alfa Banking Group applies a unified risk management practice across all product lines, comprising credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk management. The primary objective of the Alfa Banking Group's risk management is to achieve an optimal level of risk-return for its operations. The Alfa Banking Group continues to enhance its risk management.

The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise the Alfa Banking Group's exposure to internal and external risk factors.

The Alfa Banking Group's approach to managing risks is composed of following elements: (i) risk governance, (ii) risk identification, (iii) risk assessment, management and control, and (iv) risk reporting.

Subsidiaries of the Alfa Banking Group have their own unified risk management bodies depending on the size and risk profiles of each relevant entity aimed at effective and efficient governance and decision making.

The Board of Directors of Alfa Bank has overall responsibility for the implementation of the risk management framework, including, but not limited to, review and approval of the risk and capital management strategy, procedure of significant risks management, risk-appetite, IRB models and validation reports. The Board of Directors of Alfa Bank also approves significant exposures, affiliated and related party transactions, which exceed the specific limits.

The Audit Committee of Alfa Bank is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.

The Remuneration Committee is responsible for reviewing and developing the remuneration framework, including recommendations to the Board of Directors.

The Risk Committee is responsible for preliminary consideration, analysis and proposals to the Board of Directors of Alfa Bank of the following key subjects: oversight the risk and capital management strategy, establishing risk appetite, monitoring the effectiveness of the risk management system, improvement of risk-culture and "Three lines of defence" model, IRB models and validation.

The Executive Board of Alfa Bank is responsible for implementation and monitoring of risk mitigation measures. The Executive Board monitors that the Alfa Banking Group operates within the established risk parameters. The Executive Board approves risks which exceed the individual authority of the relevant committees. The Executive Board of Alfa Bank is responsible for approval of procedures for risk and capital management and stress-testing based on the risk and capital management strategy approved by the Board of Directors of Alfa Bank. It ensures internal capital adequacy assessment procedures ("**ICAAP**") and maintains capital adequacy higher than minimum regulatory requirements, as well as considers ICAAP reporting.

Risks are managed and controlled through a system of committees. In order to facilitate efficient decision-making, the Alfa Banking Group has established a hierarchy of credit committees depending on the type and amount of the exposure: a) non-retail credit risk through the Non-Retail Credit Committees; b) retail credit risk through the Retail and Mass Risk Committee; c) Market, Liquidity and Interest rate risk through the Asset and Liability Management Committee; d) operational risk through the Operational Risk Steering Committee.

The Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting risks. The Risk Management Department deals with non-retail credit risk, counterparty credit risk, retail credit risks along with market risk, operational risk, liquidity risk and interest rate risk (together with the Treasury Department). The department structure is geared to bring focus on proactive portfolio management and to perform an extensive program of risk management processes and models improvements with ultimate goal to satisfy Basel II and III standards for risk management.

Corporate bad debts are managed through the Problem Loans Department that is independent from the Risk Management Department. Corporate problem loans are approved by the Main Credit Committee. The Non-Retail Default Committee is responsible for approval defaults and recovery period of borrowers (group of borrowers).

In relation to retail business, the Bad Debt Management Department executes the bad debt management strategy developed by the Retail Credit Risk Management Division and the Bad Debt Management Department. Default process is mainly automated, methodology is approved by the Head of Executive Board of Alfa Bank.

ATB has its own Risk Management and Treasury departments that operate in a similar manner.

Risk identification

Both external and internal risk factors are identified and managed throughout the Alfa Banking Group's organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. An overview of the key risks is regularly reported to the Chief Risk Officer, members of the risk management committees, the Executive Board and the Board of Directors.

Risk assessment, management and control. The Alfa Banking Group's risk assessment, reporting and control procedures vary by type of risk, but share a common methodology developed and updated by the Risk Management Department. Compliance with the Alfa Banking Group's standards is supported by periodic reviews undertaken by the Internal Audit Department. The results of Internal Audit reviews are discussed with the management of the business units to which they relate and presented to the Audit Committee and the senior management of the Alfa Banking Group.

Risk Reporting. Risk reporting represents a comprehensive reporting system that provides the senior management with the summary information regarding significant risks, risk-appetite and consequences of changes of the operating environment. Regular risk reporting includes results on risk identification and analysis of significant risks through the set of indicators, analysis of the available capital and capital adequacy estimation, stress-testing results.

Risk-appetite and significant risks. The Alfa Banking Group identifies significant risks and defines risk-appetite for each significant risk disclosed below:

- Non-retail credit risk
- Counterparty credit risk
- Retail credit risk
- Market risk
- Interest rate risk
- Operational risk
- Liquidity risk
- Concentration risk

Credit risk. The Alfa Banking 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 Alfa Banking Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Alfa Banking 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.

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

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 credit conversion factors.

Limits. The Alfa Banking Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Alfa Banking Group established a number of credit committees that are responsible for approving credit limits for individual borrowers. Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or the Small Credit Committee. These committees convene weekly. In certain circumstances (for example, based on tenor or size) loans are approved by the Executive Board or the Board of Directors of Alfa Bank. Authority to approve deals with insignificant

credit limits are delegated by the Executive Board of Alfa Bank to the special groups within Corporate and Investment Bank and the Risk Management Department under the “4 eyes” principle.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the officers based on a structured analysis focusing on the customer’s business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Executive Board or the Board of Directors of Alfa Bank.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Alfa Banking Group applies two approaches – an IRB system or risk grades estimated by external international rating agencies (Standard & Poor’s, Fitch and Moody’s).

In accordance with the internal rating loans and advances to customers and investments at amortised cost assigned in one of the following rating categories:

- *First class* – strong credit quality with low expected credit risk
- *Good and standard* – adequate credit quality with a moderate credit risk
- *Acceptable* – moderate credit quality with a satisfactory credit risk
- *Weak* – facilities that require closer monitoring and remedial management
- *Impaired* – facilities in which a default has occurred.

The IRB system is designed internally and ratings are estimated by the Alfa Banking Group itself. Various credit-risk estimating techniques are used by the Alfa Banking Group depending on the class of the asset. There are three commonly used types of such systems:

- *Model-based* – In this system, credit risk ratings are assigned by internally developed statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.
- *Expert judgement-based* – In this system, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated statistical models.
- *Hybrid* – This rating system is a combination of the two systems above. It is developed by using historical data combined with expert input.

The Alfa Banking Group applies IRB systems for measurement of credit risk for the following financial assets: interbank loans with Russian counterparties, corporate and retail loans, corporate bonds.

The rating models are regularly reviewed by the Risk Management Department, backtested on actual default data and updated if necessary. Despite the method used, the Alfa Banking Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

Assessment of the credit quality of cash and cash equivalents, debt trading securities, due from other banks and debt investments at fair value through other comprehensive income are based on the counterparties' long-term credit ratings assigned by international rating agencies such as Standard & Poor's, Fitch and Moody’s and in accordance with the internal rating methodology:

- *First class* - banks and companies with minimal probability of default and with ratings above BB+ by Standard & Poor's and Fitch, Ba1 by Moody's and BB+ in accordance with the internal rating methodology.
- *Good and standard* - banks and companies with long-term credit rating from BB- to BB by Standard & Poor's and Fitch, Ba3 to Ba2 by Moody's and from BB- to BB in accordance with the internal rating methodology.
- *Acceptable* - banks and companies with long-term credit rating from B- to B+ by Standard & Poor's and Fitch, B3 to B1 by Moody's and from B- to B+ in accordance with the internal rating methodology.
- *Weak* - banks and companies with long-term credit rating from CCC+ to C by Standard & Poor's and Fitch, Caa1 and Ca by Moody's and CCC in accordance with the internal rating methodology.
- *Impaired* - banks and companies with long-term credit rating below C by Standard & Poor's and Fitch, Ca by Moody's and below CCC in accordance with the internal rating methodology.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probability of default are applied for the following financial instruments if these instruments are not covered by IRB rating systems: interbank placements to foreign counterparties, loans to sovereigns, and investments in debt securities (government, corporate and municipal bonds, and Eurobonds and promissory notes purchased).

In December 2018 Alfa Bank submitted an application to the CBR for transition to IRB models for corporate loans and in December 2019 for retail loans.

Expected credit loss measurement – definitions

Expected credit loss 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 expected credit loss measurement is unbiased and determined by evaluating a range of possible outcomes. expected credit loss measurement is based on four components used by the Alfa Banking Group: Probability of Default, Exposure at Default, Loss Given Default and Discount Rate.

Exposure at Default – an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Probability of Default – an estimate of the likelihood of default to occur over a given time period.

Loss Given Default – 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 expressed as a percentage of the exposure at default.

Discount Rate – a tool to discount an expected loss to the present value at the reporting date. The discount rate represents the effective interest rate for the financial instrument or an approximation thereof.

Lifetime period – the maximum period over which expected credit loss should be measured. For loans with fixed maturity, the lifetime period is equal to the remaining contractual period. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit. For credit cards issued to individuals, it is the period that is based on internal statistics, and it is equal to 3 years.

Lifetime expected credit loss – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month expected credit loss – the portion of lifetime expected credit losses that represent the expected credit losses resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument. For those instruments without contractual life - 12 months are used.

Forward looking information – the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. Among other factors the Alfa Banking Group analyses:

– oil prices and volumes;

– Russian credit default swaps;

– CPI and GDP changes.

Credit Conversion Factor – a coefficient that shows the probability of conversion of an off-balance sheet amounts to exposure on the balance within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Alfa Banking Group considers that 12-month and lifetime credit conversion factors are the same.

Purchased or originated credit impaired financial assets – financial assets that are credit-impaired upon initial recognition.

Low credit risk financial assets – assets that have an investment grade defined by external rating agencies or corresponding internal rating, debt instruments issued by Russian Federation and denominated in RUB, loans to companies owned by the Russian Federation and denominated in RUB. The presumption, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

Default and credit-impaired asset – a loan is in default, meaning fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the Alfa Banking Group is considering selling the borrower's debt with significant losses (more than 5%

of the debt principal balance and accrued interest);

- the Default Committee recognized restructured debt as default;
- the Alfa Banking Group has classified the borrower in the default rating class according to the master scale together with the fact that the Main Credit Committee recognised the borrower as credit-impaired one. The Main Credit Committee decides on recognition of the borrower as credit-impaired one based on the unlikeliness-to-pay criteria listed below:
  - the borrower is insolvent;
  - it is becoming likely that the borrower will enter bankruptcy;
  - other criteria reflecting difficulties with successful fulfilling of obligations by the borrower.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months.

Significant increase in credit risk – the significant increase in credit risk assessment is performed on an individual basis and on a portfolio basis. For loans issued to legal entities and individuals, interbank loans and debt securities accounted for at amortized cost or at fair value through other comprehensive income, significant increase in credit risk is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a significant increase in credit risk are monitored and reviewed periodically for appropriateness by the Alfa Banking Group's Risk Management Department.

The Alfa Banking Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met.

- For loans issued to legal entities and bonds issued by the legal entities, interbank operations and bonds issued by the banks:
- 30 days past due;
- increase of probability of default by 2,7 times (that is close to decrease of rating by 3 notches) compared to probability default on the date of initial recognition (the relative threshold);
- loan for which internal rating cannot be calculated (excluding loans rated by international rating agencies);
- inclusion of loan into a watch list zone "Red" according to the internal credit risk monitoring process.

For loans to Individuals:

- 30 days past due;
- increase of probability of default by 4 times compared to probability default on the date of initial recognition (the relative threshold);
- refinanced loan – a special type of loan when all loans of the borrower are refinanced into one.

If there is evidence that the significant increase in credit risk criteria are no longer met, the instrument will be transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Alfa Banking Group monitors whether that indicator continues to exist or has changed.

Expected credit loss measurement – description of estimation techniques

General principle

For non-purchased or originated credit impaired financial assets, expected credit losses are generally measured based on the risk of default over one of two different time periods, depending on whether the credit risk of the borrower has increased significantly since initial recognition. This approach can be summarised in a three-stage model for expected credit loss measurement:

- Stage 1: a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition, loss allowance is based on 12-month expected credit loss.
- Stage 2: if a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but not yet deemed to be credit-impaired, loss allowance is based on lifetime expected credit loss.
- Stage 3: if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3 and loss allowance is based on lifetime expected credit loss.

Expected credit loss for purchased or originated credit impairment financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Alfa Banking Group only recognises the cumulative changes in lifetime expected credit losses.

The Alfa Banking Group can carry out three separate approaches for expected credit loss measurement:

- assessment on an individual basis;
- assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. probability of default, loss given default) will be applied during the process of expected credit loss calculations for the same credit risk ratings and homogeneous segments of the loan portfolio;
- assessment based on external ratings.

The Alfa Banking Group performs an assessment on an individual basis for the following types of loans issued to legal entities: loans with unique credit risk characteristics, individually significant loans and credit-impaired loans.

The Alfa Banking Group performs an assessment on a portfolio basis for the following types of assets: loans and credit-related commitments issued to legal entities (standard lending, specialised lending, loans to leasing companies, etc.), interbank loans, retail loans and loans issued to MSMEs. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information.

The Alfa Banking Group performs assessments on external ratings for the following types of loans: interbank loans, debt securities issued by the banks and legal entities, and loans issued to sovereigns.

Principles of assessment on individual basis – expected credit loss assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Alfa Banking Group defines at least two possible outcomes for each loan, one of which leads to credit loss in spite of the probability of such a scenario. Individual assessment is mainly based on the expert judgement of the Problem Loans Collection Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

Principles of assessment on portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Alfa Banking Group combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a group are homogeneous.

Examples of shared characteristics include: type of customer (such as income producing real estate or leasing companies), product type (such as credit cards or cash loans), credit risk rating and date of initial recognition.

The different segments reflect differences in credit risk parameters such as probability of default and loss given default. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, expected credit loss is the multiplication of the following credit risk parameters: exposure at default, probability of default and loss given default (definitions of the parameters are provided above). The general approach used for expected credit loss calculation is set out in reference to Note 31 to the Consolidated Financial Statements.

The expected credit loss is determined by predicting credit risk parameters (exposure at default, probability of default and loss given default) for each future month during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an expected credit loss for each future month, which is then discounted back to the reporting date and summed up. The discount rate used in the expected credit loss calculation is the original effective interest rate or an approximation thereof.

The brief principles of calculating the credit risk parameters are as following.

The exposures at default are determined based on the expected payment profile, which varies by product type:

- for amortising products and bullet repayment loans, exposure at default is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis;
- for revolving products, the exposure at default is predicted by taking the current drawn balance and adding a credit conversion factor that accounts for the expected drawdown of the remaining limit by the time of default.

Two types of probability of default are used for calculating expected credit loss: 12-month and lifetime probability of default:

- 12-month probability of default – the estimated probability of a default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This parameter is

used to calculate 12-month expected credit losses. An assessment of a 12-month probability of default is based on the latest available historic default data and adjusted for forward-looking information when appropriate.

- Lifetime probability of default – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime expected credit loss for Stage 2 exposures. An assessment of a lifetime probability of default is based on the latest available historic default data and adjusted for forward looking information when appropriate.

To calculate lifetime probability of default, the Alfa Banking Group uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month probability of default based on migration matrixes and developing lifetime probability default curves based on the historical default data. For lifetime probability of default calculations, the Alfa Banking Group uses historical default data and the extrapolation of trends for longer periods during which default data was not available.

Loss given default represents the Alfa Banking Group's expectation of the extent of loss on a defaulted exposure. Loss given default varies by the product, stage and the availability of collateral or other credit support.

The 12-month and lifetime losses given defaults are determined based on the factors that impact the expected recoveries after a default event.

The approach to loss given default measurement can be divided into three possible approaches:

- measurement of loss given default based on the specific characteristics of the collateral;
- calculation of loss given default on a portfolio basis based on recovery statistics;
- individually defined loss given default depending on different factors and scenarios.

For loans secured by real estate the Alfa Banking Group calculates loss given default based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors.

For particular segments of the corporate, retail, interbank loan portfolio and corporate bonds loss given default is calculated on a collective basis based on the latest available recovery statistics.

Expected credit loss measurement for off-balance sheet financial instruments (financial guarantees, loan commitments)

The expected credit loss measurement of off-balance sheet accounts consists of the same steps described above for the balance sheet exposures and differs with respect to exposure at default calculation. The general approach used for exposure at default calculation is set out in reference to Note 31 to Consolidated Financial Statements.

Principles of assessment based on external ratings – the principles of expected credit loss calculations based on external ratings are the same as for their assessment on a portfolio basis. Since the clients have defined the external credit rating, credit risk parameters (probability of default) could be taken from the default and recovery statistics published by international rating agencies.

Forward-looking information incorporated in the expected credit loss models. The assessment of the significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. The Alfa Banking Group has performed historical analyses and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the probability of default, exposure at default and loss given default vary by financial instrument. These economic variables, such as consumer price index, natural gas price, Russian credit default swaps, have been determined by performing statistical regression analysis to understand the impact of changes in these variables has historically had on default rates.

Based on these economic variables the Alfa Banking Group's Risk Management Department makes the forecast of future macroeconomic conditions, which is considered by the management of the Alfa Banking Group to define the next coming stage of economic cycle using not only statistical approach but also expert judgement of the management.

The assessment of significant increase in credit risk is performed using the lifetime probability of default for retail borrowers and 12-month probability of default for other financial assets, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime expected credit loss should be recorded. Following this assessment, the Alfa Banking Group measures expected credit loss as either a probability-weighted 12 month expected credit loss (Stage 1), or a probability weighted lifetime expected credit loss (Stages 2 and 3). These probability-weighted expected credit losses are determined by running the relevant expected credit loss model.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Alfa Banking Group considers these forecasts to represent its best estimate of the possible outcomes and has

analysed the non-linearities and asymmetries within the Alfa Banking Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Validation – the Alfa Banking Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such validation is performed at least once a year. The results of validation the expected credit loss measurement methodology are communicated to the Alfa Banking Group management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

The table set out below provides an analysis of the credit quality of the Alfa Banking Group's loans to corporate customers as at 31 December 2019:

	Corporate borrowers	Finance lease receivables	Reverse sale and repurchase receivables	Advances on lease operations	Total
			(U.S.$ millions)		
Stage 1 (12-months ECL).....					
- first class borrowers	12,692	153	-	23	12,868
- good and standard borrowers	8,069	1,248	1,213	26	10,556
- acceptable borrowers	2,728	34	-	-	2,762
- weak borrowers	550	1	-	-	551
Stage 2 (lifetime ECL)					
- not past due					
- first class borrowers	224	2	-	-	226
- good and standard borrowers	985	40	-	-	1,025
- acceptable borrowers	114	-	-	-	114
- weak borrowers	54	3	-	-	57
- less than 30 days overdue.....	2	2	-	-	4
- 30 to 90 days overdue.....	10	12	-	-	22
Stage 3 (lifetime ECL):					
- not past due	904	1	-	-	905
- less than 30 days overdue.....	9	-	-	-	9
- 30 to 90 days overdue.....	3	-	-	-	3
- over 90 days overdue.....	294	2	-	-	296
Total gross loans and advances to corporate customers...	**26,638**	**1,498**	**1,213**	**49**	**29,398**
Credit loss allowance ...	(681)	(15)	-	(1)	(697)
Total loans and advances to corporate customers...	**25,957**	**1,483**	**1,213**	**48**	**28,701**

The table set out below provides an analysis of the credit quality of the Alfa Banking Group's loans to corporate customers as at 31 December 2018:

	Corporate borrowers	Finance lease receivables	Reverse sale and repurchase receivables	Advances on lease operations	Total
			(U.S.$ millions)		
Stage 1 (12-months ECL).....					
- first class borrowers	10,928	300	-	9	11,237
- good and standard borrowers	7,025	668	911	8	8,612
- acceptable borrowers	1,478	199	-	3	1,680
- weak borrowers	448	-	-	-	448
Stage 2 (lifetime ECL)					
- not past due					

- first class borrowers	95	-	-	-	95
- good and standard borrowers	498	7	-	-	505
- acceptable borrowers	193	20	-	-	213
- weak borrowers	788	23	-	-	811
Stage 3 (lifetime ECL):					
- not past due	294	-	-	-	294
- less than 30 days overdue	77	-	-	-	77
- 30 to 90 days overdue	210	-	-	-	210
- over 90 days overdue	316	1	-	-	317
Total gross loans and advances to corporate customers	**22,350**	**1,218**	**911**	**20**	**24,499**
Credit loss allowance	(570)	(9)	-	-	(579)
Total loans and advances to corporate customers	**21,780**	**1,209**	**911**	**20**	**23,920**

The following table provides an analysis by credit quality of the Alfa Banking Group's loans to individuals outstanding as at 31 December 2019:

	Personal instalment loans	**Credit cards**	**Mortgage loans**	**Consumer (POS) loans**	**Reverse sale and repurchase receivables**	**Total**
			(U.S.$ millions)			
Stage 1 (12-months ECL)						
- first class borrowers	194	59	327	2	-	582
- good and standard borrowers	3,259	1,322	1,215	28	58	5,882
- acceptable borrowers	1,377	863	251	12	-	2,503
- weak borrowers	168	254	5	2	-	429
Stage 2 (lifetime ECL)						
– not past due						
- good and standard borrowers	2	-	1	-	-	3
- acceptable borrowers	80	14	3	1	-	98
- weak borrowers	169	228	1	2	-	400
– less than 30 days overdue	23	28	-	-	-	51
– 30 to 90 days overdue	32	34	1	-	-	67
– over 90 days overdue	6	-	-	-	-	6
Stage 3 (lifetime ECL)						
– not past due	125	2	1	-	-	128
– less than 30 days overdue	20	1	-	-	-	21
– 30 to 90 days overdue	15	3	-	-	-	18
– over 90 days overdue	132	115	5	2	-	254
Total gross loans and advances to individuals	**5,602**	**2,923**	**1,810**	**49**	**58**	**10,442**
Credit loss allowance	(275)	(212)	(10)	(3)	-	(500)
Total loans and advances to individuals	**5,327**	**2,711**	**1800**	**46**	**58**	**9,942**

The following table provides an analysis by credit quality of the Alfa Banking Group's loans to individuals outstanding as at 31 December 2018:

	Personal instalment loans	**Credit cards**	**CMortgage loans**	**Consumer (POS) loans**	**Reverse sale and repurchase receivables**	**Total**
			(U.S.$ millions)			
Stage 1 (12-months ECL)						
- first class borrowers	53	66	12	26	-	157
- good and standard borrowers	1,933	1,005	436	63	35	3,472
- acceptable borrowers	666	665	55	19	-	1,405
- weak borrowers	75	223	6	5	-	309
Stage 2 (lifetime ECL)						
– not past due						
- good and standard borrowers	2	-	1	-	-	3
- acceptable borrowers	66	14	3	1	-	84
- weak borrowers	338	98	-	6	-	442
– less than 30 days overdue	23	14	-	-	-	37
– 30 to 90 days overdue	16	21	-	-	-	37
Stage 3 (lifetime ECL)						

	Personal instalment loans	Credit cards	CMortgage loans	Consumer (POS) loans	Reverse sale and repurchase receivables	Total
			(U.S.$ millions)			
– not past due	3	9	6	-	-	18
– over 90 days overdue	41	61	-	7	-	109
Total gross loans and advances to individuals	**3,216**	**2,176**	**519**	**127**	**35**	**6,073**
Credit loss allowance	(156)	(138)	(6)	(9)	-	(309)
Total loans and advances to individuals	**3,060**	**2,038**	**513**	**118**	**35**	**5,764**

Equity price risk. As noted above, for the purpose of quantifying the Alfa Banking Group's equity price risks which is attributed to investment banking trading position only, the Alfa Banking Group uses a value at risk model.

As at 31 December 2019 the Alfa Banking Group's equity price risk value at risk was limited at U.S.$ 8million (U.S.$8 million as at 31 December 2018). This limit is set by the Asset and Liability Management Committee.

Currency risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in the foreign exchange rates. The Treasury Department is responsible for the centralised management of the foreign exchange risk of the banking book (strategic position). The Corporate and Investment Bank Department is responsible for the currency risk management of trading positions. Assets and Liability Management Committee sets separate limits on the open currency position. The Risk Management Department controls limits of trading position. The Treasury Department of the Alfa Banking Group ensures compliance with limits on open foreign exchange position of the banking book and general limits on the open currency position.

The Alfa Banking Group uses derivatives to manage current and forecast exposures resulting from foreign currencies.

The table below summarises the Alfa Banking Group's exposure to foreign currency exchange rate risk as monitored by management as at 31 December 2019:

	As at 31 December	
	2019	2018[1]
	(U.S.$ millions)	
Cash and cash equivalents (excluding cash on hand balances)	5,310	3,427
Mandatory cash balances with central banks	422	336
Financial assets at fair value through profit or loss	994	828
Repurchase receivables relating to financial assets at fair value through profit or loss	-	8
Due from other banks	3,542	4,193
Loans and advances to customers	38,643	29,684
Debt investments at fair value through other comprehensive income	4,840	3,388
Investments at amortized cost	2,334	2,426
Repurchase receivable relating to investments	132	78
Derivative financial instruments	490	800
Other financial assets	234	180
Total maximum amount exposed to credit risk (on-balance sheet)	**56,941**	**45,348**
Unused credit cards limits	6,523	3,840
Performance and financial guarantees issued	1,793	1,648
Corporate overdrafts	1,063	395
Import letters of credit	551	503
Export letter of credit	17	14
Total maximum amount exposed to credit risk	**66,888**	**51,748**

Market Risk

The Alfa Banking Group takes on exposure to market risks. Market risks arise from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

The Alfa Banking Group manages its market risk through notional-based and risk-based limits for the Alfa Banking Group's sub-positions. Overall the Alfa Banking Group's position is split between (i) Corporate and Retail Banking positions, (ii) Investment Banking position and (iii) Treasury position. The exposure of Corporate Banking (loans, deposits, current accounts, and other non-trading operations) and Retail Banking operations to market risks is managed through the system of limits monitored by the Treasury Department. The exposure to the market risk of Investment Banking operations is managed through open position limits, value at

risk limits and extreme loss limits which are set for both aggregated position of Investment Banking in equities, fixed income, foreign currency and derivative instruments (treated as separate "trading desks") and for individual trading desks. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities positions are approved by the Asset and Liability Management Committee. Additional issuer limits on debt securities are approved separately by the relevant Credit Committees. The major part of the Alfa Banking Group's proprietary and flow trading portfolios consists of liquid, traded securities. For content of the trading portfolio refer to Note 8 of Consolidated Financial Statements. The Alfa Banking Group's derivative operations are driven by two major factors: (i) the need of the Alfa Banking Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (ii) customer demand, principally for foreign currency, securities and commodities derivatives.

Risk-based limits are monitored on a daily basis by the Risk Management Department with respect to individual (foreign currency, equity, fixed income, derivatives) trading desks. The overall value at risk of Investment Banking is monitored on a weekly basis by the Risk Management Department. In 2019 and 2018, the limit for the overall 1-day, 99% confidence level value at risk of trading position was U.S.$40 million.

Certain structured credit positions either with or without a component of financing from third parties were controlled according to their notional amount under the credit risk policy of the Alfa Banking Group.

The daily value at risk measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of the Alfa Banking Group were to be held unchanged for one business day. Although value at risk is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- One business day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the value at risk;
- As value at risk is only calculated on the end-of-day basis, it does not necessarily reflect exposures that may arise on positions during the trading day; and
- The value at risk measure is dependent upon the Alfa Banking Group's position and the volatility of market prices. The Value at risk of an unchanged position reduces if market volatility declines and vice versa.

The effectiveness of the value at risk model is subject to back-test assessment. Back-testing compares the frequency of bigger-than-value at risk loss occurrence and compares it to the set confidence level.

The major advantage of value at risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of the Alfa Banking Group's position have to be assessed by putting a stress on the number of standard deviations of market returns. Historical stress scenarios can be also used. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. The Alfa Banking Group uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Alfa Banking Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Equity price risk

As noted above, for the purpose of quantifying the Alfa Banking Group's equity price risks which is attributed to Investment Banking trading position only, the Alfa Banking Group uses a value at risk model.

As at 31 December 2019 and 2018 the Alfa Banking Group's equity price risk value at risk was limited at U.S.$8 million.

Currency Risk

In respect of currency risk, the Treasury Department is responsible for the centralised management of the foreign exchange risk of the banking book (strategic position). The Corporate and Investment Bank Department is responsible for currency risk management of trading positions. The Asset and Liability Management Committee sets separate limits on open foreign exchange positions of the banking book and trading positions, as well as

general limits on the open currency position. The Risk Management Department controls limits of trading positions. The Treasury Department of the Alfa Banking Group oversees compliance with limits on open foreign exchange position of the banking book and general limits on the open currency position.

The Alfa Banking Group uses derivatives to manage current and forecast exposures resulting from foreign currencies. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Alfa Banking Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

As a whole, the Alfa Banking Group is exposed to potentially significant risk from sudden fluctuations in the exchange rates of currencies in which the Alfa Banking Group has significant net balance sheet positions. The Alfa Banking Group's major net balance sheet positions are concentrated in U.S. dollars, Roubles and Euros.

The tables below summarise the Alfa Banking Group's exposure to foreign currency exchange rate risk as at the dates indicated. Included in the table are the Alfa Banking Group's assets and liabilities at carrying amounts, categorised by currency.

The Alfa Banking Group's exposure to foreign currency exchange rate risk as at 31 December 2019 was as follows:

	U.S.$	RUB	EUR	Other currencies	Non-monetary	Total
			(U.S.$ millions)			
Assets						
Cash and cash equivalents	1,919	3,265	1,010	256	-	6,450
Mandatory cash balances with central banks	-	412	10	-	-	422
Financial assets at fair value through profit or loss	823	169	2	-	126	1,120
Repurchase receivables relating to financial assets at fair value through profit or loss	3	-	-	-	-	3
Due from other banks	2,377	805	359	1	-	3,542
Loans and advances to customers	7,396	28,723	2,524	-	-	38,643
Investments	1,931	4,904	336	-	-	7,171
Repurchase receivables relating to investments	-	-	132	-	-	132
Other financial assets	119	555	16	34	-	724
Other assets	16	161	-	1	265	443
Premises and equipment	-	-	-	-	816	816
Total assets	**14,584**	**38,994**	**4,389**	**292**	**1,207**	**59,466**
Liabilities						
Due to other banks	406	1,768	263	11	-	2,448
Customer accounts	7,332	30,294	3,582	214	-	41,422
Debt securities issued	977	2,263	468	168	-	3,876
Loan from the State Deposit Insurance Agency	-	470	-	-	-	470
Subordinated debt	1,064	462	40	-	-	1,566
Other financial liabilities	52	1,042	21	11	-	1,126
Other liabilities	149	198	11	-	-	358
Deferred tax liability	-	-	-	-	58	58
Total liabilities	**9,980**	**36,497**	**4,385**	**404**	**58**	**51,324**
Net balance sheet position	**4,604**	**2,497**	**4**	**(112)**	**1,149**	**8,142**
Net balance sheet position less fair value of foreign exchange derivatives	**4,609**	**2,658**	**8**	**(117)**	**1,150**	**8,308**
Foreign exchange derivatives (fair value of currencies receivable or payable)	**3,719**	**(3,900)**	**(123)**	**138**	**-**	**(166)**
Net balance sheet and derivatives position as at 31 December 2019	**8,328**	**(1,242)**	**(115)**	**21**	**1,150**	**8,142**

Almost all non-monetary items are attributable to the Russian Federation.

The table below summarises the Alfa Banking Group's exposure to foreign currency exchange rate risk as monitored by management as at 31 December 2018:

	U.S.$	RUB	EUR	Other currencies	Non-monetary	Total
			(U.S.$ millions)			
Assets						
Cash and cash equivalents	1,008	2,089	1,054	182	-	4,333
Mandatory cash balances with central banks	-	326	10	-	-	336
Financial assets at fair value through profit or loss	665	124	37	3	34	863
Repurchase receivables relating to financial assets at fair value through profit or loss	8	-	-	-	-	8
Due from other banks	2,543	1,441	208	1	-	4,193
Loans and advances to customers	7,225	20,651	1,804	4	-	29,684
Investments	1,596	3,718	498	-	10	5,822
Repurchase receivables relating to investments	3	45	30	-	-	78
Other financial assets	836	88	2	54	-	980
Other assets	6	159	13	1	243	422
Premises and equipment	-	-	-	-	480	480
Total assets	**13,890**	**28,641**	**3,656**	**245**	**767**	**47,199**
Liabilities						
Due to other banks	699	862	297	14	-	1,872
Customer accounts	6,373	21,974	3,602	157	-	32,106
Debt securities issued	957	1,657	477	168	-	3,259
Loan from the State Deposit Insurance Agency	-	367	-	-	-	367
Subordinated debt	602	553	40	-	-	1,195
Other financial liabilities	481	140	12	15	-	648
Other liabilities	98	211	30	-	-	339
Deferred tax liability	-	-	-	-	215	215
Total liabilities	**9,210**	**25,764**	**4,458**	**354**	**215**	**40,001**
Net balance sheet position	**4,680**	**2,877**	**(802)**	**(109)**	**552**	**7,198**
Net balance sheet position less fair value of foreign exchange derivatives	**4,344**	**2,888**	**(806)**	**(113)**	**552**	**6,865**
Foreign exchange derivatives (fair value of currencies receivable or payable)	**3,033**	**(3,440)**	**623**	**117**	**-**	**333**
Net balance sheet and derivatives position as at 31 December 2018	**7,377**	**(552)**	**(183)**	**4**	**552**	**7,198**

Derivatives in each column represent the fair value, as at the end of the reporting period, of the respective currency that the Alfa Banking Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross .

Different entities within the Alfa Banking Group have different functional currencies, based on the underlying economic conditions of their operations. For the purpose of currency risk sensitivity analysis the Alfa Banking Group splits its assets, liabilities and notional amounts of foreign currency receivable and payable at the reporting dates into three currency zones depending on the functional currencies of the entities included in the zone:

- Russian Rouble zone (includes all Russian Federation subsidiaries);
- Euro zone (includes Amsterdam Trade Bank N.V.);
- US Dollar zone (includes all other foreign subsidiaries operating internationally).

Sensitivity analysis presented below indicates the potential effect of the change in foreign exchange market conditions on the profit or loss for the year and risk arising out of translation of the financial statements of subsidiaries into the presentation currency of the Alfa Banking Group.

As the Alfa Banking Group's exposure to currencies other than US Dollar, Euro and Russian Rouble is not considerable in comparison to other exposures, in performing sensitivity analysis the Alfa Banking Group includes its net position in other currencies into the net position in US Dollars. As at 31 December 2019 the Alfa Banking Group's net currency position including foreign currency derivatives was as follows:

	U.S.$/RUB	U.S.$/EUR	EUR/RUB

	(U.S.$ millions)		
Russian Rouble zone	8,321	-	151
Euro zone	-	14	(1)
U.S. dollar zone	35	451	-
Exposure with effect on profit or loss	**8,356**	**465**	**150**
Exposure with effect on other comprehensive income	(8,277)	-	-
Net exposure	**79**	**465**	**150**

As at 31 December 2019 if either of U.S.$/RUB, U.S.$/EUR or EUR/RUB rate changed by +/-10% respectively, this would have affected total comprehensive income for the year (pre-tax) of the Alfa Banking Group and on equity in the following way:

	U.S.$/RUB	**U.S.$/EUR**	**EUR/RUB**
		(U.S.$ millions)	
+10% change in all foreign exchange rates	8	47	15
-10% change in all foreign exchange rates	(8)	(47)	(15)

As at 31 December 2018 the Alfa Banking Group's net currency position including foreign currency derivatives was as follows:

	U.S.$/RUB	**U.S.$/EUR**	**EUR/RUB**
		(U.S.$ millions)	
Russian Rouble zone	6,842	-	237
Euro zone	-	139	(14)
U.S. dollar zone	12	488	-
Exposure with effect on profit or loss	**6,854**	**627**	**223**
Exposure with effect on other comprehensive income	(5,821)	-	-
Net exposure	**1,033**	**627**	**223**

At 31 December 2018 if either of U.S.$/RUB, U.S.$/EUR or EUR/RUB rate changed by +/-10% respectively, this would affect total comprehensive income for the year (pre-tax) of the Alfa Banking Group in the following way:

	U.S.$/RUB	**U.S.$/EUR**	**EUR/RUB**
		(U.S.$ millions)	
+10% change in all foreign exchange rates	103	63	22
-10% change in all foreign exchange rates	(103)	(63)	(22)

Interest rate risk. Interest rate risk of the banking book (the "**IRRBB**") is the current or prospective risk to both the earnings and economic value arising from adverse movements in interest rates that affect interest rate sensitive instruments. IRRBB is assessed in two perspectives: sensitivity of net interest margin (NIM perspective), sensitivity of economic value of equity. Thus, there are two classes of IRRBB metrics employed. Shocks of interest rates for IRRBB metrics calculations are: 1) standardised by Basel committee and 2) developed by the Treasury and the Risk Management Department.

While IRRBB arises from interest rates fluctuations, there are risks, reflecting in both mentioned perspectives of IRRBB, that come from movements in market rates (referring as "market risk") and from Alfa Banking Group's credit spreads oscillations (referring as "spread risk"). Both market and spread IRRBB are measured in terms of NIM's and economic of value equity's sensitivities.

To control for IRRBB volume Asset and Liability Management Committee sets limits for all interest rate risk metrics. Limits for IRRBB metrics are set for significant currencies (these are currencies for each those total outstanding volume is not less than 5 per cent. of the total banking book balance). These are Russian Rouble, US Dollar and Euro. The Alfa Banking Group's IRRBB is managed by the Treasury Department within the limits set by Asset and Liability Committee. Such limits are monitored on a weekly basis by the Assets Liabilities Management Unit of the Treasury Department.

To remain within the limits set by Asset and Liability Committee, the Treasury Department has a mandate to hedge IRRBB. Hedge is achieved both 1) with derivatives and 2) by altering balance sheet structure.

In addition, the risks of changes in prices of individual debt instruments related to trading positions of investment business (i.e. interest rate risk of the trading book) are covered by the limit on the size of the open position and the limit for value at risk.

The table below summarises the Alfa Banking Group's exposure to interest rate risks as monitored by management of the Alfa Banking Group. The table presents the aggregated amounts of the Alfa Banking 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	More than 1 year	No stated maturity	Total
			(U.S.$ millions)			
As at 31 December 2019						
Total financial assets	17,118	12,256	3,322	25,508	3	58,207
Total financial liabilities	(13,284)	(8,845)	(3,859)	(24,920)	-	(50,908)
Effect of interest based derivatives	(1,000)	15	(15)	1,000	-	-
Net interest sensitivity gap as at 31 December 2019	**2,834**	**3,426**	**(552)**	**1,588**	**3**	**7,299**
As at 31 December 2018						
Total financial assets	13,008	10,382	2,728	20,135	44	46,297
Total financial liabilities	(10,345)	(6,527)	(4,326)	(18,249)	-	(39,447)
Effect of interest based derivatives	(14)	(8)	-	-	-	(22)
Net interest sensitivity gap as at 31 December 2018	**2,649**	**3,847**	**(1,598)**	**1,886**	**44**	**6,828**

For the year ended 31 December 2019 and 2018, if interest rates at that date had been 100 basis points higher/lower, with all other variables held constant, pre-tax profit would have been U.S.$230 million higher/lower (U.S.$ 181 million higher/lower in 2018), mainly as a result of higher interest income on loans and advances to customers. Other components of equity (also pre-tax) would have been U.S.$47 million lower/higher (U.S.$ 32 million lower/higher in 2018), as a result of change in the fair value of fixed interest rate debt investments classified as fair value through other comprehensive income.

The Alfa Banking Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

As at 31 December 2019	U.S.$	RUB	EUR	Other currencies
	(in % per annum)			
Assets				
Cash balances with central banks	-	0.0	0.0	-
Correspondent accounts and overnight placements with other banks	0.0	5.8	0.0	0.2
Mandatory cash balances with central banks	-	0.0	0.0	-
Financial assets at fair value through profit or loss	5.2	8.7	3.6	-
Repurchase receivables relating to financial assets at fair value through purchase or loss	0.3	-	-	-
Due from other banks	1.8	6.0	2.1	7.1
Loans and advances to customers				
- Corporate borrowers	4.5	8.8	3.0	5.7
- Individuals	18.2	19.0	24.3	-
Debt investments at fair value through other comprehensive income	3.5	6.3	3.6	-
Repurchase receivables relating to investments at fair value through other comprehensive income	-	-	0.4	-
Investments at amortized cost	5.4	9.2	3.0	-
Repurchase receivables relating to investments at amortized cost	-	-	0.4	-
Liabilities				
Due to other banks	2.3	5.1	0.0	1.0
Customer accounts:				
Individuals				
– Current and settlement accounts	0.2	3.2	0.0	0.0
– Term deposits	1.9	6.5	0.9	0.0
Legal entities				
– Current and settlement accounts	0.3	0.9	0.0	0.0
– Term deposits	1.1	5.7	8.3	0.0
Debt securities issued	6.8	7.7	2.7	3.0
Loan from the State Deposit Insurance Agency	-	15.7	-	-
Subordinated debt	6.8	7.8	4.5	-

As at 31 December 2018:	U.S.$	RUB	EUR	Other currencies
		(in % per annum)		
Assets				

Cash balances with central banks	-	0.0	0.0	-
Correspondent accounts and overnight placements with other banks	0.0	7.5	0.0	0.0
Mandatory cash balances with central banks	-	0.0	0.0	-
Financial assets at fair value through profit or loss	5.3	9.2	3.0	-
Repurchase receivables relating to financial assets at fair value through profit or loss	3.9	-	-	-
Due from other banks	3.0	7.9	2.0	0.0
Loans and advances to customers				
– Corporate borrowers	5.6	9.5	3.7	6.1
– Individuals	17.7	20.1	24.3	-
Debt investments at fair value through other comprehensive income	3.1	7.5	1.5	-
Repurchase receivables relating to investments at fair value through other comprehensive income	-	-	-	-
Investments at amortized cost	5.6	9.5	3.0	-
Repurchase receivables relating to investments at amortized cost	4.1	-	-	-
Liabilities	0	1	0	0
Due to other banks	3.1	6.1	0.2	1.1
Customer accounts:				
Individuals				
– Current and settlement accounts	0.3	3.9	0.1	0.0
– Term deposits	2.4	6.5	0.1	0.0
Legal entities				
– Current and settlement accounts	0.1	0.9	0.0	0.0
– Term deposits	2.3	7.0	0.0	0.0
Debt securities issued	7.4	8.4	2.7	3.0
Loan from the State Deposit Insurance Agency	-	15.7	-	-
Subordinated debt	8.5	7.5	4.5	-

The sign "-" in the table above means that the Alfa Banking Group does not have the assets or liabilities in corresponding currency.

Geographical risk concentrations. As at 31 December 2019 and 2018 majority of assets, liabilities and credit related commitments of the Alfa Banking Group are concentrated in the Russian Federation. Also the Alfa Banking Group has certain balances (mainly cash and cash equivalents, loans and advances to customers and debt securities) in Europe, USA and CIS. The majority of the Alfa Banking Group's revenues are generated from counterparties domiciled in the Russian Federation as well as substantially all of capital expenditure of the Alfa Banking Group relates to operations of the Alfa Banking Group in the Russian Federation.

Liquidity risk. Liquidity risk is a risk of incapacity of the credit institution to finance its activities, i.e., support the growth of assets and fulfil the obligations at maturity without incurring losses in amounts endangering the financial stability of the credit institution. The Alfa Banking Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and from margin and other calls on derivative instruments. The Alfa Banking Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Treasury Department and is monitored by Asset and Liability Management Committee of the Alfa Banking Group.

The Alfa Banking Group seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customer deposits, debt securities in issue and due to other banks and maintain an adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Alfa Banking Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans, monitoring liquidity ratios and liquidity factors against regulatory or Alfa Banking Group risk-appetite requirements. Alfa Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the CBR. These ratios are:

(i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;

(ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;

(iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year;

(iv) liquidity coverage ratio (PKL, N26), which is calculated as the ratio of highly liquid assets that will be received during the next calendar day without substantial loss in value to the amount of net expected outflow of funds on the operations of the bank for the next 30 calendar days;

(v) net stable funding ratio (NSFR, N28) in accordance with the internal and the CBR requirements, different ratios of concentration of liabilities by groups of clients, covenants, deposits with rights of cancellation, etc.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks (including the CBR and Federal Treasury for Russian Roubles and central banks for other currencies) and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Alfa Banking Group as a whole.

For regular stress-test purposes, the Treasury Department runs liquidity forecast models for different financial instruments on a daily basis. Different scenarios are tracked: including or disregarding projected new lending. Information on the level of delinquencies that result in late payments is regularly updated for the liquidity forecast. These liquidity forecast models are aggregated into liquidity position under a crisis scenario. The crisis scenario's liquidity position is calculated on a daily basis and additionally covers severe market conditions: crisis customer's outflows, defaults of loans, the CBR facilities, etc. The Asset and Liability Management Committee sets the limits as "survival horizon" (continuous number of days of positive liquidity under crisis scenario) separately for local currency, foreign currency and total.

Liquidity risk-appetite ratios are reported on regular basis to the Executive Board of Alfa Bank, Asset and Liability Management Committee and the Board of Directors of Alfa Bank.

The tables below show liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position because the amounts in the consolidated statement of financial position are based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amounts are determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of undiscounted financial liabilities as at 31 December 2019 was as follows:

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
			(U.S.$ millions)		
Liabilities					
Due to other banks	1,187	939	204	144	2,474
Customer accounts - individuals	14,944	3,166	2,489	1,350	21,949
Customer accounts - other	17,119	3,577	232	165	21,093
Debt securities issued	7	643	253	3,890	4,793
Loan from the State Deposit Insurance Agency	-	1	1	898	900
Subordinated debt	-	246	522	1,103	1,871
Other non-derivative financial liabilities	191	38	26	241	496
Gross settled swaps and forwards:					
- inflows	(639)	(626)	(2,622)	(1,050)	(4,937)
- outflows	647	630	2,642	1,047	4,966
Net settled derivatives	87	254	238	3	582
Unused credit cards limits	6,523	-	-	-	6,523
Import letters of credit	551	-	-	-	551
Corporate overdrafts	1,063	-	-	-	1,063
Financial guarantees	157	-	-	-	157
Total potential future payments for financial obligations	**41,837**	**8,868**	**3,985**	**7,791**	**62,481**

Payments in respect of gross settled forwards will be accompanied by related cash inflows as disclosed above.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The maturity analysis of undiscounted financial liabilities as at 31 December 2018 was as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
			(U.S.$ millions)		
Liabilities					
Due to other banks	858	506	214	310	1 888
Customer accounts - individuals	10,922	2,176	2,363	1,274	16,735
Customer accounts - other	12,462	2,969	199	165	15,795
Debt securities issued	115	206	286	3,244	3,851
Loan from the State Deposit Insurance Agency	-	2	2	830	834
Subordinated debt	-	35	576	723	1,334
Other non-derivative financial liabilities	131	2	10	12	155
Gross settled swaps and forwards:					
- inflows	(1,433)	(1,579)	(224)	(1,456)	(4,692)
- outflows	1,408	1,470	234	1,422	4,534
Net settled derivatives	90	202	89	15	396
Unused credit cards limits	3,840	-	-	-	3,840
Import letters of credit	503	-	-	-	503
Corporate overdrafts	395	-	-	-	395
Financial guarantees	198	-	-	-	198
Total potential future payments for financial obligations	**29,489**	**5,989**	**3,749**	**6,539**	**45,766**

The Alfa Banking Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Treasury Department monitors expected maturities.

The following table represents analysis of assets and liabilities as at 31 December 2019 by their expected maturities as determined by the management. This analysis was prepared on the basis of contractual maturities except for adjustments in relation to (i) trading securities and (ii) part of customer accounts. The entire portfolio of trading securities was classified within "demand and less than 1 month" based on the Executive Board's assessment of the portfolio's realisability. Part of current/settlement/demand accounts was reallocated from "demand and less than 1 month" category to baskets with later maturities. On the basis of past experience Alfa Banking Group believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least part of these current/demand/settlement accounts would provide a long-term and stable source of funding for the Alfa Banking Group.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
			(U.S.$ millions)			
Assets						
Cash and cash equivalents	6,450	-	-	-	-	6,450
Mandatory cash balances with central banks	422	-	-	-	-	422
Financial assets at fair value through profit or loss	932	-	-	185	3	1,120
Repurchase receivables relating to financial assets at fair value through profit or loss	3	-	-	-	-	3
Due from other banks	3,100	13	81	348	-	3,542
Loans and advances to customers	2,927	7,265	2,628	25,823	-	38,643
Investments	1,169	3,425	510	2,067	-	7,171
Repurchase receivables relating to investments	11	-	59	62	-	132
Other financial assets	307	226	166	25	-	724
Other assets	137	36	2	3	265	443
Premises and equipment	-	-	-	-	816	816
Total assets	**15,458**	**10,965**	**3,446**	**28,513**	**1,084**	**59,466**
Liabilities						

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
			(U.S.$ millions)			
Due to other banks	1,186	930	199	133	-	2,448
Customer accounts	11,711	6,768	2,695	20,248	-	41,422
Debt securities issued	9	643	149	3,075	-	3,876
Loan from the State Deposit Insurance Agency	-	-	-	470	-	470
Subordinated debt	-	224	462	880	-	1,566
Other financial liabilities	296	280	273	277	-	1,126
Other liabilities	87	34	30	207	-	358
Deferred tax liability	-	-	-	-	58	58
Total liabilities	**13,289**	**8,879**	**3,808**	**25,290**	**58**	**51,324**
Net expected liquidity gap as at 31 December 2019	**2,169**	**2,086**	**(362)**	**3,223**	**1,026**	**8,142**
Cumulative expected liquidity gap as at 31 December 2019	**2,169**	**4,255**	**3,893**	**7,116**	**8,142**	

The following table represents analysis of assets and liabilities as at 31 December 2018 by their expected maturities as determined by the Alfa Banking Group:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
			(U.S.$ millions)			
Assets						
Cash and cash equivalents	4,333	-	-	-	-	4,333
Mandatory cash balances with central banks	336	-	-	-	-	336
Financial assets at fair value through profit or loss	634	19	-	210	-	863
Repurchase receivables relating to financial assets at fair value through profit or loss	8	-	-	-	-	8
Due from other banks	3,684	386	-	123	-	4,193
Loans and advances to customers	2,053	5,120	2,517	19,994	-	29,684
Investments	60	2,883	109	2,759	11	5,822
Repurchase receivables relating to investments	48	-	30	-	-	78
Other financial assets	279	391	164	146	-	980
Other assets	84	5	82	8	243	422
Premises and equipment	-	-	-	-	480	480
Total assets	**11,519**	**8,804**	**2,902**	**23,240**	**734**	**47,199**
Liabilities						
Due to other banks	857	503	209	303	-	1,872
Customer accounts	9,129	5,604	3,317	14,056	-	32,106
Debt securities issued	114	175	194	2,776	-	3,259
Loan from the State Deposit Insurance Agency	-	-	-	367	-	367
Subordinated debt	-	15	514	666	-	1,195
Other financial liabilities	245	230	92	81	-	648
Other liabilities	43	204	13	79	-	339
Deferred tax liability	-	-	-	-	215	215
Total liabilities	**10,388**	**6,731**	**4,339**	**18,328**	**215**	**40,001**
Net expected liquidity gap as at 31 December 2018	**1,131**	**2,073**	**(1,437)**	**4,912**	**519**	**7,198**
Cumulative expected liquidity gap as at 31 December 2018	**1,131**	**3,204**	**1,767**	**6,679**	**7,198**	

Assets and liabilities disclosed as "no stated maturity" are expected to be recovered or settled after twelve months after the reporting period.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitments because the Alfa Banking Group does not generally expect the third party to

draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Alfa Banking Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Alfa Banking Group and its exposure to changes in interest and exchange rates.

Operational risk. Operational risk is defined as risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. The events that are included under this definition of operational risk are, mainly, losses from fraud, computer system failures, settlement errors, model errors or natural disasters.

The Alfa Banking Group monitors its operational risk profile and material exposures to operational losses on a regular basis. The Alfa Banking Group's system of regular reporting of information to senior management supports the proactive management of operational risk.

Activities of the Alfa Banking Group's operational risk management includes: identification, assessment, monitoring and reporting, control and/or minimization of the Alfa Banking Group's exposure to operational risk as well as the distribution of responsibilities and authorities to manage operational risk. Information on realised operational risks and losses are collected in the Alfa Banking Group's own loss database system.

In order to identify and assess operational risks, the Alfa Banking Group uses the following operational risk management tools:

- analysis of processes;
- internal loss data collection and analysis;
- external loss data collection and analysis;
- risk and control self-assessment (RCSA);
- key risk indicators (KRI);
- scenario analysis (stress-testing).

The main principles and instruments of operational risk minimisation are defined by the Alfa Banking Group's Operational Risk Management Policy.

The Alfa Banking Group regards active participation of its business divisions as a cornerstone for effective risk management. Each business division is primarily responsible for the identification and assessment of operational risk arising from its business operations. In circumstances where a business division considers it appropriate, operational risk is insured.

The Operational Risk Steering Committee, which meets monthly, monitors the level of operational risk, coordinates the operational risk management across the departments and approves procedures for operational risk identification. ORSC takes part in carrying out operational risk analysis of new products and complex transactions, approval of internal documents regarding operational risk.

Each year, the Alfa Banking Group obtains an international comprehensive banking risk insurance policy, also known as a "banker's blanket bond", which covers its professional activities world-wide and insures it against, among other things, forgery, electronic and computer crimes and employees' unlawful actions. The amount of indemnity coverage provided by the policy as at the date of this Base Prospectus in effect is limited to U.S.$80 million for BBB coverage and computer crime and U.S.$72.5 million for professional indemnity (which includes liability to third parties arising from negligence or error on the part of the Alfa Banking Group), and in each case an additional U.S.$5 million coverage for independent directors.

Anti-Money Laundering Measures

As a member state of the FATF, the Russian Federation adopted the Anti-Money Laundering Law. This law

remains the principal legislative source in the Russian Federation for combating money laundering. Subsequent to the passage of the Anti-Money Laundering Law, the CBR promulgated a number of regulations in this field specifically for the banking sector.

Alfa Bank's management believes that Alfa Bank's internal policies and procedures, which have been approved by the CBR, comply fully with the provisions of the Anti-Money Laundering Law and applicable regulations.

Alfa Bank's anti-money laundering policy requires, among other things: risk-based identification of every client, verification of each client's documents, monitoring of each client's operations, detection and reporting of operations according to suspicious (or unusual) obligatory control criteria, record keeping and staff training. All detected suspicious operations and operations that are subject to obligatory control must be reported by Alfa Bank's compliance department on a daily basis to the CBR for further reporting to the Federal Service for Financial Monitoring.

Anti-Terrorism and Compliance Measures

Every new customer of the Alfa Banking Group is screened against the Federal Service for Financial Monitoring's List of Designated Extremists. In addition, all incoming and outgoing international payments are checked by the Alfa Banking Group's compliance department against the lists of all the major sanctioning bodies, such as the United Nations, OFAC, the European Union and law enforcement agencies and regulators. The compliance department consists of approximately 60 people, including a team of five members which is dedicated to monitoring transactions and any dealings with existing customers and reviewing potential business projects for purposes of compliance with any applicable sanctions and restrictions. The department also obtains certifications from its customers and counterparties and conducts diligence exercises with respect to any applicable sanctions and restrictions. The compliance department is continually developing and has put in place internal regulations and policies that need to be complied with and followed by all relevant departments of the Alfa Banking Group. The department's staff also conducts regular training courses and internal programmes for the Alfa Banking Group personnel.

SELECTED STATISTICAL AND OTHER INFORMATION

The following selected statistical and other financial information is derived, where applicable, from the Consolidated Financial Statements.

Average Balance Sheet and Interest Rate Data

The following tables sets forth the consolidated average balances of assets and liabilities of the Alfa Banking Group for the periods indicated and, for interest-earning assets and interest-bearing liabilities, sets forth the amount of interest income or expense and the average rate of such interest for such assets and liabilities.

For the purposes of the following table, the consolidated average balances of assets, liabilities and equity represent the average of the opening, mid and closing balances for the years ended 31 December 2019 and 31 December 2018. The results of this analysis would likely be different if alternative averaging balance methods were used.

	For the year ended 31 December 2019			For the year ended 31 December 2018		
	Average Balance	Interest Income/ Expense	Average Interest Rate[1]	Average Balance	Interest Income/ Expense	Average Interest Rate
	(U.S.$ millions except as otherwise stated)					
Assets						
Interest-earning assets						
Loans and advances to individuals[2]	8,225	1,210	14.7%	5,183	853	16.5%
Loans and advances to corporate customers[2]	26,813	2,172	8.1%	24,353	1,972	8.1%
Financial assets at fair value through profit or loss and repurchase receivables[3]	922	43	4.7%	1,156	56	4.8%
Debt investments at fair value through other comprehensive income and repurchase receivables	4,151	206	5.0%	2,680	193	7.2%
Investments at amortized cost and repurchase receivables[2]	2,374	166	7.0%	2,510	161	6.4%
Due from other banks	3,674	171	4.7%	4,113	236	5.7%
Due from other banks, correspondent accounts and overnight deposits	6,401	171	2.7%	5,992	236	3.9%
Total interest-earning assets	**48,886**	**3,968**	**8.1%**	**41,874**	**3,471**	**8.3%**
Non-interest earning assets						
Cash on hand and cash balances with central banks	2,806	-	-	2,533	-	-
Mandatory cash balances with central banks	377	-	-	325	-	-
Credit loss allowance	(1,119)	-	-	(826)	-	-
Credit loss allowance for investment at amortized cost	(3)	-	-	(3)	-	-
Investments, financial assets at fair value through profit or loss and repurchase receivables[3]	63	-	-	72	-	-
Premises and equipment and right-of-use assets	657	-	-	513	-	-
Other financial assets (including derivatives) and other assets	1,244	-	-	1,182	-	-
Total average assets	**52,911**	-	-	**45,670**	**-**	**-**
Liabilities and equity						
Interest bearing liabilities						
Due to other banks	2,423	130	5.4%	1,952	105	5.4%
Term deposits of individuals	7,195	327	4.5%	6,442	257	4.0%
Term deposits of legal entities	9,865	550	5.6%	9,007	528	5.9%
Current/settlement accounts	18,903	284	1.5%	15,039	175	1.2%
Debt securities issued	3,650	248	6.8%	3,466	232	6.7%
Loan from the State Deposit Insurance Agency	423	62	14.7%	378	58	15.3%
Subordinated debt	1,341	103	7.7%	1,276	105	8.2%

	For the year ended 31 December 2019			For the year ended 31 December 2018		
	Average Balance	Interest Income/ Expense	Average Interest Rate[1]	Average Balance	Interest Income/ Expense	Average Interest Rate
		(U.S.$ millions except as otherwise stated)				
Total interest bearing liabilities	**43,800**	**1,704**	**3.9%**	**37,560**	**1,460**	**3.9%**
Non-interest bearing liabilities and equity						
Other financial liabilities (including derivatives) and other liabilities	1,325	-	-	1,113	-	-
Deferred tax liability	120	-	-	101	-	-
Equity	7,666	-	-	6,896	-	-
Non-controlling interests	43	-	-	53	-	-
Net assets attributable to the Company's owners	7,623	-	-	6,843	-	-
Total average liabilities and equity	**52,911**	-	-	**45,670**	-	-
Net interest margin ratio[4]	4.6%	-	-	4.8%	-	-

(1) Average interest rates on interest-earning assets are calculated as sum of total interest income and other similar income divided by average interest-earning assets. Average interest rates on interest-bearing liabilities are calculated as total interest expense divided by average interest-bearing liabilities.
(2) Before credit loss allowance.
(3) Excludes equity securities, as these securities are not interest-earning.
(4) Net interest income before credit loss allowance and not including other similar expense and deposit insurance expense, expressed as a percentage of average interest-earning assets.

Investment Portfolio

The following table sets out information relating to the Alfa Banking Group's gross securities portfolio by investment category as at 31 December 2019 and 31 December 2018:

	As at 31 December	
	2019	2018
	(U.S.$ millions)	
Corporate Eurobonds	591	442
Corporate bonds	155	120
Eurobonds and bonds of other states	54	29
Russian Federation bonds and Eurobonds	3	9
ADRs and GDRs	100	8
Corporate shares	20	7
Repurchase receivables relating to trading securities	3	8
Other financial instruments mandatorily measured at fair value through profit or loss	197	248
Total financial assets at fair value through profit or loss and repurchase receivables	**1,123**	**871**
Investments at amortized cost	2,334	2,426
Debt investments at fair value through other comprehensive income	4,840	3,388
Equity investments at fair value through other comprehensive income	-	10
Other investments	1	1
Credit loss allowance	(4)	(3)
Repurchase receivables relating to investments	132	78
Total investments and repurchase receivables relating to investments	**7,303**	**5,900**

Loans

The Alfa Banking Group's loans include loans to banks and loans to corporate and retail customers.

The following table provides a breakdown of the Alfa Banking Group's loans by loans to customers and due from banks as at 31 December 2019 and 31 December 2018:

	As at 31 December			
	2019		2018	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
Corporate customers				
Corporate borrowers	26,638	61.4	22,350	64.3

	As at 31 December			
	2019		2018	
Finance lease receivables	1,498	3.5	1,218	3.5
Reverse sale and repurchase receivables	1,213	2.8	911	2.6
Advances on lease operations	49	0.1	20	0.1
Individuals				
Personal instalment loans	5,602	12.9	3,216	9.3
Credit cards	2,923	6.7	2,176	6.3
Mortgage loans	1,810	4.2	519	1.5
Consumer (POS) loans	49	0.1	127	0.4
Reverse sale and repurchase receivables	58	0.1	35	0.1
Total gross loans and advances to customers	**39,840**	**91.8**	**30,572**	**87.9**
Due from other banks[1]				
Term placements	1,208	2.8	1,703	4.9
Reverse sale and repurchase agreements	2,334	5.4	2,490	7.2
Total due from other banks	**3,542**	**8.2**	**4,193**	**12.1**
Subtotal	**43,382**	**100**	**34,765**	**100**
Credit loss allowance[2]	(1,197)	–	(888)	–
Total	**42,185**	–	**33,877**	–

(1) Not including mandatory cash balances with the CBR or other central banks and correspondent accounts and overnight placements with other banks.
(2) This credit loss allowance relates to loans and advances to customers.

Economic Sector Concentration

The following tables set forth the structure of the Alfa Banking Group's gross loans and advances to customers by economic sector as at 31 December 2019 and 31 December 2018:

	As at 31 December			
	2019		2018	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
Sector				
Individuals	10,442	26	6,073	20
Oil industry	4,975	12	3,999	13
Food industry and agriculture	3,500	9	2,494	8
Finance and investment companies	2,839	8	2,391	8
Real estate and construction	2,861	7	2,757	7
Trade and commerce	2,810	7	2,133	9
Mass media and telecommunications	1,851	5	903	3
Chemistry and petrochemistry	1,847	5	1,546	5
Ferrous metallurgy	1,823	5	1,176	4
Non-ferrous metallurgy	1,317	3	1,409	5
Railway transport	939	2	1,062	4
Power generation	696	2	356	1
Coal Industry	686	2	736	2
Miscellaneous machinery and metal working	526	1	545	2
Water transport	485	1	380	1
Nuclear industry	463	1	481	2
Timber industry	452	1	953	3
Aviation transport	445	1	414	1
Diamond extraction and processing	233	-	4	-
Other	650	2	760	2
Total gross loans and advances to customers	**39,840**	**100**	**30,572**	**100**

Geographic Area

As at 31 December 2019 and 31 December 2018, the Alfa Banking Group concentrated the majority of its assets, liabilities and credit related commitments in the Russian Federation and had certain balances (mainly cash and cash equivalents, loans and advances to customers and debt securities) in Europe, USA and CIS (primary in Ukraine, Kazakhstan and Belarus).

The majority of the Alfa Banking Group's revenues are generated from the counterparties domiciled in the Russian Federation and substantially all of capital expenditure of the Alfa Banking Group relates to operations in the Russian Federation.

Maturity

The following table sets forth the structure of the Alfa Banking Group's net loans and advances to customers by their remaining contractual maturity, as at 31 December 2019 and 31 December 2018:

	As at 31 December			
	2019		2018	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
Demand and less than one month	2,927	7.6	2,053	6.9
1-6 months	7,265	18.8	5,120	17.2
6-12 months	2,628	6.8	2,517	8.5
More than 1 year	25,823	66.8	19,994	67.4
Total loans and advances to customers	**38,643**	**100**	**29,684**	**100**

Currency

The Alfa Banking Group's loans and advances to customers comprise loans denominated in U.S. dollars, Roubles, Euros and other currencies.

The following table provides a breakdown of the Alfa Banking Group's net loans and advances to customers by currency, as at 31 December 2019 and 31 December 2018:

	As at 31 December			
	2019		2018	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
U.S. dollars	7,396	19.1	7,225	24.3
Roubles	28,723	74.4	20,651	69.6
Euros	2,524	6.5	1,804	6.1
Other currencies	-	0.0	4	0.0
Total loans and advances to customers	**38,643**	**100**	**29,684**	**100**

Customer Concentration

The following table shows the Alfa Banking Group's ten largest non-bank borrowers (by gross loan exposure) as at 31 December 2019, which together accounted for 18.4 per cent. of the Alfa Banking Group's total gross loans and advances to customers, having decreased from 21.7 per cent. as at 31 December 2018.

		As at 31 December 2019
Customer	**Industry**	*(U.S.$ millions)*
Customer 1	Oil industry	1,059
Customer 2	Oil industry	859
Customer 3	Oil industry	838
Customer 4	Oil industry	723
Customer 5	Chemistry and petrochemistry	713
Customer 6	Ferrous metallurgy	702
Customer 7	Ferrous metallurgy, Other	620
Customer 8	Finance and investment companies	608
Customer 9	Agriculture and food industry	607
Customer 10	Real estate, construction	589
Total		**7,318**

The following table shows the Alfa Banking Group's ten largest non-bank borrowers (by gross loan exposure) as at 31 December 2018, which together accounted for 21.7 per cent. of the Alfa Banking Group's total gross loans and advances to customers, having decreased from 27.4 per cent. as at 31 December 2017.

		As at 31 December 2018
Customer	**Industry**	*(U.S.$ millions)*
Customer 1	Oil industry	1,143
Customer 2	Oil industry	808
Customer 3	Oil industry	747
Customer 4	Real estate	692
Customer 5	Oil industry	579
Customer 6	Finance and investment companies	565
Customer 7	Timber industry	549
Customer 8	Non-ferrous metallurgy	540

Customer	Industry	As at 31 December 2018 (U.S.$ millions)
Customer 9	Chemistry and petrochemistry	512
Customer 10	Ferrous metallurgy	494
Total		**6,629**

Credit loss allowance

Under modified risk management policies implemented during the global economic crisis, the Alfa Banking Group conservatively assessed possible losses on the loans and advances to customers and created sufficient credit loss allowance to fully cover them, reduced lending to second tier borrowers and reduced lending limits for certain industries such as construction and railway transportation. At the same time maximum internal lending limits to certain top quality borrowers, which required lower credit loss allowance level, were increased.

The following table shows movements in the Alfa Banking Group's credit loss allowance for the year ended 31 December 2019.

	Corporate customers		Individuals				
	Corporate borrowers	Finance lease receivables	Personal instalment loans	Credit cards	Mortgage loans	Consumer (POS) loans	Total
			(U.S.$ millions)				
Credit loss allowance as at 1 January 2019	**570**	**9**	**156**	**138**	**6**	**9**	**888**
Credit loss allowance during the year	393	9	164	136	4	4	710
Amounts written off as uncollectible	(311)	(2)	(58)	(74)	-	(11)	(456)
Unwinding of discount	12	-	-	-	-	-	12
Effect of translation to functional currency	(41)	-	-	-	-	-	(41)
Effect of translation to presentation currency	58	-	13	12	-	1	84
Credit loss allowance as at 31 December 2019	**681**	**16**	**275**	**212**	**10**	**3**	**1,197**

The following table shows movements in the Alfa Banking Group's credit loss allowance for the year ended 31 December 2018.

	Corporate customers		Individuals				
	Corporate borrowers	Finance lease receivables	Personal instalment loans	Credit cards	Mortgage loans	Consumer (POS) loans	Total
			(U.S.$ millions)				
Credit loss allowance as at 1 January 2018	**580**	**14**	**149**	**156**	**3**	**42**	**944**
Credit loss allowance during the year	134	(3)	92	82	3	-	308
Amounts written off as uncollectible	(123)	-	(62)	(80)	-	(27)	(292)
Unwinding of discount	8	-	-	-	-	-	8
Effect of translation to functional currency	27	-	-	-	-	-	27
Effect of translation to presentation currency	(56)	(2)	(23)	(20)	-	(6)	(107)
Credit loss allowance as at 31 December 2018	**570**	**9**	**156**	**138**	**6**	**9**	**888**

RELATED PARTY TRANSACTIONS

The Alfa Banking Group may from time to time conduct business with related parties. As at 31 December 2019, the Alfa Banking Group's loans and advances to customers included balances outstanding from related parties representing 0.2 per cent. and 0.1 per cent. of gross loans to customers and total assets, respectively, compared to 0.3 per cent. and 0.17 per cent. as at 31 December 2018. As at 31 December 2019, the Alfa Banking Group's credit related commitments and performance guarantees to related parties amounted to 0.1 per cent. of total credit related commitments and performance guarantees, compared to 0.4 per cent. as at 31 December 2018.

The Alfa Banking Group enters into transactions in the normal course of its business with significant shareholders, directors, associated companies and companies with which the Alfa Banking Group has significant shareholders in common. These transactions include settlement, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions.

Historically, the most significant related parties of the Alfa Banking Group (by volume of transactions) were the shareholders of the Alfa Banking Group, members of the Alfa Group (some of which ceased to be related parties from December 2014), members of the ABH Ukraine Group and Alfa DA Limited (which was related party until December 2014) and its subsidiaries.

The total amount maintained in customer accounts with the Alfa Banking Group by related parties as at 31 December 2019 was U.S.$322 million, which was 0.8 per cent. of the total customer accounts of the Alfa Banking Group, compared to U.S.$260 million and 0.8 per cent. as at 31 December 2018.

Related parties are defined in accordance with IFRS - see Note "Related Party Transactions" to the Consolidated Financial Statements included elsewhere in this Base Prospectus.

The following tables describe the related party balances and transactions as at and for the periods ended 31 December 2019 and 31 December 2018.

	As at 31 December			
	2019		2018	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
Correspondent accounts with other banks	9	0.3	2	0.1
Loans and advances to customers (before credit loss allowance)	62	0.2	79	0.3
Receivables	12	1.0	33	2.4
Due to other banks	12	0.5	13	0.7
Customer accounts	322	0.8	260	0.8
Subordinated loan	40	2.6	40	3.3
Payables	37	2.5	25	2.5
Guarantees issued	8	0.1	27	0.4

	Year ended 31 December			
	2019		2018	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
Interest income	5	0.1	4	0.1
Interest expense	(13)	0.8	(12)	0.8
Fee and commission income	167	10.6	135	9.3
Fee and commission expense	(4)	0.8	(2)	0.4
Other expenses	(46)	3.5	(30)	2.4

Refer to Note "Related Party Transactions" of the Consolidated Financial Statements for more detailed information on related party transactions (including but not limited to more information on the key management compensation, transactions with investments performed with related parties and disbursements and contributions from the shareholders).

The following tables set out information on the Alfa Banking Group's loans to customers, guarantees issued and customer accounts with respect to the main groups of related parties as at the relevant dates.

	As at 31 December	
	2019	2018
Gross loans		
Subsidiaries of ABH Holdings	7	17
Key management	5	12
Shareholders	50	50
Total	**62**	**79**

	As at 31 December	
	2019	2018
	(U.S.$ millions)	
Guarantees issued		
Subsidiaries of ABH Holdings	8	27
Total	**8**	**27**

	As at 31 December	
	2019	2018
	(U.S.$ millions)	
Customer accounts		
Shareholders	106	103
ABH Holdings	18	-
Subsidiaries of ABH Holdings	180	121
Key management	13	20
Other related parties	5	16
Total	**322**	**260**

CAPITAL ADEQUACY

Alfa Bank

Alfa Bank is required to comply with a number of mandatory economic ratios set by the CBR. In particular, the CBR establishes capital adequacy and risk diversification ratios.

On 1 March 2013, Regulation No. 395-P entered into force in Russia. The new regulatory capital requirements provided by Regulation No. 395-P are being phased in gradually starting from 1 January 2014 until 1 January 2018, which was replaced with new Regulation No. 646-P on 28 September 2018. See "*The Banking Sector and Banking Regulation in the Russian Federation*" for a more detailed discussion of these requirements, and "*Risk Factors—Risks Relating to the Alfa Banking Group's Business and Industry—The Alfa Banking Group may be unable to meet its regulatory requirements relating to capital adequacy*".

For the purposes of calculating Alfa Bank's capital adequacy ratios according to the CBR's requirements, Alfa Bank's principal assets are divided into five categories with different risk weightings. Under Russian law, the N1.0 Ratio that the banks are required to maintain is calculated (on an unconsolidated basis) as the ratio of a bank's owned funds (its capital) to the total amount of its risk weighted assets. The minimum N1.0 Ratio required by the CBR as at the date of this Base Prospectus is 8.0 per cent. If the capital adequacy ratio of a bank drops below 2 per cent., then the CBR will revoke its banking licence. In addition, banks are required to maintain the N1.1 Ratio and the N1.2 Ratio at or above 4.5 per cent. and 6.0 per cent. As at the date of this Base Prospectus, a capital conservation buffer of 2.5 per cent. and a capital buffer for systemically important credit organisations of 1 per cent. is applicable to Alfa Bank's minimum capital adequacy requirements. Alfa Bank's N1.0 Ratio is calculated by Alfa Bank on the basis of the statutory RAR audited financial statements of Alfa Bank adjusted for post-balance sheet events (as prescribed by applicable CBR regulations). Alfa Bank's N1.0 Ratio amounted to 12.65 per cent. as at 1 January 2020 and to 13.52 per cent. as at 1 January 2019, which in each case exceeded the minimum required by the CBR. Alfa Bank's N1.1 Ratio and N1.2 Ratio as of 1 January 2020 amounted to 9.09 per cent. and 10.67 per cent., respectively, and as of 1 January 2019 amounted to 9.50 per cent. and 11.55 per cent., which in each case exceeded the minimum required by the CBR.

For the purposes of calculating Alfa Bank's CBR capital adequacy ratios, Alfa Bank had equity capital of RUB 485,640.4 million as at 1 January 2020 and RUB450,867.3 million as at 1 January 2019. As at the date of this Base Prospectus, as an unregulated bank holding company, ABH Financial does not have an obligation to meet specific international or Russian regulatory capital ratios, see "*Operating and Financial Review of the Alfa Banking Group—Capital Adequacy*".

The following table sets out Alfa Bank's mandatory economic ratios calculated in accordance with the requirements of the CBR as at 1 January 2020 and 1 January 2019 and based upon statutory RAR financial statements:

	CBR minimum/ maximum ratio requirements	As at 1 January	
		2020	2019
Mandatory Economic Ratios			
Capital adequacy ratio (N1)	N1 – Min 8	12.7	13.5
Bank liquidity ratios (N2, N3 and N4)	N2 – Min 15	162.0	110.8
	N3 – Min 50	158.5	129.2
	N4 – Max 120	51.5	54.5
Maximum amount of risk per borrower or per group of related borrowers (N6)	N6 – Max 25	15.7	20.1
Maximum amount of large credit risks (N7)	N7 – Max 800	207.9	234.6
Aggregate amount of exposure to the bank's insiders (N10.1)	N10.1 – Max 3	0.1	0.1
Ratio for the use of the bank's own resources (capital) to acquire participation interests in other legal entities (N12)	N12 – Max 25	1.2	3.2

Note: All figures in percentages. In this table, "0.0" means that Alfa Bank had no exposure.

If Alfa Bank were required to calculate its capital adequacy based upon IFRS financial statements, according to the BIS Guidelines regarding solvency and capitalisation, then no assurances can be given that, without any appropriate remedial action, Alfa Bank's capital adequacy would satisfy such guidelines.

The Alfa Banking Group

The Alfa Banking Group calculates its capital adequacy ratio based on Basel III. See "*Risk Factors—Risks Relating to Alfa Banking Group's Business and Industry—The Alfa Banking Group may be unable to meet its regulatory requirements related to capital adequacy*". Details of the Alfa Banking Group's capital adequacy as at 31 December 2019 and 31 December 2018, calculated in accordance with Basel III and based on the amounts

derived from IFRS accounting records, are set out below:

	As at 31 December	
	2019	**2018**
	(U.S.$ millions except as otherwise stated)	
Common equity Tier 1 capital (CET 1)	6,973	6,088
Additional Tier 1 capital: instruments	966	943
Tier 1 Capital	7,939	7,031
Tier 2 Capital	971	332
Total Capital	**8,910**	**7,363**
Risk weighted assets	48,581	40,558
Capital adequacy ratios		
Tier 1 capital adequacy ratio[(1)]	16.3%	17.3%
Total capital adequacy ratio[(1)]	18.3%	18.2%

Notes:

(1) Capital as a percentage of risk weighted assets

SELECTED FINANCIAL AND OTHER RATIOS OF THE ALFA BANKING GROUP

	As at and for the year ended 31 December	
	2019	2018
Combined Key Ratios[3]		
Return on equity[1]	9.2%	19.5%
Return on assets[5]	1.3%	2.9%
Operating expenses/operating income before credit loss allowance and other provisions[4]	44.3%	39.4%
Credit loss allowance for loans and advances to customers/gross loans and advances to customers	3.0%	2.9%
Profitability Ratios[3]		
Operating expenses/net margin	62.3%	64.4%
Profit/total assets[7]	1.2%	2.8%
Balance Sheet Ratios[3]		
Customer accounts/total assets[8]	69.7%	68.0%
Total net loans to customers/total assets[9]	65.0%	62.9%
Total equity/total assets[10]	13.7%	15.3%
Liquid assets[2]/customer accounts[11]	25.8%	27.7%
Liquid assets[2]/liabilities of up to one month[6]	80.3%	85.6%
Capital Adequacy Ratios[3]		
Tier I capital adequacy ratio	16.3%	17.3%
Total capital adequacy ratio	18.3%	18.2%
Credit Quality Ratios[3]		
Overdue loans to customers/total gross loans to customers	1.9%	2.6%
Credit loss allowance for loans to customers/overdue loans to customers	159.4%	112.8%

Notes:

(1) Calculated as profit for the period/average equity (calculated as sum of opening and closing balances divided by two).

(2) Liquid assets comprise cash and cash equivalents, due from other banks (with a maturity of less than one month) and financial assets at fair value through profit or loss and repurchase receivables relating to financial assets at fair value through profit or loss at the end of the respective reporting period.

(3) Non-IFRS measures are presented because ABH Financial considers them an important supplemental measure of ABH Financial's operating performance and financial position and believes they are used by securities analysts, investors and other interested parties in the evaluation of companies in ABH Financial's industry. Non-IFRS measures have limitations, and they should not be considered in isolation, or as a substitute for analysis of ABH Financial's operating results and financial position as reported under IFRS. ABH Financial compensates for the limitations of Non-IFRS measures by relying primarily on its IFRS operating results and using Non-IFRS measures only supplemental. See the Consolidated Financial Statements and information about ABH Financial included elsewhere in this Base Prospectus.

The Alfa Banking Group calculates its capital adequacy ratio based on Basel III.

(4) Operating income equals profit before tax and before operating expenses.

(5) Calculated as profit for the period divided by average assets (calculated as sum of related opening and closing balances divided by two).

(6) The amount of liabilities of up to one month was extracted from the expected maturities analysis, which is based on contractual maturities except that part of current/settlement/demand accounts was reallocated from "demand and less than 1 month" category to baskets with later maturities. On the basis of past experience management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least these current/demand/settlement accounts would provide a long-term and stable source of funding for the Alfa Banking Group.

(7) Calculated as profit for the period divided by total assets as at the end of the respective reporting period.

(8) Calculated as customer accounts as at the end of the respective reporting period divided by total assets as at the end of the respective period.

(9) Calculated as total net loans and advances to customers as at the end of the respective reporting period divided by total assets as at the end of the respective reporting period.

(10) Calculated as total equity as at the end of the reporting period divided by total assets as at the end of the respective reporting period.

(11) Customer accounts comprised customer accounts as at the end of the respective reporting period

THE ISSUER

Introduction

The Issuer was incorporated in Ireland on 23 October 2013, with registered number 534494 as a public company with limited liability under the Companies Acts 1963-2012 of Ireland (the "**Companies Acts**"). The registered office of the Issuer is 3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland and phone number +353 1 614 6240.

The authorised share capital of the Issuer is €40,000 divided into 40,000 ordinary registered shares of par value €1 each (the "**Shares**"). The Issuer has issued 40,000 Shares, all of which are fully paid and are held on trust by TMF Management (Ireland) Limited (the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") dated 23 October 2013, under which the Share Trustee holds the Shares on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

The Issuer has not declared or paid dividends since its incorporation.

TMF Administration Services Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 29 November 2013 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 20 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 60 days written notice to the other party.

The Corporate Services Provider's principal office is 3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland.

Principal Activities

The principal objects of the Issuer are set out in Article 3 of its constitution (as in effect as at the date of this Base Prospectus) and permit the Issuer, amongst other things, to lend money and give credit, secured or unsecured, to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to make loans to ABH Financial and associated companies. In addition to issuing further Notes under the Programme (which may be consolidated and form a single series with Notes of any Series), the Issuer may from time to time issue other notes on a limited recourse basis for the sole purpose of making loans to the Borrower or its Affiliates (as defined in the Trust Deed) which are legal entities.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a public company under the Companies Acts, those related to the previous issues of loan participation notes where the proceeds of such issuance were lent to ABH Financial and those related to the establishment and update of the Programme and the issue of Notes thereunder. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors. The Directors of the Issuer and their business addresses as of the date hereof are as follows:

John Hackett	3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland.
Kevin Butler	3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland.

The directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the directors is provided as part of the Corporate Service Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The directors of the Issuer may engage in other activities and have other interests, which may conflict with the interests of the Issuer.

The Company Secretary is TMF Administration Services Limited.

There has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2019. Save for the issue of loan participation notes as aforesaid and their related arrangements, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

Financial Statements

The Issuer publishes annual audited financial statements prepared in accordance with IFRS in respect of each financial year ending on 31 December and has published its most recent audited financial statements in respect of the year ended 31 December 2019. The Issuer does not prepare interim financial statements.

Each year, a copy of the audited profit or loss account and balance sheet of the Issuer together with the report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit or loss account and balance sheet can be obtained free of charge from the registered office of the Issuer. The Issuer must hold one annual general meeting in each calendar year and the gap between annual general meetings must not exceed 15 months.

The financial statements of the Issuer for the year ended 31 December 2019 and 2018 were audited by Grant Thornton, 3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland.

General Information

The Issuer has obtained all necessary consents, approvals and authorisations in Ireland in connection with the establishment of the Programme and the performance of its obligations in relation thereto.

THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION

Overview

As at the date of this Base Prospectus, the banking sector mostly offers services related to short term and midterm financing due to the historical instability of the Russian lending market and the difficulty borrowers face in providing adequate collateral.

According to the CBR, as at 1 January 2020, the total assets of the Russian banking sector were valued at approximately RUB96,581 billion, which represented increase of 2.7 per cent., compared to 1 January 2020. The capital base of Russian credit organisations was valued at approximately RUB10,981 billion as at 1 January 2020. According to the CBR, as at 1 January 2020, the total charter capital of Russian credit organizations was RUB2,822.7 billion, which represented a 6.3 per cent. increase, compared to RUB2,655.4 billion as at 1 January 2019.

According to the CBR, as at 1 January 2020, the total amount of individuals' deposits with Russian banks amounted to RUB30,549 billion (of which deposits for a period of more than one year in Roubles amounted to RUB8,901 billion and deposits for a period of more than one year in foreign currencies totalled RUB3,465 billion), compared to RUB28,460.2 billion as at 1 January 2019. Corporate deposits with Russian banks as at 1 January 2020 amounted to RUB21,684 billion (of which deposits in Roubles amounted to RUB15,227 billion and deposits in foreign currencies totalled RUB6,457 billion), compared to RUB21,652 billion as at 1 January 2019.

According to the CBR, the remaining sources of the banking sector's funding base are debt security issues (primarily promissory notes) and interbank credit operations, amounting to RUB2,322.7 billion and RUB7,152.1 billion as at 1 January 2020, respectively, compared to RUB1,918.7 billion and RUB7,613 billion as at 1 January 2019, respectively.

According to the CBR, as at 1 January 2020, the total amount of loans and other funding in Roubles provided by Russian banks in Roubles increased to RUB53,514.1 billion (of which loans in the amount of RUB17,568.2 billion was provided to retail customers, loans and other funding in the amount of RUB29,742.6 billion was provided to corporate customers, excluding banks and other financial institutions, and loans and other funding in the amount of RUB820.1 billion was provided to state financial agencies and non-budgetary funds) as compared to RUB48,436.7 billion as at 1 January 2019. The total amount of loans and other funding provided by Russian banks in foreign currencies amounted to RUB12,161.2 billion as at 1 January 2020 (of which loans and other funding in the amount of RUB82.6 billion was provided to retail customers, loans and other funding in the amount of RUB9,261.1 billion was provided to corporate customers, excluding banks and other financial institutions) as compared to RUB14,530.8 billion as at 1 January 2019.

History of the Russian Banking Sector and Banking Statistics

Under the Soviet regime, the former State Bank of the USSR, or Gosbank, (the predecessor of the CBR) allocated resources from the Russian Government's budget according to the prevailing economic plan, and was in effect the only bank in existence. In 1987, with the relaxation of controls over companies and interbank settlements, a small group of dependent, specialised banks developed to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

In 1988 and 1989, during the second phase of the reform, regional commercial banks (primarily in the form of cooperatives or joint stock companies) began to rapidly emerge (with initial capital between RUB500,000 and RUB300 million). By the beginning of 1992, 1,500 licences had been granted to banks.

In 1991, three of the specialised state dependent banks were transformed into joint-stock companies and some regional branches became independent from their head offices through management buyouts.

The CBR assumed all the functions of Gosbank in November 1991 and Gosbank was liquidated in December of that year.

Between 1991 and 1998 the Russian banking sector experienced rapid growth. The number of commercial banks in Russia increased from 358 in 1990 to 2,538 in 1996. On 17 August 1998, the Russian financial market suffered a serious crisis in part as a result of the Asian financial crisis that began in 1997, causing major concerns over the liquidity and solvency of the market as a whole. In connection with the crisis, the Russian Government defaulted on its sovereign debt and the CBR announced a gradual devaluation of the Rouble, the imposition of a repayment moratorium on certain loans to foreigners and the compulsory restructuring of approximately U.S.$40 billion of short-term treasury instruments. Many banks went into bankruptcy or fell under the administration of the Agency for Restructuring of Credit Organisations ("**ARCO**"). However, due to the stabilisation of the Russian banking sector, the importance of ARCO as the administrator of credit organisations undergoing financial restructuring has decreased. On 18 October 2003, the last of such credit organisations was withdrawn

from ARCO's administration, and pursuant to Federal Law No. 87-FZ "On abolition of Federal Law "On Restructuring of Credit Organisations" and certain provisions of legal acts of the Russian Federation and on the liquidation procedure of state corporation "Agency for Restructuring of Credit Organisations" of 28 July 2004 (the "**ARCO Liquidation Law**"), ARCO itself was liquidated. Pursuant to the ARCO Liquidation Law and Federal Law No. 177-FZ "On Insurance of Deposits of Individuals in Banks in the Russian Federation" of 23 December 2003 (the "**Deposit Insurance Law**"), the assets of ARCO were transferred to the State Deposit Insurance Agency.

Following to the 1998 financial crisis, the number of credit organisations operating in Russia fell to 1,586 by 1 July 2004. The 1998 financial crisis revealed the lack of proper controls in the banking sector and increased public concerns over the integrity of the banking system, in particular, concerns regarding misleading advertising, money laundering and corruption.

Further, the Russian banking sector experienced instability and a liquidity deficit in 2004 resulting from the actions taken by the CBR and a crisis of confidence among Russian banking customers. From May to July 2004, the CBR revoked banking licences of a number of Russian banks, and the resulting uncertainty in the Russian banking system led to the virtual collapse of the interbank lending market and to liquidity pressures for many Russian banks. The collapse of a number of Russian banks caused panic among depositors, and even the more reliable, larger banks experienced depositor withdrawals and liquidity problems as banks were unable to attract funds on the interbank market or from their client base. In 2004, the Russian banking sector experienced instability, which resulted in a crisis of confidence towards Russian banks by their customers. The CBR took effective steps to reverse the trend. The rate of mandatory reserves that banks were required to deposit with the CBR was temporarily reduced from 7 per cent. to 3.5 per cent. To implement these measures, the CBR permitted banks to immediately reduce their mandatory reserves. Accordingly, banks' borrowing costs have been reduced. In addition, legislation was passed to combat the crisis and to minimise potential losses of private depositors. In accordance with amendments to Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)" dated 10 July 2002 (the "**Central Bank Law**") enacted in 2004, the CBR is required to make payments to private depositors of insolvent Russian banks if such banks have not been admitted to the system of private deposit insurance prior to their bankruptcy. The CBR is also able to impose, for the term of one year, a limit on the interest rates on deposits paid by banks to private depositors. In addition, banks are required to disclose certain information related to the interest rates on deposits, banks' liabilities in respect of deposits and amounts of cash withdrawals by private depositors.

In 2007, disclosure of effective interest rate became a precondition to grouping the loans in portfolios for the purposes of calculation of loss allowances (but later this provision was abolished). Since April 2008, banks are required to disclose all costs that may be associated with obtaining a bank loan by an individual.

In the second half of 2008, in response to the global credit crisis and its impact on the Russian banking system and overall economy, the Russian authorities and the CBR introduced certain measures intended to prevent bankruptcy of credit organisations. These measures were taken in accordance with Federal Law No. 175-FZ "On Additional Measures for Strengthening the Stability of the Banking System for the Period until 31 December 2011" dated 27 October 2008, as amended (the "**Banking System Stability Law**") and decisions taken in September and October 2008 prior to the effective date of this law. The number of credit organisations subject to such measures decreased from 20 (with assets of RUB62.6 billion, or 1.6 per cent. of the total assets of Russian credit organisations) as at 1 January 2009 to 17 (with assets of RUB3,514.5 billion, or 4.9 per cent. of the total assets of Russian credit organisations) as at 1 June 2015.

The Banking System Stability Law envisages that the State Deposit Insurance Agency will assist distressed banks through: (a) attracting investors for credit organisations, which are experiencing financial difficulties; and (b) liaising with the CBR regarding the provision of financial assistance to such credit organisations.

The Banking System Stability Law expands the list of bankruptcy prevention measures available for Russian credit organisations by introducing the following additional procedures:

- provision of financial assistance to private investors that have agreed to acquire a controlling stake in a credit organisation in distress;
- financial assistance to other credit organisations that have agreed to acquire certain assets and obligations of a credit organisation in distress;
- acquisition of a controlling stake in a credit organisation in distress directly by the State Deposit Insurance Agency (if there is no investor willing to participate in rehabilitation proceedings);
- provision of financial assistance to a credit organisation in distress subject to acquisition of a controlling stake in such credit organisation by either a private investor or the State Deposit Insurance Agency;

- making arrangements for public sale of the assets securing obligations of a credit organisation owed to its creditors, including the CBR; and
- appointment of the State Deposit Insurance Agency by the CBR to act as temporary administrator in relation to a credit organisation.

The decision as to whether bankruptcy prevention measures should be launched in respect of a particular credit organisation rests with the CBR.

The analysis of the financial position of a credit organisation for the purpose of provision of state support to it will be performed by the CBR and the State Deposit Insurance Agency. Based on the results of the analysis the State Deposit Insurance Agency will develop a rehabilitation plan for that credit organisation which will then need to be approved by the CBR.

According to the State Deposit Insurance Agency, as at 31 December 2019, the CBR and the State Deposit Insurance Agency have launched rehabilitation measures in respect of 17 credit organisations. For further information on legislative and governmental measures adopted in 2008 and 2009 in response to the global economic crisis, see "*—Measures to Support the Liquidity and Solvency of Russian Banks and Legal Entities since October 2008*".

Structure of the Russian Banking Sector

The Russian banking sector consists of the CBR, credit organisations and representative offices of foreign banks. Credit organisations, in turn, consist of banks, which provide a wide range of banking services, and non-banking credit organisations, which provide only limited banking services, such as maintaining accounts and making payments.

State-owned banks continue to play a key role in the development of the Russian banking sector. State owned banks offering retail banking services include Sberbank and VTB. Other state owned banks focus primarily on operations with budgetary funds and participate in the realisation of governmental programmes (for example, Rosselkhozbank (Russian Agricultural Bank)).

Although it is not possible for foreign banks to directly conduct business on the Russian financial market, many major foreign banks have subsidiary banks in the Russian Federation. The presence of foreign owned banks in the Russian market is relatively limited as their activities have been restricted in order to protect the nascent Russian banks. Foreign owned banks must satisfy additional requirements in connection with obtaining a licence, for example, there must be a degree of reciprocity in the home country of the foreign bank. According to the CBR, as at 1 January 2020, the number of credit organisations operating in Russia with a 100 per cent. foreign participation amounted to 59, and with a foreign participation in the amount from 50 to 100 per cent. amounted to 15.

Current Competitive Landscape

The banking sector in the Russian Federation is highly fragmented and competitive. As at 1 January 2020, according to the CBR, there were 442 banks and non-banking credit organisations registered in the Russian Federation. However, at 1 January 2020, the five largest banks accounted for 60.3 per cent. of the total value of banking assets in the Russian Federation, and the following fourteen largest banks accounted for 22.6 per cent., according to the CBR.

According to the CBR, a number of the country's largest banks are part of financial industrial groups and as such undertake transactions for related parties. As at 1 January 2020, approximately 51.4 per cent. of banks operating in Russia were located in the Moscow region. The following table sets out market share data for the ten largest banking groups by total assets (according to RAR) as at 1 April 2019.

	Total Assets		
	Rank	**RUB billion**	**% Market[(1)] share (% of total)**
Sberbank	1	28,894.53	31.9
VTB Bank	2	14,329.21	15.8
Gazprombank	3	6,554.67	7.2
National Clearing Centre	4	3,959.36	4.4
Alfa Bank	5	3,761.76	4.2
Russian Agricultural bank	6	3,541.81	3.9
Otkritie Bank	7	2,714.67	3.0
Moscow Credit Bank	8	2,518.24	2.8
National Bank "Trust"	9	1,382.96	1.5
Raiffeisenbank	10	1,292.87	1.4

	Total Assets		
	Rank	RUB billion	% Market[(1)] share (% of total)
Total (Top 10)		**68,950.08**	**76.2**
Total (Top 100)		**90,527.82**	**100**

Source: banki.ru

(1) Market shares are calculated as a percentage of the Top 100 total amount.

The presence of foreign-owned banks in the Russian market is relatively limited. Historically, foreign controlled banks have primarily serviced multinational firms operating within the Russian Federation and conducted inter-bank operations. More recently, these banks have increased their presence in Russian retail banking and have increased their loan portfolio in several sectors of the economy. The level of foreign investment in the Russian banking sector remains relatively low, with foreign banks accounting for 13.90 per cent. of statutory capital as at 1 January 2020, according to the CBR, compared to 14.52 per cent. as at 1 January 2019.

Role of the CBR

The CBR is the primary authority responsible for the regulation of banking institutions in Russia and also acts as Russia's central bank.

Until 2002, the CBR had been operating under the general terms of reference of Federal Law "On the Central Bank of the Russian Federation (the Bank of Russia)" of 2 December 1990, as amended. In 2002, this law was superseded by the Central Bank Law. According to the Central Bank Law, the State cannot be liable for the CBR's obligations, nor can the CBR be liable for the State's obligations unless the relevant liability has been undertaken or is required by law. The CBR's property is under federal ownership.

The CBR is legally and financially independent of the Russian Government. The CBR's governing bodies are the Board of Directors and the National Banking Council, a collective management body carrying out certain governing functions, which were solely vested in the Board of Directors prior to adoption of the Central Bank Law (including, among other things, making decisions on maximum capital expenditures of the CBR, distribution of profits gained by the CBR, appointment of the CBR's chief auditor, approval of the CBR's accounting rules and requirements). The structure of the CBR comprises the Moscow Head Office, a number of regional branches in constituent entities of the Russian Federation (in some of the Russian republics the CBR's regional branches are called National) and local branches. The Chairman of the CBR's Board of Directors is appointed for a fixed term of five years by the State Duma (the lower chamber of the Russian Parliament), on the recommendation of the President, can be replaced under the same procedure, and has the right to participate in meetings of the Russian Government (Cabinet). The Ministers (or Deputy Ministers, as the case may be) of Finance and of Economic Development have the right to participate in meetings of the CBR's Board of Directors with consultative voting rights. The members of the National Banking Council are appointed by the Council of Federation (the upper chamber of the Russian Parliament), the State Duma, the President and the Government of the Russian Federation. The Chairman of the CBR is a member of the National Banking Council ex officio.

Under the Central Bank Law, the Banking Law and Federal Law No. 173-FZ "On Currency Regulation and Currency Control" of 10 December 2003, as amended (the "**Currency Control Law**"), the CBR is authorised to adopt implementing regulations on various banking and currency control issues. The CBR has actively used this authorisation in recent years, creating a detailed and extensive body of regulations.

The Federal Service for Financial Markets (the "**FSFM**") used to issue licences to banking institutions acting as professional participants of the Russian securities market. According to the Federal Law No. 251-FZ "On Amending Certain Legislative Acts of the Russian Federation in connection with the Transfer of Authorities on Regulation, Control and Supervision in Financial Markets", the authorities of the FSFM were transferred to the CBR effective 1 September 2013. The CBR succeeded the authorities of the FSFM in regulating and overseeing, inter alia, activities of banks as professional participants of the securities market.

Under current legislation, the CBR has the following major functions:

Function	*Summary*
Issue of money and regulation of circulation	The CBR is the sole issuer of Russian Rouble banknotes and regulates their circulation. The CBR plans and arranges for the printing of banknotes and the engraving of coins, establishes the rules for their transportation and storage and regulates over-the-counter operations with cash. However, the CBR is prohibited from issuing money for purposes of budget deficit Rouble and foreign currency accounts of residents and non-residents in

Function	*Summary*
	Russia.
Licensing	Issuance, suspension and revocation of banking licences to banks.
Control and supervision	Bank supervision (compliance with mandatory economic ratios and reserves requirements, sanctions for violations, overseeing banking operations); defining format requirements for accounting and statistical reports; fixing reporting schedules; appointment of temporary administration to banks; control over acquisition (and/or a trust management) of significant (more than 1 per cent.) stakes in banks; assessment of financial standing of banks' founders (shareholders/participants).

Banking Regulation

The Banking Law is the principal law regulating the Russian banking sector. Among other things, it defines credit organisations, sets forth the list of banking operations and other transactions that credit organisations may perform and establishes the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

In accordance with Federal Law No. 135-FZ "On Competition Protection" of 26 July 2006, which came into effect at the end of October 2006, the Federal Antimonopoly Service of the Russian Federation (the "**FAS**") regulates mergers and acquisitions of stakes in excess of 25, 50 and 75 per cent. of the total voting shares in credit organisations established in the form of joint stock companies, participation interests representing one third, half and two thirds of the charter capital of credit organisations established in the form of limited liability companies and acquisitions of certain shares of credit organisations' assets or rights to determine conditions relating to their activities. In addition, the CBR approval is required for the acquisition of or setting up of a trust management over stakes in excess of 10 per cent. of total voting shares in Russian credit organisations and any subsequent increases of ownership/trust holding above thresholds of 25 per cent., 50 per cent. and 75 per cent. of shares or the acquisition of 100 per cent. of share capital. The CBR approval is valid for one year from the date of issuance, and the applicant may acquire any amount of shares in a credit organisation within the threshold and total acquisition price stipulated in such CBR approval. Where more than 1 per cent. of share capital of a bank is purchased or trust management over such shares is created, the CBR should be notified of such acquisition or actions. Tax authorities supervise tax assessments of banks. Other governmental authorities are largely inactive in relation to banks. The Association of Russian Banks, comprising, as at the date of this Base Prospectus, about 200 members, was established pursuant to the provisions of the Banking Law as a non-commercial self-regulatory organisation. It offers various types of technical support to its members and lobbies the interests of banks in all branches of power. Set out below are some of the principal features of the regulatory regime governing banks in Russia.

Recent Amendments to the Banking Law

In accordance with the amendments introduced by the Federal Law No. 29-FZ "On Amending Certain Legislative Acts of the Russian Federation" dated 14 March 2013 it is forbidden for foreign banks to establish their branches on the territory of the Russian Federation. Therefore, foreign banks may carry out business activity on the territory of the Russian Federation only by establishment of subsidiary companies or through representative offices, whereas branches of foreign banks were excluded from the bank system of the Russian Federation. The Regulation of the CBR No. 467-P dated 22 April 2015 sets for the procedure for opening representative offices of foreign credit organisations in the Russian Federation and for the activities thereof.

On 2 July 2013, further amendments to the Banking Law were introduced, and are now effective, by the Federal Law No. 146-FZ "On Amendments to Certain Legislative Acts of the Russia Federation". Among the most important, amendments provide for the following:

- preliminary CBR consent is required for acquisition of over 10 per cent. of shares in a Russian bank (instead of the previous 20 per cent. threshold);

- rules for qualifying a banking group (*bankovskaya gruppa*) and a banking holding (*bankovskiy kholding*) were changed. As opposed to the previous rules, the amendments define a banking group as an association of legal entities under control of a credit organisation. The definition of a banking holding was expanded: a bank holding is now defined as an association of legal entities, at least one of which is a credit organisation, under control of a parent legal entity, not a credit organisation, provided that a share of banking activities is at least 40 per cent. of the overall activities of this group. Rules for reporting and disclosure by Russian banks were also slightly clarified in connection with the above new rules; and
- competence of the board of directors of a Russian bank was expanded. In particular, the amendments authorise the board of directors to adopt risk and capital management strategy, methodology of risk management and models of risk assessment, the procedure for resolving of conflicts of interests in the bank, appoint the head of an internal audit department and adopt regulations relating to remuneration of, and requirements, to employees involved in operations affecting compliance with mandatory capital ratios and interests of clients of the bank. Therefore, such authorities may not be referred to competence of the other management bodies.

In July 2015, the CBR published Order No. 3737-U "On Procedure of Determination of the List of Systemically Important Credit Organisations" that introduced certain criteria and procedure for the preparation of a list of systemically important credit organisations. For the purposes of preparing this list, the CBR has taken into account, among other things, the size of a credit organisation in relation to the entire banking sector, the amount of retail deposits, the volume of funds raised from other financial institutions and the funds placed with other financial institutions. The list of systematically important credit organisations includes banks that account for more than three-fifths of the total assets of the Russian banking sector and is subject to annual review. Credit organisations are informed by the CBR of being included in the list. The list of Systemically Important Credit Organisations was initially published on 15 July 2015 and updated on 20 October 2015, 30 September 2016, 13 September 2017, 5 October 2018 and 14 October 2019.

In December 2015 the Federal Law No. 372-FZ "On Amending Article 16 and Article 18 of the Banking Law" introduced additional requirements to the establishment and operations of credit organizations with foreign investments (investment of non-residents).

Amendments introduced to Russian bankruptcy legislation in 2017 provide for a new type of financial rehabilitation of Russian banks. Such rehabilitation shall be conducted by the CBR via a specially established Fund for the Consolidation of the Banking Sector. This fund will play a key role in the CBR's efforts to remove weak and unstable banks via consolidation and improve the overall health of the banking sector. The fund consists of cash contributions made by the CBR and the funds' property is legally separated other assets owned by the CBR.

The CBR has established a management company for purposes of managing the Fund for the Consolidation of the Banking Sector which will on the CBR's behalf participate in implementing measures to prevent bankruptcy of credit institutions and use the property of the fund.

Using the fund, the CBR will be able to invest in the share capital of banks undergoing financial rehabilitation in the course of implementing measures to prevent the bankruptcy of credit institutions. The fund's management company will manage the banks undergoing financial rehabilitation by the CBR, create mutual investment funds, sell investment units to the CBR, carry out the functions of the temporary administration on the basis of the rehabilitation plan approved by the CBR.

On 1 May 2017, Federal Law No. 92-FZ "On Amendments to Certain Legislative Acts of the Russian Federation", effective from 1 June 2017, introduced a set of structural amendments to the banking regulation. In particular, the amendments provide that Russian banks divide into two groups: the banks having general license and the banks having basic license. A bank having basic license is unable to perform certain kinds of banking operations with foreign persons, such as placing of funds deposited with it by individuals and legal entities on its behalf and for its own account, taking precious metals as deposits and placing them, issuing bank guarantees or acting as a surety, leasing operations, acquiring claims against foreign persons, as well as to open a correspondent account with a foreign bank, save for the purposes of participating in foreign payment systems. Furthermore, the amendments provide for RUB1 billion as a minimum amount of charter and regulatory capital of a bank having general license and RUB300 million as a minimum amount of a charter capital and equity of a bank having basic license. The amendments also regulate a procedure of acquiring the status of a bank having general license.

On 29 July 2017, Federal Law No. 281-FZ "On Amendments to Certain Legislative Acts of the Russian Federation Relating to Improvement of Mandatory Requirements for Incorporators (Shareholders), Management Bodies and Officers of Financial Organisations", effective from 28 January 2018, introduced a new set of

amendments to the Banking Law. In particular, the amendments refine qualification and reputational requirements for senior officers of a credit organization and reputational requirements for its shareholders (or potential shareholders) or controlling persons (or its shareholders' controlling persons). The amendments also improve the procedure and grounds for refusal to grant approval of a transaction relating to the shares in a credit organisation.

In June 2018, Federal Law № 123-FZ "On authorized entity for the rights of consumers of financial services" introduced new institution of financial ombudsman that considers the claims of customers against the financial institutions during the pretrial proceedings. Introduction of financial ombudsman is due to significant increase of claims of customers against banks and other credit institutions.

Licensing

A licence must be obtained from the CBR in order for any institution to engage in banking activity as defined in the Banking Law. Applicants must be incorporated within Russia and registered with the CBR as a credit organisation, and submit, inter alia, a feasibility report and detailed information on the suitability of the applicant's management team. A banking licence may be denied for a number of reasons, including if the financial standing of the founders of the bank is deemed by the CBR to be unsatisfactory or if the proposed candidates for the senior management of the bank, including members of the management board and the chief executive officer, are deemed to be unsuitable or do not meet the qualification requirements.

Additional requirements have been introduced for obtaining a licence for taking deposits from individuals. The licence could be granted to a bank being a member of the Deposit Insurance System existing for more than two years from the date of its registration. Such requirement may be dispensed with if (a) the charter capital of a newly established bank or the regulatory capital of a bank is not less than RUB3,600 million, and (b) the bank complies with the CBR's requirement to publicly disclose all information relating to persons having significant influence over decisions made by the bank's management bodies.

Pursuant to the Banking Law, a bank's licence may be revoked by the CBR if, *inter alia*: (a) the information upon which the licence has been issued is untrue and misleading; (b) the bank delays the commencement of its operations for more than one year from the issue of the licence; (c) reporting statements submitted by the bank turn out to be materially untrue and misleading; (d) the bank delays submission of its monthly reports to the CBR for more than 15 days; (e) the bank conducts banking operations (or a single operation) not permitted by its licence; (f) the bank's activities do not comply with Russian banking or anti-money laundering legislation or regulations of the CBR and the bank has been subject to sanctions for such breaches/non-compliance before that; (g) multiple failures, whether intentionally or by negligence, to carry out bailiffs orders requiring seizure of funds in customer accounts; (h) in cases of insolvency, the revocation of the banking licence is requested by the temporary administration appointed to the bank; (i) the bank repeatedly fails to submit updated information required to be reflected in the Unified State Register of Legal Entities and Entrepreneurs in the Russian Federation; or (j) a bank involved in mortgage-backed asset management operations does not comply with Russian mortgage-backed securities legislation and the bank has been subject to sanctions for such breaches/non-compliance before that.

The CBR must revoke a bank's licence if, *inter alia*: (a) its capital adequacy ratio falls below 2 per cent.; (b) its regulatory capital is less than its minimal charter capital as set by the CBR; (c) the bank fails to adjust its charter capital to its regulatory capital according to CBR requirements within 45 days of the CBR notification; (d) the bank fails to satisfy the claims of its creditors or make mandatory payments (for example, taxes and duties) amounting to an aggregate minimum of RUB100,000 within 14 days of their maturity; or (e) the amount of the bank's regulatory capital is less than a certain statutory threshold during a certain defined period of time.

Regulation of Capital

Basel Implementation in Russia

Over the recent years, the CBR, in cooperation with Russian banks, has started preparing the implementation of international approaches of capital adequacy of credit organisations under Basel II as issued by the Basel Committee. Currently, the standardised approach for credit risks of Basel II as set forth in Pillar 1 "Minimum Capital Requirements", is being applied in Russia. CBR Letter No. 96-T of 29 June 2011 issued as part of introducing Pillar 2 "Supervisory Review Process" (the "**Methodical Recommendations**") recommends credit organisations to elaborate and use the respective internal procedures for capital adequacy assessment which should comprise the process of assessment by a credit organisation of adequacy of its own capital, i.e. its internal capital to cover accepted and potential risks, as well as constitute a part of such credit organisation's corporate culture.

Basel III Regulation

The implementation of Basel III in Russia is scheduled as follows: (1) requirements for capital between 2013 and 2015, (2) capital conservation buffer within 2016 and 2018, (3) leverage ratio starting from 1 January 2018, (4) liquidity coverage ratio commencing from 1 January 2015, and (5) net stable funding ratio starting from 1 January 2018.

From 1 January 2014, Regulation No. 395-P is fully applied by Russian banks for the purposes of calculating their own funds (capital). Regulation No. 395-P provides for the following two types of subordinated debt instruments that may qualify for inclusion into bank regulatory capital if they meet the requirements set out in Regulation No. 395-P: (a) perpetual and certain long-term subordinated debt instruments; and (b) plain subordinated debt instruments.

Regulation No. 395-P has been phased in gradually during the period from 1 January 2014 until 1 January 2018 as described below, which was subsequently replaced with Regulation No. 646-P.

New Classification of Capital Under Regulation No. 646-P

Regulation No. 646-P distinguishes between core capital (*osnovnoi kapital*) ("**Tier 1 capital**") and supplemental capital ("**Tier 2 capital**") (*dopolnitennyi kapital*) (together, "**own funds**" or "**regulatory capital**"). Tier 1 capital is further divided into base capital ("**Base Tier 1 capital**") (*bazovyi kapital*) and additional capital ("**Additional Tier 1 capital**") (*dobavochnyi kapital*). Pursuant to Regulation No. 646-P, the own funds (capital) of Russian banks is determined as the amount of its Tier 1 capital and Tier 2 capital less certain items listed in Regulation No. 646-P. Regulation No. 646-P became effective on 28 September 2018.

Subordinated Debt

Prior to the enactment of Regulation 646-P, Russian banks' capital calculations used, among other things, in CBR mandatory ratio reporting, as well as requirements for subordinated debt to qualify as part of a bank's capital, were primarily set out in CBR Regulation No. 395-P "On the method of determination of own funds (capital) of credit organisations ("Basel III")" dated 28 December 2012, as amended.

Regulation 646-P sets out requirements for subordinated financings (in the form of a loan, a deposit or debt securities) which may be included in additional Tier 1 capital and those which may be included in Tier 2 capital of a credit organisation. In addition, Regulation 646-P sets out the concept of conversion of subordinated debt into equity (while retaining the concept of writedown and cancellation of subordinated debt instruments), which features have been derived from the Basel III regulations.

Regulation 646-P sets out, *inter alia*, the following requirements for subordinated debt to qualify as part of a bank's Tier 2 capital:

- the agreement must provide that, if the bank's CET 1 ratio (defined as a ratio of the bank's adjusted base capital to its risk-weighted assets) falls below 2 per cent. for six or more operational days within a 30-day period, or the State Deposit Insurance Agency (or the CBR) implements bankruptcy prevention measures consisting of financial assistance provided pursuant to the Insolvency Law;
- the subordinated debt shall be converted into the bank's ordinary shares; and (or)
- the accrued interest shall be fully or partially cancelled; and
- a partial or full write down of the principal amount of such debt (and any applicable financial sanctions) shall occur;

(the "**Write Down Measures**").

Regulation 646-P does not establish any limitations on the amount of subordinated debt which could be counted towards Tier 1 or Tier 2 capital.

Subordinated debt may also be included into a bank's Tier 1 capital, if it meets certain requirements in addition to those applicable for subordinated debt qualifying as part of Tier 2 capital. In particular, such debt must be perpetual under Regulation 646-P and in each case provide for implementation of the Write Down Measures in case the CET 1 ratio falls below 5.125 per cent. In addition, Tier 1 capital subordinated debt must allow the credit organisation to unilaterally repudiate payment of interest under such debt.

If the CET 1 ratio was breached due to losses, such losses may only be covered by the Write Down Measures after utilization of other sources of base capital (including reserve funds and undistributed profit) to remedy such losses.

Regulation 646-P sets out certain other requirements for subordination debt, including, inter alia: (a) a right of a bank to repay a subordinated loan using Russian federal bonds; (b) ability of a bank to include subordinated loans with no defined repayment term or subordinated bonds with no defined repayment term into the calculation of a bank's additional Tier 1 capital; (c) maximum interest rate for Rouble-denominated instruments and for foreign currency–denominated instruments shall not exceed 15 per cent. and 10 per cent., respectively; (d) ability of the CBR to require a bank to convert its subordinated debt instrument into its equity to bring the bank's CET 1 ratio up to 5.125 per cent. if the bank's CET 1 ratio falls below 5.125 per cent. for six or more business days within a 30-day period, or the State Deposit Insurance Agency (or the CBR) implements bankruptcy prevention measures consisting of financial assistance pursuant to Insolvency Law.

In December 2018, the Federal Law N 514-FZ amended the Banking Law in respect of the requirements for investing in subordinated debt. As a result of these amendments, subordinated debts in the form of bonds can only be acquired by qualified investors and the nominal value of one subordinated bond cannot be less than RUB ten million.

Mandatory Economic Ratios

CBR Instruction No. 199-I "On Mandatory ratios and Capital Buffers to Capital Adequacy Ratios of Banks with Universal License" dated 29 November 2019 (the "**Mandatory Economic Ratios Instruction**") establishes mandatory economic ratios for banks.

The following table sets forth the mandatory economic ratios that banks must observe on a daily basis and periodically report to the CBR. Unless stated otherwise, such ratios are calculated on the basis of RAR, as formulated by applicable Russian laws and CBR regulations.

As mentioned above, a bank's capital base consists of core capital and supplemental capital. Core capital consists of base capital and additional capital and includes, among other items, charter capital, share premium, retained earnings and certain reserve funds. Supplemental capital includes, among other items, reserves for asset revaluations, reserves for loan losses, certain preferred shares and subordinated debt.

Mandatory Economic Ratio	**Description**	**CBR Mandatory Economic Ratio Requirements**
Adequacy ratios	These ratios are intended to limit the risk of a bank's insolvency and to establish the minimum size of the bank's capital base necessary to cover credit, operational and market risks. Adequacy ratios include capital adequacy ratio (N1.0), common equity tier 1 capital adequacy ratio (N1.1) and Tier 1 capital adequacy ratio (N1.2).	
Capital adequacy ratio (N1.0)	This ratio is formulated as a ratio of a bank's capital base (calculated in accordance with Regulation No. 646-P) to: (i) credit risk on on-balance sheet assets, (ii) credit risk on off-balance sheet items, (iii) credit risk on derivatives, (iv) charge for potential losses as a result of deterioration of creditworthiness of counterparty, (v) operational risk and (vi) market risk.	Minimum 8 per cent.
Common equity tier 1 capital adequacy ratio (N1.1)	This ratio is formulated as a ratio of a bank's common equity tier 1 capital (calculated in accordance with Regulation No. 646-P) to: (i) credit risk on on-balance sheet assets, (ii) credit risk on off-balance sheet items, (iii) credit risk on derivatives, (iv) charge for potential losses as a result of deterioration of creditworthiness of counterparty, (v) operational risk and (vi) market risk.	Minimum 4.5 per cent.
Tier 1 capital adequacy ratio (N1.2)	This ratio is formulated as a ratio of a bank's tier 1 capital (calculated in accordance with Regulation No. 646-P) to: (i) credit risk on on-balance sheet assets, (ii) credit risk on off-balance sheet items, (iii) credit risk on derivatives, (iv) charge for potential losses as a	Minimum 6 per cent.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirements
	result of deterioration of creditworthiness of counterparty, (v) operational risk and (vi) market risk.	
Instant liquidity ratio (N2)	This ratio is intended to limit the bank's liquidity risk during one operational day. It is defined as the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand.	Minimum 15 per cent.
Current liquidity ratio (N3)	This ratio is intended to limit the bank's liquidity risk during 30 calendar days preceding the date of the calculation of this ratio. It is defined as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with terms of up to 30 calendar days.	Minimum 50 per cent.
Long-term liquidity ratio (N4)	This ratio is intended to limit the bank's liquidity risk from placement of funds into long-term assets. It is defined as the maximum ratio of the bank's credit claims maturing in more than one year to the sum of its capital base and liabilities maturing in more than one year.	Maximum 120 per cent.
Maximum exposure to a single borrower or a group of related borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers (defined as persons who belong to the same banking holding, are close relatives, or persons who can directly or indirectly materially influence the decisions of corporate borrowers). It is defined as the maximum ratio of the aggregate amount of the banks various credit claims to a borrower (or a group of related borrowers) to its capital base. The CBR issued Letter No. 106-T dated 10 September 2004, as amended recommending that Russian banks implement an exposure limit for economically related borrowers. Under this letter, borrowers are "economically related" if a decline in the financial condition of one borrower affects or may affect the financial condition of the other borrower; and may result in such other borrowers inability to perform its obligations to the bank (e.g., if the borrower is simultaneously a creditor of a bank and a debtor to another creditor of the bank). However, the limit has not been officially introduced yet.	Maximum 25 per cent.
Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank’s major credit risks (defined in the Banking Law as the sum of loans to, and guarantees or sureties in respect of, clients with exposure exceeding 5 per cent., of a bank's capital base). It is defined as the maximum ratio of the aggregate amount of major credit risks to a bank's capital base.	Maximum 800 per cent.
Ratio for the use of the bank's capital base to acquire shares (participation interests) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of banks investments in shares (participation interests) of other legal entities. It is defined as the maximum ratio of the banks investments in shares (participation interests) of other legal entities to its capital base.	Maximum 25 per cent.
Maximum amount of an exposure of a bank’s related person (group of related	This ratio is defined as the maximum ratio of the aggregate amount of the obligations of a bank’s related person (or a group of related persons),	Maximum 20 per cent.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirements
persons) (N25)	whether to a bank or to other party, giving rise to a bank's claim against such person (or group of persons) to a capital base of a bank.	

In addition to mandatory economic ratio requirements the CBR set out three capital buffers to the common equity: (a) capital conservation buffer; (b) countercyclical buffer and (c) additional capital buffer for systemically important credit organisations. The capital conservation buffer applies to all credit institutions and has been set at 0.625 per cent. of risk-weighted assets starting from 1 January 2016 and will be increased each subsequent year by an additional 0.625 per cent. to reach 2.5 per cent. by 1 January 2019.

The CBR has set a minimum allowed countercyclical buffer at 25 per cent. of the weighted average of countercyclical buffers set in all jurisdictions to which the bank has credit and market exposure (calculated in accordance with applicable CBR rules) starting from 1 January 2016 which will gradually increase each year to reach 100 per cent. by 2019. The level of the applicable countercyclical buffer for the Russian banks is determined by the CBR and as at the date of this Base Prospectus set at zero per cent. of risk-weighted assets.

The systemically important credit organisations are subject to an additional capital buffer of 0.15 per cent. of risk-weighted assets starting from 1 January 2016 with subsequent increases each year to reach 1 per cent. on 1 January 2019.

According to the Mandatory Economic Ratios Instruction, the following individuals must be considered as being capable of influencing decisions on granting of credit (with respect to aggregate amount of exposure to a bank's insiders (N10.1)): (i) affiliates of a bank; (ii) members of bank's credit board; (iii) the chief accountant of a bank or any of its branches; (iv) chief executive officer of a bank or any of its branches; (v) other bank officers that by virtue of position at the bank may influence decisions on granting of credit (the list of relevant positions is to be set forth in an internal regulation of the relevant bank); as well as (vi) close relatives of individuals mentioned in items (i)-(v).

Instruction 199-I establishes five groups of assets and risk weighting coefficients for each of such group: (i) 0 per cent. for the assets classified in the I group; (ii) 20 per cent. for the assets classified in the II group; (iii) 50 per cent. for the assets classified in the III group; (iv) 100 per cent. for the assets classified in the IV group; and (v) 150 per cent. for the assets classified in the V group. Such risk weighting coefficients represent percentage of the asset value which is to be accounted included in the bank's risk-weighted assets for purposes of calculating the bank's capital adequacy ratios and can be increased by buffers prescribed by the CBR with respect to certain classes of assets, including consumer loans.

In December 2018, the CBR published new risk weighting coefficients for new loans granted by Russian banks on or after 1 April 2019 as a result of which the risk weighting coefficients were increased (i) from 120 per cent. to 150 per cent. for loans with annual effective interest rates calculated based on CBR requirements ranging from 10 per cent. to 15 per cent., (ii) from 140 per cent. to 170 per cent. for loans with annual effective interest rates ranging from 15 per cent. to 20 per cent., (iii) from 170 per cent. to 200 per cent. for loans with annual effective interest rates ranging from 20 per cent. to 25 per cent. and (iv) from 200 per cent. to 230 per cent. for loans with annual effective interest rates ranging from 25 per cent. to 30 per cent.

In addition, the Banking Law imposes restrictions on banks regarding the payment of dividends, investments in companies and certain other actions if such actions may result in breach of the capital conservation buffer established by the applicable CBR regulations.

Charter Capital Requirements

The Banking Law sets out the minimum charter capital for newly-established banks in Russia the amount of RUB1 billion for a bank having general license and RUB300 million for a bank having basic license.

Further, pursuant to the Banking Law, the minimum regulatory capital amounts to RUB1 billion for banks applying for a status of a bank having general licence and to RUB300 million for banks applying for a status of a bank having basic licence.

Financial stability of the shareholders

In accordance with the Banking Law, the financial position of the shareholders which own more than 10 per cent. of the share capital or exercise control over the credit institution must comply with certain requirements set out in the Regulation No. 626-P "On the Assessment of, and Requirements for, Financial Standing, Grounds for Recognising Financial Standing as Unsatisfactory with Regard to the Founders (Participants in) of a Credit Institution and other Persons Specified by Federal Law No. 281-FZ, Dated 29 July 2017 'On Amending Certain

Laws of the Russian Federation with Regard to Improving Mandatory Requirements for Financial Institutions' Founders (Participants), Management Bodies and Officials" dated 28 December 2017 ("**Regulation 626-P**"), including requirements for net assets and financial statements. In case of non-compliance with such requirements the CBR may issue an order requiring to rectify the violation or to decrease the share of such shareholder down to 10 per cent. From the date of the publication of the order and until the date of publication of the information on its withdrawal (after the requirements are fulfilled) voting rights of such shareholder at the shareholders meeting shall be limited by its 10 per cent. share. If such shareholder does not fulfil the requirements provided in the CBR's order within 90 days, the CBR may seek mandatory decrease of the share of such shareholder down to 10 per cent. through court.

Reporting Requirements

Russian banks must regularly submit balance sheets to the CBR, together with financial statements showing their actual respective financial positions. They must also inform the CBR in respect of providing large loans (exceeding 5 per cent. of a bank's capital). Banking groups (namely alliances of the legal entities in which one bank directly or indirectly controls decisions of the governing bodies of other legal entities within the alliance) and consolidated groups (namely alliances of legal entities in which one bank, directly or indirectly, is controlled by a non-banking entity) must regularly submit consolidated accounts to the CBR. The CBR may at any time carry out full or selective checks of a bank's submissions, and may inspect all books and records of the bank. In addition, annual audits must be carried out by an audit company that is a member of a self-regulatory organisation of auditors. Starting from 2004, all credit organisations in Russia have been required to prepare financial statements according to both RAR and IFRS. Banks must file IFRS standalone and audited consolidated annual accounts with the CBR on an annual basis.

Mandatory Reserve Deposit Requirements

To cover loan losses and currency, interest and financial risks, the CBR requires banks to form mandatory reserve deposits and keep them in designated non-interest bearing accounts with the CBR. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. As at the date of this Base Prospectus, banks are required to post compulsory reserves to be held on non-interest bearing accounts with the CBR. To stabilise the situation on the local financial market and to support the liquidity of the Russian banking sector, the CBR decreased in October 2008 mandatory reserves for various obligations of credit organisations to 0.5 per cent. and successively increased them starting from 1 May 2009 to the current 4.75 and 8.00 per cent. for the banks' obligations to individuals in Roubles and foreign currency, respectively, to 4.75 or 8.00 per cent. for the banks' obligations to other credit organisations in Roubles and foreign currency, respectively, and to 4.75 or 8.00 per cent. for the banks' obligations to non-resident legal entities in Roubles and foreign currency, respectively.

The mandatory reserves are calculated by banks in accordance with CBR Regulation No. 507-P dated 1 December 2015 and Regulation No. 5158-U dated 31 May 2019 (the "**Reserves Regulations**"). The Reserves Regulations require the banks to promptly report to the CBR and its regional units at the end of each calendar month with calculation of reserves and to promptly post additional reserves, if necessary. The CBR and its regional units have a right to conduct unscheduled audits of credit organisations to monitor their compliance with the reserve rules. The Reserves Regulations do not require the creation of reserves for certain long-term borrowings, although it requires posting of reserves for obligations to non-resident banks. If a bank does not comply with the mandatory cash balance requirements, the CBR may impose a fine and directly debit the bank's correspondent account with the CBR in respect of the shortfall in reserve amounts.

Provisioning

The CBR established certain rules concerning the creation of loan impairment provisions for loans extended by banks. Since 14 July 2017, Russian credit organisations are required to calculate and establish their loan impairment provisions in accordance with Regulation No. 590-P "On the Procedure for Making Provisions for Possible Losses on Loans and Similar Indebtedness by Credit Organisations" dated 28 June 2017, as amended ("**Regulation No. 590-P**"). The Regulation No. 590-P introduced a number of rules, which purport to make loan impairment provisioning compliant with the BIS requirements. In particular, it requires credit organisations to rank their loans into five categories. The range of loans that must be provided for includes assigned rights under contracts, financial leasing operations, mortgages acquired in the secondary market and various other operations. It has been established that loans classified as Category I loans (standard loans) do not need provisions. In addition, credit organisations will be required to classify their loan security into three groups on the basis of its quality (taking into account the borrower's financial position and debt servicing level).

Pursuant to Regulation No. 590-P, the debt servicing level of a loan to a legal entity is considered to be good if the aggregate loan or interest repayment arrear does not exceed 5 days (in respect of loans granted to legal

entities) and 30 days (in respect of loans granted to individuals) for the last 180 calendar days. The debt servicing level of a loan to a legal entity is considered to be bad in cases if, inter alia, the aggregate loan or interest repayment arrear exceed 30 days (in respect of loans granted to legal entities) and 60 days (in respect of loans granted to individuals) for the last 180 calendar days. In addition, restructuring of a loan (including change of the loan nominal currency and time periods for repayment of the loan and interest) may affect the debt servicing level. Loans should be classified on the basis of professional judgment by the credit organisation taking into account the borrower's financial standing and debt servicing level. The credit organisation must evaluate at its discretion the borrowers financial standing and debt servicing level as good, average or bad. Regulation No. 590-P sets forth the relevant tests to be applied towards a particular loan and borrower. Additionally, credit organisations must classify loan collateral into two categories on the basis of its quality.

Provisions for loan losses are calculated at the end of each calendar month. Such provisions only cover losses relating to the principal amount of loans and exclude interest and any discount. The CBR and its regional branches may audit banks compliance with requirements relating to provisions for loan losses and verify the correctness of calculations in respect of such provisions.

The CBR also established rules concerning creation of provisions for loans other than loan impairment, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward contracts and other transactions. CBR Instruction No. 611-P of 23 October 2017 requires banks to rank such assets and operations into five categories of quality reflecting the following situations: (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of partial losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively: (i) 0 per cent.; (ii) 1 per cent. to 20 per cent.; (iii) 21 per cent. to 50 per cent.; (iv) 51 per cent. to 100 per cent.; and (v) 100 per cent. The CBR and its regional units are responsible for monitoring bank compliance with these rules.

Pursuant to the CBR Directive No. 1584-U of 22 June 2005, mandatory provisions must also be created for operations with residents of certain off-shore jurisdictions in the amount of 25 per cent. or 50 per cent. depending on the jurisdictions involved. The position of the CBR in relation to the impact of this new regulation on the calculation of capital and regulatory ratios currently has not yet been announced.

Regulation of Currency Exposure

In CBR Instruction No. 178-I "On the Establishment of the Amounts (Limits) of the Open Currency Positions, on the Methods of their calculation and Particularities of Lending Organisations' Control and Compliance therewith" of 28 December 2016, the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, "**currency exposure**"), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees, suretyships and letters of credit. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into Roubles in accordance with the official exchange rates and CBR's prices for precious metals.

The CBR established that at the end of each operation day the total amount of all long or short currency positions should not exceed 20 per cent. of a bank's capital base. At the same time, at the end of each operation day the long or short positions with respect to one particular currency or precious metal should not exceed 10 per cent. of a bank's capital base.

Accounting Practices

The CBR has established a standard format for the presentation of a bank's accounts and instructions on how transactions are recorded within the accounts. It requires the preparation of financial statements and other accounts in accordance with CBR Regulation No. 579-P of 27 February 2017, Directive of the CBR No. 2851-U "On the procedure for the filling in of and delivery of reporting statements to the CBR" of 16 July 2012. Despite certain differences, such financial statements represent an approximation to IFRS.

Pursuant to CBR Regulation No. 3580-U dated 16 January 2013, as amended, credit organisations are required to file with the CBR their audited annual and semi-annual financial statements, as well as the information as to contents, method, time and place of disclosure of these statements.

Starting from 1 January 2004, all credit organisations are also required to prepare their accounting reports in accordance with IFRS and those reports should be audited.

Anti-Money Laundering Legislation

Russia, as a member of the FATF, has developed and enacted certain anti-money laundering legislation. The Anti-Money Laundering Law follows the FATF Forty Recommendations and the FATF Special Recommendations on Terrorist Financing and provides for measures to combat money laundering in Russia to be implemented by individuals and organisations, including Russian banking institutions, involved in transactions with money and certain property. Pursuant to the Anti-Money Laundering Law, Russian banks are obligated to, inter alia: (1) establish and maintain systems of internal control ensuring that the bank and its clients are in compliance with Russian anti-money laundering legislation; (2) monitor and record certain client transactions, as specified in the Anti-Money Laundering Law; and (3) report certain client transactions specified by the Anti-Money Laundering Law to the relevant Russia authorities. Furthermore, in certain cases Russian banks must suspend client transactions and inform the relevant Russian authorities. The current Anti-Money Laundering Law does not permit banks to suspend or freeze client transactions for longer than five business days unless extended by the authorised body to a longer period.

The Federal Service on Financial Monitoring is the main governmental authority acting as a financial intelligence unit, and, together with the CBR, exercises control over banks' compliance with the Anti-Money Laundering Law. Russian banks are obligated to report through the CBR to the Federal Services on Financial Monitoring with respect to the types of transactions mentioned above.

Failure by Russian banks and/or their officers to comply with the requirements of the Anti-Money Laundering Law may result in the imposition of sanctions, including the revocation of a banking licence (with a subsequent liquidation of the bank) and criminal penalties for individuals.

On 30 June 2013, several amendments to the Anti-Money Laundering Law came into force. They were introduced by the Federal Law No. 134-FZ "Amending Certain Legislative Acts of the Russian Federation on the Counter Measures on Illegal Financial Operations" dated 28 June 2013. These amendments, among other things:

- introduced the definition of the "beneficiary owner" to the Anti-Money Laundering Law in order to extend the scope of client identification procedure;
- set forth the obligation for the clients to provide all necessary information on their beneficiary owners to banks (for the banks to comply with the provisions of the Anti-Money Laundering Law);
- set forth the obligation for the banks to take reasonable steps for preliminary identification of the clients' reputation, financial position and objectives of the business activity;
- set forth the obligation for the banks to freeze monetary funds and other assets of individuals and legal entities under certain circumstances; and
- for additional measures against financing terrorism.

One more set of amendments to the Anti-Money Laundering Law was adopted by the Federal Law No. 424-FZ "On amending the Anti-Money Laundering Law" dated 30 December 2015. This new law has extended the definition of the "client" to include concept of a "foreign structure without incorporation of a legal entity" which means a structure (such as fund, trust or partnership) entitled by law to do business without being a body corporate. According to these amendments credit organisations are required to verify certain information related to the foreign structure.

Financial Consumer Protection

Financial consumer protection is generally based on the Federal Law No. 2300-1 "On Consumer Protection Law" dated 7 February 1992, as amended (the "**Consumer Protection Law**") and the Federal Law No. 353-FZ "Consumer Lending Law" dated 21 December 2013 (the "**Consumer Lending Law**").

The Consumer Lending Law regulating consumer lending in Russia, came into force on 1 July 2014. The Consumer Lending Law is intended to provide more specific regulation of consumer protection in the Russian banking sector, in contrast to the Consumer Protection Law, which contains more general regulations. The Consumer Lending Law will not apply to mortgage loans.

The Consumer Lending Law sets requirements in relation to the terms of a consumer loan agreement. In particular, according to the Consumer Lending Law, a consumer loan agreement must contain general and specific terms. General terms of the consumer loan agreement are based on the lender's template form, whilst the specific terms are agreed between the lender and the borrower. The Consumer Lending Law designates, among others, the following terms to be the specific terms of the consumer loan agreement: (i) amount of the loan or lending limit (and the procedure of change of the lending limit), (ii) term of the loan and repayment date, (iii) currency of the loan, (iv) the annual percentage rate (in case of floating interest rate – the calculation procedure),

(v) payment schedule of the loan, (vi) purpose of the loan and (vii) borrower's liability for undue performance of its obligations under the consumer loan.

The Consumer Lending Law sets the priority of payments under the loan in case the payment made by the borrower is not enough to discharge its relevant payment obligations. In particular, the Consumer Lending Law sets out the following priority of payments: (i) overdue interest payments, (ii) overdue principal payments, (iii) penalty, (iv) current interest payments, (v) current principal payments and (vi) other payments as provided by the Russian legislation on consumer lending and the consumer loan agreement.

In addition, the Consumer Lending Law sets out the limits of penalties payable under consumer loan agreement in case of the borrower's payment default. The penalty shall not exceed (i) 20 per cent. per annum, if the consumer loan agreement states that the interest continues to accrue on the overdue payment of the principal of the loan, or (ii) 0.1 per cent. per day, if the consumer loan agreement states that the interest stops accruing on the overdue amount of the principal of the loan, after the payment default of the borrower has occurred.

According to the Consumer Lending Law, the effective interest rate of the loan shall not exceed by more than one third the mid-market effective interest rate of the relevant category of consumer loans established by the CBR quarterly.

The mid-market effective interest rate is determined by the CBR 45 calendar days prior to each quarter during the course of which the relevant mid-market effective interest rate will be applicable for the purposes of limitation stipulated by the Consumer Lending Law. The CBR calculates the effective interest rate using weighted average rate of (i) not less than 100 largest lenders in respect of the relevant category of loan or (ii) not less than one third of all lenders in respect of the relevant category of loan. The latest value of the mid-market effective interest rate has been published by the CBR on 14 February 2020. The effective interest rate for consumer loans for the second quarter of 2020 shall not exceed:

For loans with repayment term up to 1 year:

- 27.324% for the no-purpose loans, purpose loans without collateral (excluding POS loans) and debt refinancing loans with principal amount up to 30,000 RUB;
- 16.478% for the no-purpose loans, purpose loans without collateral (excluding POS loans) and debt refinancing loans with principal amount from 30,000 RUB up to 100,000 RUB;
- 15.275% for the no-purpose loans, purpose loans without collateral (excluding POS loans) and debt refinancing loans with principal amount from 100,000 RUB up to 300,000 RUB; and
- 11.583% for the no-purpose loans, purpose loans without collateral (excluding POS loans) and debt refinancing loans with principal amount exceeding 300,000 RUB;

For a loans with repayment term exceeding than 1 year:

- 19.597% for the no-purpose loans, purpose loans without collateral (excluding POS loans) and debt refinancing loans with principal amount up to 30,000 RUB;
- 18.317% for the no-purpose loans, purpose loans without collateral (excluding POS loans) and debt refinancing loans with principal amount from 30,000 RUB up to 100,000 RUB;
- 17.597% for the no-purpose loans, purpose loans without collateral (excluding POS loans) and debt refinancing loans with principal amount from 100,000 RUB up to 300,000 RUB; and
- 14.237% for the no-purpose loans, purpose loans without collateral (excluding POS loans) and debt refinancing loans with principal amount exceeding 300,000 RUB.

Bankruptcy (Insolvency) and Other Related Issues

Bankruptcy of credit organisations in Russia is governed by the Insolvency Law. Bankruptcy of credit organisations was also previously governed by the Federal Law No. 40-FZ "On Bankruptcy of credit organisations". This law was terminated by the Federal Law No. 432-FZ dated 22 December 2014 and a new 4.1 Chapter "Bankruptcy of credit organizations" was included in the Insolvency Law.

Bankruptcy

Bankruptcy proceedings against a Russian bank may be initiated only after the revocation by the CBR of its banking licence. Following the revocation of the bank's licence, inter alia, all obligations of the bank are deemed to have fallen due and the bank is prohibited from entering into transactions and performing its obligations,

except for a limited number of current and settlement transactions and operations listed in the Banking Law, until the liquidator or the competition manager is appointed.

Bankruptcy proceedings may be initiated against a Russian bank provided that its business has "signs" of insolvency, as described in the Insolvency Law; the overall amount of the outstanding obligations is not less than RUB100,000 and the bank has failed to perform such obligations within 14 days of their due date; or after the revocation of the bank's licence its total assets do not cover all of its outstanding obligations.

Prior to the institution of bankruptcy proceedings, the CBR, on its own initiative or upon the application of the authorised body of the bank, has the right to take action aimed at preventing the bank's bankruptcy. Such action may include (a) financial rehabilitation of the bank (for example, financial support, changing the structure of assets and liabilities or organisational structure of the bank), (b) appointment of a temporary administration to the bank, (c) reorganisation and (d) measures to be undertaken with participation of the State Deposit Insurance Agency or the management company of the Fund of Consolidation of the Banking Sector acting on behalf of the CBR.

The Management Company of the Fund of Consolidation of the Banking Sector (the "**Management Company**") was established by the CBR in accordance with the Banking Law as an independent legal entity which is authorized to take measures aimed at financial rehabilitation of credit organisations. In particular, the Management Company participates in the analysis of banks' financial standing, carries out temporary administration, participates in additional capitalization and manages shares of credit organisations acquired by the CBR in course of the financial rehabilitation. As part of its activities, the Management Company uses the finances of the Fund of Consolidation of the Banking Sector (the "**Fund**"), which was established by the CBR. The Fund is formed out from funds allocated by the CBR by the decision of its Board of Directors.

Temporary Administration

Temporary administration, which is aimed at the financial rehabilitation of a bank. Technically, temporary administration precedes, and does not necessarily result in, the commencement of bankruptcy proceedings. Temporary administration may be imposed by the CBR in certain negative financial circumstances set out in Article 189.26 of the Insolvency Law. The grounds for the appointment of a temporary administration include, among other things, breach of certain financial and regulatory capital ratios and a bank's failure to perform its payment obligations to some of its creditors for a period greater than seven days due to insufficient funds in its correspondent accounts.

The introduction of a temporary administration may entail a limitation or suspension of the powers of the executive bodies of a bank. The temporary administration can manage a bank and is further entitled to request that the CBR impose a three month moratorium on all payments of a bank to counterparties and creditors, which can be prolonged for the period of up to three months. The temporary administration, the State Deposit Insurance Agency and the management company of the Fund of Consolidation of the Banking Sector may also refuse performance of agreements or challenge transactions under Articles 27 and 189.40 of the Insolvency Law.

Priority of Claims

Under Russian bankruptcy law, claims of unsecured creditors against Russian banks are generally subordinated to the claims of individual clients arising out of deposit and bank account agreements, certain claims of creditors arising after the initiation of the bankruptcy proceedings and certain other ongoing payments, workplace injury and moral damages obligations, severance pay, employment related obligations and royalties. There is also a small risk that claims of unsecured creditors may be further subordinated to claims under certain tax and mandatory payment obligations to the Russian Government, although the Insolvency Law ranks such claims equally. Furthermore, unsecured claims are also effectively subordinated to claims secured by a Russian law pledge. Under the Insolvency Law, claims of creditors secured by a Russian law pledge are settled with the money received from the sale of pledged assets. Claims of creditors secured by a Russian law pledge remaining unsatisfied upon the sale of pledged assets would be ranked as claims of unsecured creditors after the obligations mentioned above, irrespective of the time of the creation of such claims.

Recent amendments to the Insolvency Law provide that the proceeds from the sale of the pledged assets will be used as follows: (a) 70 per cent. (or 80 per cent. if the pledge secures a credit agreement) to satisfy secured claims; (b) 20 per cent. (or 15 per cent. if the pledge secures a credit agreement) to satisfy claims of creditors of the first and second priorities, provided the debtor's other property is insufficient to satisfy such claims; and (c) the remaining amount to cover court expenses, remuneration to a bankruptcy manager and related expenses. Any obligations of creditors secured by a pledge remaining unsatisfied following the sale of the pledged assets would be ranked as claims of unsecured creditors.

Liquidation and Revocation of the Banking Licence

Mandatory Liquidation

The procedure for the revocation of banking licences and liquidation of banks is regulated by the Banking Law. See "*—Regulation — Licensing*" above.

Upon the revocation of its licence, a bank must be liquidated either under mandatory solvent liquidation procedures set out in the Banking Law or under bankruptcy procedures set out in the Insolvency Law.

Article 20 of the Banking Law establishes the consequences of the revocation of the banking licence, including that the CBR must impose a "temporary administration" on the relevant bank, that all obligations of the bank are deemed to have fallen due, that enforcement of execution documents issued on the basis of court judgments, with certain exceptions, is suspended and that entering into transactions and performance by the bank of its obligations is prohibited until the liquidator or the competition manager is appointed.

The CBR must make a public announcement of the revocation of the banking licence within one week of resolving to revoke such a licence.

Voluntary Liquidation

In the case of voluntary liquidation of a bank, the shareholders (founders), upon the adoption of the relevant decision, must apply to the CBR for cancellation of the banking licence and, upon its cancellation, the liquidation should be carried out in accordance with the liquidation rules and applicable CBR regulations. In particular, shareholders will appoint the liquidation commission to oversee the liquidation process.

Banking and Other Relevant Reforms

Following the 1998 financial crisis, Russian banks took important steps towards developing more transparent business practices and more diversified portfolios of assets. In recent years, confidence in local banks has gradually improved, as evidenced by the substantial growth in the volume of private deposits in Russian banks.

On 17 March 2011, the Russian Government and the CBR issued their joint Strategy. The Strategy replaced the five year Strategies for the Development of the Banking Sector in the Russian Federation issued in December 2001 and April 2005, and set out an action plan for the facilitation of the development of the Russian banking sector up to 2015.

Among other things, the Strategy outlined the targets for the reform of the Russian banking sector, the forecast of the results of such reform and the analysis of the current condition of the Russian banking sector. The Strategy also listed measures, which should be implemented to achieve these targets.

The system of the insurance of private deposits was introduced in 2003. According to the Deposit Insurance Law, banks holding a CBR licence for attracting deposits from individuals and opening and administering individuals' accounts qualify for such activities. Subject to a bank's compliance with certain regulatory requirements, it enters the system of the insurance of individuals' deposits and thus qualifies to receive deposits and open accounts for individuals. If a bank fails to comply with the applicable requirements or chooses not to participate in the insurance system, it will be precluded from receiving deposits and opening accounts for individuals. Banks accepting private deposits and opening accounts for individuals are required to make quarterly payments to the insurance fund in the amount of up to 0.15 per cent. of the average account balances calculated under the law.

Under the Deposit Insurance Law, the protection for each individual and legal entity classified as a small enterprise is limited to RUB1,400,000 per bank and banks are required to make quarterly payments into a deposit insurance fund. The previous protection threshold was RUB700,000. This threshold was increased by the Federal Law No. 451-FZ "On Amending Article 11 of the Federal Law "On Retail Deposit Insurance" and Article 46 of the Federal Law "On the Central Bank" dated 29 December 2014. The insurance payment from the deposit insurance fund will be payable to depositors if a bank's licence has been revoked or if the CBR has imposed a moratorium on payments by the bank. The basis of the deposit insurance contribution is the quarterly average of daily balances of retail deposits. Standard contribution premiums cannot exceed 0.15 per cent. of the contribution basis. In certain circumstances, the premium can be increased up to 0.3 per cent. of the contribution basis, but not for more than two quarters in every 18 months. When the size of the insurance fund reaches 5 per cent. of total retail deposits of all Russian banks, all succeeding contribution premiums cannot exceed 0.05 per cent. of the contribution basis, and when the size of the insurance fund exceeds 10 per cent. of all Russian banks' retail deposits, no contributions need to be made, but they resume once the insurance fund falls below the 10 per cent. threshold.

On 30 December 2004, the President signed Federal Law No. 218-FZ "On Credit Histories" (the "**Credit**

Histories Law"). Most of the provisions of the Credit Histories Law came into force on 1 June 2005. Pursuant to the Credit Histories Law, the "credit history" of a borrower (whether an individual or a legal entity) consists of certain data, as defined by the Credit Histories Law, which describe the borrower's performance under loan or credit arrangements and which are stored with a "credit history bureau" (a Russian legal entity included in the State Register of Credit History Bureaus, whose principal activity is to collect, process and store credit history data and issue "reports", as defined in the Credit Histories Law). As at 14 February 2020, the CBR had registered 11 credit history bureaus.

The Credit Histories Law defines the procedures for the submission of data to credit history bureaus, disclosure by bureaus of such data to authorised users, and the rights and obligations of borrowers and bureaus. It also sets out the procedures for the registration of credit history bureaus and the transfer of credit history data upon their liquidation.

Credit history bureaus may disclose credit history data only to:

- a borrower itself;
- banks or other legal entities which are users of such data (with the borrower's consent);
- courts and, with the consent of a prosecutor general, certain enforcement agencies;
- the Central Credit History Catalogue administered by the CBR to allow the centralised search of all credit history data; and
- the Federal Service of Court Bailiffs.

Credit organisations are obliged to make their activities compliant with the Credit Histories Law within nine months of the date of its entry into force. Since 1 September 2005, banks have been required to enter into agreements with at least one credit history bureau and provide it, subject to the borrowers' consent, with the relevant information relating to the borrowers.

In connection with the entry into force of the Credit Histories Law, amendments to the Banking Law, the Civil Code and to the Code of Administrative Offences were introduced in order to make them compliant with the Credit Histories Law. Specifically, these amendments address issues concerning bank secrecy, liability for unauthorised access to, and disclosure of, credit history data, and violation of the procedure for the collection, storage and processing of such data.

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, Federal Law No. 152-FZ "On Mortgage Backed Securities" and amendments to the Civil Code, Tax Code and Federal Law No. 102-FZ "On Mortgage" were enacted in 2003/2004. By means of these laws, Russian legislators attempted to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. Another intention of this new legislation is to introduce improved regulation of mortgage backed securities in order to make them more attractive for investors.

On 18 June 2004, the Currency Control Law came into force, replacing the former Federal Law "On Currency Regulation and Currency Control" of 1992 almost in its entirety. The Currency Control Law is generally aimed at the gradual liberalisation of Russian currency control regulations. Pursuant to the Currency Control Law, the CBR had the power to regulate certain currency operations (including non-banking operations performed by Russian banks) by introducing a "special account requirement". As at 1 January 2007, the major remaining restrictions envisaged in the Currency Control Law (including the "special account requirement") have been abolished.

As part of implementing legislation contemplated by the Currency Control Law, the CBR passed Directive No. 1425-U of 28 April 2004, which came into force on 18 June 2004. Directive No. 1425-U confirms that no currency control limitations will apply to bank operations between authorised banks and sets forth a list of non-banking transactions between authorised banks that are exempt from currency control restrictions. Directive No. 1425-U specifically provides that all other non-banking transactions of authorised banks will fall under the general currency control regime applicable to resident legal entities.

The Insider Dealing Law

The Insider Dealing Law generally came into force on 31 July 2011, save for the provisions relating to of criminal liability for unlawful use of insider information and revocation of a banking licence due to multiple instances of non-compliance with the Insider Dealing Law during one year. The Insider Dealing Law enumerates categories of persons that can be considered insiders, including, among others, issuers and management companies, as well as professional market participants (including brokers and dealers) and other persons who

transact on behalf of their clients with financial instruments, foreign currency and/or goods, and have received insider information from such clients. Under the Insider Dealing Law, any person who illegally uses insider information and publishes misleading information may be held liable for misuse of information and/or market manipulation. Furthermore, insiders must comply with certain new disclosure requirements, including keeping the insiders list and sending notices of transactions by the insiders to the CBR and the relevant legal entities. In implementing the Insider Dealing Law and pursuant to CBR Regulation No. 5140-U of 6 May 2019, the CBR began to disclose certain information relating to Russian banks on its website, including: (1) the status and results of its inspections, (2) licence revocations, (3) cases of imposing an administrative liability upon a credit organisation and/or its sole executive body, (4) an invalidation of the CBR's approval for taking retail deposits and opening and maintaining bank accounts for individuals, and (5) stages of issuance of securities by banks.

The Retail Deposit Insurance Law

Federal Law No. 177-FZ "On Retail Deposit Insurance" dated 23 December 2003, as amended (the "**Retail Deposit Insurance Law**"), introduced a mandatory deposit insurance scheme for Russian banks that offer retail deposit services and deposit services for sole proprietors and small enterprises (that are registered in the Unified Register of Medium and Small Enterprises maintained by the Russian tax authority) pursuant to a CBR licence. The Retail Deposit Insurance Law prescribed the requirements for admission to the deposit insurance scheme, and compliance with these requirements was verified by the CBR on a case-by-case basis.

According to the State Deposit Insurance Agency, as at the date of Base Prospectus, 360 banks are participants to the deposit insurance scheme. A bank that does not participate in the deposit insurance scheme is not permitted to accept retail deposits or open accounts for individuals.

The Retail Deposit Insurance Law guarantees each customer's deposit for up to RUB1,400,000 per bank. Insurance proceeds are payable from the deposit insurance fund into which participating banks must make quarterly contributions. An insurance payment from the deposit insurance fund becomes payable to depositors if the CBR revokes the bank's licence or imposes a moratorium on payments by the bank. The amount of each bank's contribution to the deposit insurance scheme is assessed based on the quarterly average of daily balances of its deposits (excluding balances of deposits that are not subject to insurance). Standard contribution premiums cannot exceed 0.15 per cent. of the contribution basis. In certain circumstances, the premium can be increased up to 0.3 per cent. of the contribution basis, but not for more than two quarters in any 18-month period. When the size of the insurance fund exceeds 5 per cent. of all Russian banks' combined deposits, all subsequent contribution premiums cannot exceed 0.05 per cent. of the contribution basis. When the size of the insurance fund exceeds 10 per cent. of all Russian banks' combined deposits, no contributions will need to be made, but contributions must be resumed if the size of the insurance fund falls below 10 per cent. of the combined deposits.

Starting from 1 July 2015 the banks satisfying certain conditions are obliged to make additional contributions established by the State Deposit Insurance Agency. If a bank in a particular quarter has entered into any agreement (except for agreement with small enterprise) with deposit rate exceeding the basic level of profitability by 2 to 3 per cent. such bank is subject to additional contribution. And the banks providing deposits with rates exceeding the basic level of profitability by more than 3 per cent. must pay higher additional contributions. The basic level of profitability will be established by the CBR every month by determination of the average rate calculated on the basis of the highest deposit rates offered to unlimited range of depositors by the banks holding, in aggregate, two thirds of retail deposits in the Russian Federation.

The Retail Deposit Insurance Law provides for the establishment of a regulator, the State Deposit Insurance Agency, which, among other things, collects fund contributions, manages the fund, calculates insurance premiums and monitors insurance payments. The State Deposit Insurance Agency maintains a register of all banks that hold a retail banking licence.

The National Payment System Law

Federal Law No. 161-FZ "On the National Payment System" (the "**National Payment System Law**") that was adopted on 27 June 2011, generally came into force on September 29, 2011. This law provides for legal and organisational principles of the national payment system, establishes the procedure for rendering of payment services, including making transfer of monetary funds, use of electronic means of payment, as well as sets forth requirements for organisation and operation of payment systems and the procedure for monitoring and supervision over the national payment system. This law provides that only credit institutions may carry out transfers of electronic monetary funds. Credit institutions may enter into agreements with other organisations, under which the latter may render to the credit institutions operational and clearing services for the transfer of electronic monetary funds. Under this law, the CBR is vested with additional functions of monitoring and supervision over the national payment system.

The Central Depositary Law

Federal Law No. 414-FZ "On the Central Depositary", as amended (the "**Central Depositary Law**"), which generally came into force on 1 January 2012, provides legal framework for establishment, and operational conditions, of the central depositary, in particular, setting out rights and obligations of the central depositary, requirements to its activities and specifics of the state control and supervision over its activities. The Central Depositary Law aims at improving effectiveness and competitiveness of Russian stock market, including, expediting and facilitating securities trade settlements and mitigating the risks associated therewith. Under this law, the central depositary is defined as a depositary that is a non-banking credit organisation ("**NCO**"), to which the status of the central depositary has been assigned. Only a joint-stock company registered in Russia can be the central depositary. Pursuant to the Central Depositary Law, the central depositary (within one year from the date of assignment of its status) shall take all necessary steps in order to open its nominal holder accounts, in particular, in all securities registers of issuers obliged to disclose information in accordance with the Securities Market Law. Also, the Central Depositary Law prohibits persons maintaining securities registers from opening, and depositing securities to, other nominal holder accounts from the opening date of a nominal holder account of the central depositary. On 6 November 2012, CJSC NCO "National Settlement Depository" was assigned the central depositary status by Order of the FSFM No. 12-2761/PZ-I.

Accession of Russia to the WTO

On 16 December 2011, Russia signed the Protocol on its accession to the WTO. The ratification procedures were completed in July 2012, and the accession to the WTO became effective for Russia on 22 August 2012. Upon the Protocol's entry into force, Russia became subject to the WTO regime. However, in relation to its banking sector, Russia made a reservation that it would review market access requirements for the establishment of branches of foreign banks and securities firms in the context of future negotiations on the accession of Russia to the OECD or within the framework of the next round of the WTO multilateral trade negotiations. As at the date of this Base Prospectus, the CBR allows foreign banks either (i) to incorporate a subsidiary bank in Russia regulated by the CBR or (ii) to maintain a representative office in Russia. A subsidiary of a foreign bank is an entity operational within the scope of its banking licence, which must comply with Russian laws and CBR regulations (including on mandatory CBR ratios), while activities of a representative office are limited to facilitating banking operations and representing interests of its foreign parent. At present, a foreign bank may set up a subsidiary or representative office in Russia, subject to obtaining the CBR approval and provided that, among other matters, the parent bank has a good reputation and is in good financial standing in its home country.

The accession of Russia to the WTO is also expected to necessitate unification of requirements applicable to private banks, banks under state control and foreign-controlled banks, including, among other things, abolishing some Russian law provisions that may be deemed discriminatory against foreign-owned banks in favour of banks controlled by Russian nationals or the state. At the same time, Russia managed to keep a limit on an overall amount of foreign investments into the banking sector of Russia post-accession, which shall not exceed 50 per cent. of the total equity capital of all credit organisations registered in Russia. If the threshold is exceeded, the CBR will have a right (i) not to authorise new foreign investments in the banking sector, and/or (ii) to impose a temporary ban on disposal of banks' equity capital to foreign investors, including, inter alia, through an increase of equity capital at the account of a foreign investor.

Measures to Support the Liquidity and Solvency of Russian Banks and Legal Entities since October 2008

Since October 2008, the Russian Government and the CBR have announced and, in many cases, fully implemented measures intended to support the liquidity and solvency of Russian banks and to increase the availability of credit to businesses, which have been seen as critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy. These measures were primarily introduced by the Federal Law No. 173-FZ "On Additional Measures for Supporting the Financial System of the Russian Federation" (the "**Rescue Measures Law**"). According to the Rescue Measures Law, the following measures are being implemented:

- The Russian Government through the CBR and Vnesheconombank may provide up to RUB910 billion in subordinated loans to State-owned and private banks under certain conditions. The RUB910 billion state contribution to banking sector capital in the form of long-term subordinated loans is one of the key economic initiatives announced by the Russian Government to restore confidence in the Russian banking sector. State-owned banks such as Sberbank, VTB Bank and Russian Agricultural Bank received RUB500 billion, RUB200 billion and RUB25 billion, accordingly, as part of this initiative. The remaining amount has been distributed among privately-owned Russian banks subject to certain conditions.

- The CBR was authorised to enter into agreements with privately owned banks to partially compensate such banks for the losses suffered during the period from 14 October 2008 to 31 December 2010 as the result of operations on the interbank market with banks whose licences are revoked. Vnesheconombank had the right, until 31 December 2009, to originate foreign currency loans up to U.S.$50 billion to Russian legal entities to repay and/or refinance the loans received from foreign lenders prior to 25 September 2008.

A set of federal laws and governmental regulations complements the measures introduced by the Rescue Measures Law:

- The CBR established a new liquidity scheme to conduct uncollateralised lending covering a number of Russian banks. The maximum amounts that banks can raise under this facility were set by the CBR depending on the credit rating, asset size and the level of capitalisation of the potential borrower under this arrangement.

- The CBR Regulation dated 16 October 2008 No. 323-P "On Provision of Unsecured Loans to Russian Credit Institutions by the Bank of Russia" has introduced the procedure and criteria for issuing unsecured loans by the Central Bank of Russia.

- Federal Law No. 317-FZ "On Amending Articles 46 and 76 of the Federal Law on Central Bank of Russian Federation (Bank of Russia)" dated 30 December 2008 vested the CBR with the right to appoint its authorised representatives to the banks and credit institutions which, inter alia, have received any foreign currency loans and/or subordinated loans under the Rescue Measures Law. On 20 February 2009 the CBR appointed its authorised representatives to Alfa Bank. The CBR Regulation No. 2182-U dated 9 February 2009 provides for the procedure for such authorised representatives appointment, their rights and obligations including, inter alia, the right to participate in the meetings of the management bodies of such banks and credit institutions and the right to request information on management remuneration and the issuance of loans to third parties.

- CBR Regulation No. 2092-U "On Determination of Mandatory Reserve Requirements of the Bank of Russia" dated 14 October 2008 temporarily decreased the reserve requirements for all types of financial obligations, namely funds in Roubles and foreign currencies payable to non-resident banks, funds in Roubles payable to individuals and other obligations, to 0.5 per cent. from 4.5 per cent., 1.5 per cent. and 2 per cent., respectively. Further CBR regulations increased these reserve requirements to the current 4.75 per cent. and 8 per cent. for banks' obligations to individuals in Roubles or foreign currency, respectively, to 4.75 per cent. or 8 per cent. for banks' other obligations in Roubles or foreign currency, respectively, and to 4.75 per cent. or 8 per cent. for banks' obligations to non-resident legal entities in Roubles or foreign currency, respectively.

- The Deposit Insurance Law has been amended to increase the amount of the secured deposits of individuals with Russian banks included to the state system of deposits insurance up to RUB700,000.

- Government Decree No. 18 "On the Procedure of National Welfare Fund Assets Management" was amended in 2008 and 2009 to increase the scope of financial instruments in which funds from the National Welfare Fund can be invested. The National Welfare Fund was established in 2008 using oil revenues, with a view to partially funding contributions to pensions of Russian citizens and to make up shortfalls in other contributions from the federal budget to federal pension funds. As a consequence, up to RUB955 billion of such funds may be deposited in Vnesheconombank to support the Russian financial markets.

- The number of instruments eligible for the CBR's collateralised facility and for refinancing transactions with the CBR has been increased and the CBR may accept, among other things, the pledge of certain bonds and suretyships granted by certain Russian banks as collateral under its facilities to credit organisations.

- On 21 July 2014, President of the Russian Federation signed amendments to the Rescue Measures Law that allow the Russian Government to use certain funds, repaid under subordinated loans provided by Vnesheconombank to credit institutions under the Rescue Measures Law, to purchase preferred shares of credit institutions. According to the Russian Government Decree dated 22 August 2014, Vnesheconombank will purchase preferred shares of VTB Bank and Russian Agricultural Bank using the funds of subordinated loans repaid by VTB Bank, VTB 24 Bank and Russian Agricultural Bank. In August 2014, Sberbank publically announced its decision to convert subordinated loan obtained in accordance with the Rescue Measures Law into perpetual debt as such possibility was provided to Sberbank by amendments introduced to the Rescue Measures Law.

Recent Amendments to the Civil Code

On 18 July 2008, former Russian President Dmitry Medvedev issued a decree requiring various amendments to be made to the Russian Civil Code. The Concept of Development of Russian Civil Legislation was subsequently adopted on 7 October 2009. The proposed amendments are divided into a number of sets.

On 30 December 2012, current Russian President Vladimir Putin signed into law the first set of amendments to the Russian Civil Code, which form part of a major reform to Russian civil legislation. The majority of the first set of amendments became effective on 1 March 2013. These amendments relate primarily to certain basic principles of civil law, limits on the exercise of civil rights, changes to rules on state registration of rights to certain types of property, as well as recognising the principle of compensation for losses incurred as a result of unlawful acts of the state authorities.

A second set of amendments to the Russian Civil Code was signed into law on 7 May 2013. These amendments affect, inter alia, the general rules on transactions, the grounds on which a transaction may be challenged and the rules governing representation and powers of attorney. The amendments became effective on 1 September 2013.

A third set of amendments to the Russian Civil Code was signed into law on 26 June 2017. These amendments introduce, inter alia, certain changes of loan and credit agreements regulation, as well as other changes to the financial deals regulation. The amendments became effective on 1 June 2018.

The last set of amendments to the Civil Code was adopted on 18 March 2019 and became effective on 1 October 2019. The scope of these amendments introduce a new concept of digital rights and modify existing laws governing, among other things, performance of contractual obligations and requirements for written form of contracts.

THE FACILITY AGREEMENT

This Facility Agreement is made on 6 June 2014 **between**:

(1) **ABH FINANCIAL LIMITED**, a company existing under the laws of Cyprus whose registered office is at Themistokli Devi, Elenion Building, 2nd Floor, P.C. 1066, Nicosia, Republic of Cyprus (the "**Borrower**"); and

(2) **ALFA HOLDING ISSUANCE PLC**, a company incorporated under the laws of Ireland, whose registered office is at 53 Merrion Square, Dublin 2, Ireland (the "**Lender**" or "**Issuer**" of the Notes).

Whereas:

(A) The Lender, at the request of the Borrower, has agreed or will agree (as the case may be), pursuant to this facility agreement ("**this Agreement**" or "**this Facility Agreement**"), to make available to the Borrower a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of this Agreement, as amended and supplemented in relation to each Loan (as defined below) by a loan supplement substantially in the form set out in Schedule 1 thereto (each, a "**Loan Supplement**"); and

(B) It is intended that, concurrently with the extension of any Loan under this loan facility, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Loan.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Facility Agreement (including the recitals), the following terms shall have the meanings indicated below:

"**Account**" means an account in the name of the Lender with the Principal Paying Agent as specified in the relevant Loan Supplement.

"**Acquired Indebtedness**" means in relation only to any Subsidiary which became or becomes a Subsidiary through the exercise of a Security Interest (as defined in the Trust Deed) in favour of the Borrower, any Indebtedness of such Subsidiary which was pre-existing at the time such Subsidiary became a Subsidiary.

"**Additional Amounts**" has the meaning set out in Clause 7.1 (*Additional Amounts*).

"**Affiliate**" of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person (which shall include the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise), or (b) any other Person who is a director or officer (i) of such specified Person, (ii) of any subsidiary of such specified Person or (iii) of any Person described in (a) above.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state.

"**Agency Agreement**" means the agency agreement relating to the Programme dated 6 June 2014 between the Lender, the Borrower, the Trustee and the agents named therein, as may be amended or supplemented from time to time.

"**Arrangers**" means Open Joint Stock Company "ALFA-BANK", Commerzbank Aktiengesellschaft, UBS Limited or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

"**Bank**" means Open Joint Stock Company "ALFA-BANK".

"**Banking Business**" means in relation to the Borrower or any Subsidiary of any member of the Group, any type of banking business (including, without limitation, any factoring, consumer credit, mortgage-lending, issuance of banking guarantees and letters of credit (and related cash cover provision), Repos, total return swaps, prime brokerage agreements, credit derivatives, hedging, bills of exchange and promissory notes, trading of securities, fund management and professional securities market participation business) which they conduct or may conduct pursuant to their licences issued by the appropriate authorities, accepted market practice and any applicable law.

"**Board of Directors**" means, as to any Person, the board of directors or equivalent competent governing body of such Person, or any duly authorised committee thereof.

"**Borrower Agreements**" means this Facility Agreement, the Agency Agreement and the Dealer Agreement and, in relation to each Loan, the foregoing agreements together with the relevant Subscription Agreement, Final Terms and Loan Supplement.

"**Borrower's Account**" means an account in the name of the Borrower as specified in the relevant Loan Supplement for receipt of Loan funds.

"**Borrower Permitted Reorganisation**" means a Reorganisation (as defined in Clause 10.7 (*Limitation on Merger and Consolidation*) pursuant to which a Person (the "**Borrower's Successor**") consolidates or amalgamates with the Borrower or merges with or into the Borrower, or pursuant to which all or substantially all of the assets of the Borrower (all of the Borrower's shares in the Bank (whether held directly or indirectly) shall be deemed to be "substantially all" of the assets of the Borrower at the time of such transfer) are transferred to the Borrower's Successor, provided that the Borrower's Successor (i) holds and/or controls (directly or indirectly) in excess of 50 per cent. of the shares in the Bank and (ii) the Borrower's Successor produces financial statements in accordance with IFRS.

"**Business Day**" means (save in relation to Clause 4 (*Interest*)) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in Nicosia (Cyprus) and the relevant place of payment, (b) if on that day a payment is to be made in a Specified Currency other than Euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency (New York City for U.S.$ and Moscow for Roubles), and (c) if on that day a payment is to be made in Euro hereunder, a day on which the TARGET System is operating.

"**Calculation Agent**" means, in relation to a Loan, The Bank of New York Mellon, London Branch, or any person named as such in the relevant Loan Supplement or any successor thereto.

"**Central Bank**" or "**CBR**" means the Central Bank of the Russian Federation – Bank of Russia or such other governmental or other authority as shall from time to time carry out functions in relation to the supervision of banks in the Russian Federation as are, on the date hereof, carried out by the CBR.

"**Closing Date**" means the date specified as such in the relevant Loan Supplement.

"**Conditions**" means, in relation to a Series of Notes, the terms and conditions of such Notes.

"**Contemplated Disposal**" means the sale, lease, transfer, dividend or other disposition:

(i) of the shares of and/or other ownership interests in Amsterdam Trade Bank N.V. by sale or dividend to the shareholders of the Borrower, ***provided that*** any such sale or dividend would not have a Material Adverse Effect; and

(ii) of any asset by the Borrower to any Subsidiary of the Borrower or by any Subsidiary of the Borrower to the Borrower or any other Subsidiary of the Borrower.

"**Cypriot Taxing Authority**" means the Inland Revenue Department and the Customs & Excise Department - VAT Service.

"**Day Count Fraction**" has the meaning specified as such in the relevant Loan Supplement.

"**Dealer Agreement**" means the dealer agreement relating to the Programme dated 6 June 2014 between the Lender, the Borrower, the Arrangers and the other dealers appointed pursuant to it, as may be amended or supplemented from time to time.

"**Default**" means any event which is, or after notice or passage of time or after making any determination under this Agreement or the fulfilment of any other requirement (or any combination of the foregoing) would be, an Event of Default.

"**Dollars**", "**$**", "**U.S. Dollars**" and "**U.S.$**" mean the lawful currency of the United States of America.

"**Domestic Debt**" means (a) loans solely from banks and/or financial institutions domiciled in, or incorporated under, any of the laws of any state forming part of the Commonwealth of Independent States or any territory thereof which are not subsidiaries of Persons domiciled in or incorporated under the laws of any territory outside any such state, and (b) deposits from Persons in any state forming part of the Commonwealth of Independent States or any territory thereof.

"**Event of Default**" has the meaning assigned to such term in Clause 11.1 (*Events of Default*) hereof.

"**Euro**", "**EUR**" and "**€**" mean the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome (as amended);

"**Excluded Event**" means any event which results, or would result upon the taking of necessary actions pursuant to the relevant documents, in the early amortisation, early repayment in full or in part or optional prepayment in full or in part of any Indebtedness pursuant to the terms thereof where that Indebtedness is comprised only of obligations of any member of the Group under a Securitisation Transaction (ignoring for these purposes the threshold amount of 30% of the consolidated total assets of the Group contained in the definition of that term).

"**Extraordinary Resolution**" has the meaning given to it in the Trust Deed.

"**Final Terms**" means the final terms as defined in the relevant Subscription Agreement.

"**Fixed Rate Loan**" means a Loan specified as such in the relevant Loan Supplement.

"**Floating Rate Loan**" means a Loan specified as such in the relevant Loan Supplement.

"**Global Note**" has the meaning assigned to it in the Trust Deed.

"**Group**" means the Borrower and its Subsidiaries taken as a whole.

"**IFRS**" means International Financial Reporting Standards issued by the International Accounting Standards Board (the "**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

"**incur**" means issue, assume, guarantee, incur or otherwise become liable for.

"**Indebtedness**" means any present or future indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised; any present or future amount raised by acceptance under any acceptance credit facility; any present or future amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any present or future amount of money raised pursuant to any issue of shares which are expressed to be redeemable; any present or future amount raised under any other transaction having the commercial effect of a borrowing; and the amount of any present or future liability in respect of any guarantee or indemnity for any of the items referred to above provided that, for the avoidance of doubt, obligations of any member of the Group under (i) a True Sale Securitisation Transaction; or (ii) a Synthetic Securitisation shall not constitute and shall not be included in determining the amount of any Indebtedness of that Person.

"**Independent Appraiser**" means an investment banking, accountancy or appraisal firm of international standing appointed at its expense by the Borrower (with the prior written consent of the Trustee), provided it is not an Affiliate of the Borrower or any Material Subsidiary.

"**Interest Payment Date**" means the date(s) specified as such in the relevant Loan Supplement, and, in the event of a prepayment in whole (but not in part) in accordance with Clauses 5.2 (*Prepayment in the Event of Taxes or Increased Costs*) or 5.3 (*Prepayment in the Event of Illegality*) the date set for such redemption in respect of the Loan.

"**Interest Period**" means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period, the Interest Commencement Date, and ending on (but excluding) the next Interest Payment Date.

"**Investment Grade Rating**" means a rating equal to or higher than (i) BBB – (or the equivalent) by Standard & Poor's Credit Market Services Europe Limited; (ii) BBB – (or the equivalent) by Fitch Ratings CIS Limited. or (iii) Baa3 – (or the equivalent) by Moody's Investors Services, Inc. or in each case the equivalent thereof from any duly approved substitute Rating Agency.

"**Investment Grade Status**" means the Notes have an Investment Grade Rating from two Rating Agencies.

"**Lead Manager(s)**" means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, easement, restriction, covenant, right of way, servitude, lien or charge securing any obligation of any Person or adverse claim or any preferential arrangement of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof, including a Sale/Leaseback Transaction) having a similar effect to the foregoing.

"**Loan**" means each loan to be made pursuant to, and on the terms specified in this Facility Agreement and the relevant Loan Supplement, and includes each Fixed Rate Loan and Floating Rate Loan.

"**Loan Agreement**" means this Facility Agreement and (unless the context requires otherwise), in relation to a Loan, means this Facility Agreement as amended and supplemented by the relevant Loan Supplement.

"**Material Adverse Effect**" means a material adverse effect on the operations and / or financial condition of the Borrower and its Material Subsidiaries taken as a whole or on the Borrower's ability to perform or comply with its obligations under the Borrower Agreements or any document related to them or on the rights of any person thereunder.

"**Material Subsidiary**" means, at any particular time, a Subsidiary of the Borrower whose assets exceed 15% of the consolidated IFRS total assets of the Borrower (as calculated by reference to the then latest audited consolidated IFRS financial statements of the Borrower) for which purpose:

(i) all calculations shall be determined by reference to (a) the then latest annual consolidated audited accounts of the relevant Subsidiary (in the case of a Subsidiary which prepares consolidated accounts) or the then latest annual non consolidated audited accounts of the relevant Subsidiary (in the case of a Subsidiary which only prepares non consolidated accounts) or if the relevant Subsidiary does not prepare audited accounts, the then latest annual consolidated unaudited accounts of the relevant Subsidiary (in the case of a Subsidiary which prepares consolidated accounts) or the latest annual non consolidated unaudited accounts of the relevant Subsidiary (in the case of a Subsidiary which only prepares non consolidated accounts) and (b) the then latest audited consolidated IFRS financial statements of the Borrower;

(ii) upon a Material Subsidiary transferring all or substantially all of its assets or business to another Subsidiary of the Borrower the transferor shall cease to be a Material Subsidiary and any such transferee which is not already a Material Subsidiary shall thereupon be deemed to be a Material Subsidiary until the next audited consolidated IFRS financial statements of the Borrower are prepared after which whether it is or is not a Material Subsidiary shall be determined in accordance with (i) above; and

(iii) subject to (ii) above, if as a result of any transfer, reconstruction, amalgamation, reorganisation, merger or consolidation of a Material Subsidiary which immediately before such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation satisfied either of the tests referred to in (i) or (ii) above, but immediately after such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation does not satisfy any of such tests, shall cease to be a Material Subsidiary for the purposes of this definition;

Within ten business days (being days on which banks and foreign exchange markets are open for business generally in Nicosia and Moscow) of a request therefor from the Lender or the Trustee, the

Borrower shall provide a certificate (in the English language if so requested by the relevant party) signed by an authorised signatory of the Borrower as to the proper extraction of the figures used in determining a Material Subsidiary and the mathematical accuracy of the calculations, and such certificate shall, in the absence of manifest error, be conclusive and binding on the Lender and the Borrower.

"**Noteholder**" means, in relation to a Note, the person in whose name such Note is registered from time to time in the relevant Register of the noteholders (or in the case of joint holders, the first named holder thereof).

"**Notes**" means the loan participation notes that may be issued from time to time by the Issuer under the Programme in Series, each Series corresponding to a Loan and, in relation to a Loan, as defined in the relevant Loan Supplement.

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two officers of the Borrower at least one of whom shall be a director of the Borrower, in a form similar to that set out in Schedule 2 hereto.

"**Opinion of Counsel**" means a written opinion from legal counsel who is acceptable to the Trustee, which counsel may be an employee of or counsel to the Borrower.

"**Paying Agent**" means the Principal Paying Agent or such other paying agent as may be appointed from time to time in connection with the Notes.

"**Permitted Disposal**" means the sale, lease, transfer, dividend or other disposition of:

(i) any of the assets of the Group acquired or held by the Group for investment purposes and identified as such in the latest audited consolidated IFRS financial statements of the Borrower;

(ii) any asset acquired by the Group (as creditor) through foreclosure, insolvency, bankruptcy or equivalent proceedings and/or as a result of any default by another party in respect of any agreement to which a member of the Group is a creditor and/or the restructuring of any obligation owed to any member of the Group as creditor by another party;

(iii) any asset acquired by or held by the Group and not used in connection with Banking Business, the disposal of which would not have a Material Adverse Effect, and any real property acquired by or held by the Group;

(iv) any asset pursuant to a True Sale Securitisation Transaction or a Securitisation Transaction; and

(v) cash or other consideration for the acquisition of any asset on normal commercial terms.

"**Permitted Lien**" means any:

(i) Lien granted by the Borrower or a Material Subsidiary which is existing as at the date of the relevant Loan Supplement;

(ii) netting or set-off arrangement entered into by the Borrower or a Material Subsidiary in the ordinary course of its Banking Business and/or business (as applicable) for the purpose of netting debit and credit balances;

(iii) Lien securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with any of the Borrower or any Material Subsidiary; provided that such Lien was not created in contemplation of such merger or consolidation and does not extend to any other assets, income or property of any of the Borrower or any Material Subsidiary;

(iv) Lien on assets or property, which is:

  (a) existing on real property acquired by the Borrower or a Material Subsidiary; and/or

  (b) created by the Borrower or a Material Subsidiary on assets or property on or following the acquisition by the Borrower or Material Subsidiary, as the case may be, of such assets or property;

provided that such Lien does not extend to any other assets or property (other than the proceeds of such acquired assets or property);

(v) Lien on any real property of the Borrower or a Material Subsidiary, provided that such Lien does not extend to any other assets or property;

(vi) Lien incurred, or pledge and deposit in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;

(vii) Lien imposed by law, including, without limitation, a mechanics', carriers', warehousemen's, material-men's, suppliers' and vendors' Lien in the ordinary course of business;

(viii) Lien for ad valorem, income or property taxes or assessments and similar charges which either is not delinquent or is being contested in good faith by appropriate proceedings for which the Borrower or Material Subsidiary, as the case may be, has set aside on its books reserves to the extent required by IFRS or Russian Accounting Standards (as applicable);

(ix) easement, right of way, restriction (including zoning restriction), reservation, permit, servitude, minor defect or irregularity in title and other similar charge or encumbrance, and any Lien arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Borrower or any of the Material Subsidiaries and existing, arising or incurred in the ordinary course of business;

(x) (a) bankers' Lien in respect of deposit accounts, (b) statutory landlords' Lien, (c) deposit to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in sub-clauses (a), (b) and (c) above of this clause (x), such Lien (A) does not secure obligations constituting Indebtedness for borrowed money and (B) is incurred in the ordinary course of business), and (d) Lien arising from any judgment, decree or other order which does not constitute an Event of Default;

(xi) any renewal of or substitution for any Lien permitted by any of the preceding paragraphs (i) through (x); ***provided, however,*** that, with respect to any Lien incurred pursuant to this paragraph the principal amount secured has not increased and such Lien has not been extended to any additional property (other than proceeds of the property in question);

(xii) any Lien created in respect of or in connection with a Securitisation Transaction;

(xiii) any Lien arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market in connection with the Borrower's proprietary trading activities (and for the purpose of raising credit or funds related to the securities transaction itself);

(xiv) any Lien granted by any member of the Group to another member of the Group;

(xv) any Lien incurred by the Borrower or a Material Subsidiary in connection with and/or in the ordinary course of Banking Business (but excluding any Securitisation Transaction); and

(xvi) any other Lien not otherwise described in subparagraphs (i) through (xv) above, provided that the aggregate amount of Indebtedness secured thereby shall not exceed 30 per cent. of the total liabilities of the Borrower (as determined by reference to the latest audited consolidated IFRS financial statements of the Borrower).

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"**Prepayment Date**" means any date on which a Loan is to be prepaid pursuant to any of the provisions of Clauses 5.2 (*Prepayment in the Event of Taxes or Increased Costs*) or 5.3 (*Prepayment in the Event of Illegality*), if applicable.

"**Principal Trust Deed**" means the principal trust deed dated 6 June 2014 between the Lender and the Trustee, as it may be amended or supplemented from time to time.

"**Programme**" means the programme for the issuance of Notes by the Issuer.

"**Programme Fee Side Letter**" means the fee side letter dated 6 June 2014 between, *inter alios*, the Issuer and the Borrower, as may be amended or supplemented from time to time.

"**Programme Limit**" means €600,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement.

"**Prospectus**" means the base prospectus dated 6 June 2014 relating to the Programme.

"**Qualifying Jurisdiction**" means any jurisdiction which has a double taxation treaty with Cyprus under which the payment of interest by Cypriot borrowers to lenders in the jurisdiction in which the lender is considered to be a resident for income tax purposes is generally able to be made without deduction or withholding of Cypriot income tax upon completion of any necessary formalities required in relation thereto.

"**Rate of Interest**" has the meaning assigned to such term in the relevant Loan Supplement.

"**Rating Agency**" means Standard & Poor's Credit Market Services Europe Limited, Moody's Investors Services, Inc. or Fitch Ratings CIS Limited, or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower from time to time with the prior written approval of the Trustee.

"**Register**" has the meaning given to it in the Agency Agreement.

"**Registrar**" has the meaning given to it in the Agency Agreement.

"**Relevant Time**" means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency (which, for the avoidance of doubt, is New York City time in relation to a payment in U.S.$ and Moscow time in relation to a payment in Roubles) and, in relation to a payment in Euro, Brussels time.

"**Repayment Date**" means the date specified as such in the relevant Loan Supplement.

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement, whether entered into for proprietary purposes or client purposes, or any agreement relating to securities which is analogous to, or similar in effect to any of the foregoing and for the purposes of this definition, the term "securities" means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any private or public company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation.

"**Roubles**" means the lawful currency of the Russian Federation.

"**Russia**" shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and "**Russian**" shall be construed accordingly.

"**Sale/Leaseback Transaction**" means an arrangement with any lender or investor whereby that lender or investor leases to the Borrower or one of the Material Subsidiaries any property or assets that have been sold by the Borrower or one of the Material Subsidiaries to that lender or investor or to another person to whom that lender or investor has advanced funds on the security of the leased property or assets.

"**Same-Day Funds**" means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, Euro funds settled through the TARGET System or such other funds for payment in Euro as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

"**Securitisation Transaction**" means any transaction or series of related transactions (in each case, including, but not limited to, securitisation transactions and other forms of structured finance transactions) involving the incurrence of Indebtedness by any member of the Group directly or indirectly backed by all or any portion of the Group's current or future assets or property (and revenues or rights arising therefrom) (including, but not limited to, (a) credit card receivables, debit card receivables, cheque receivables, cash remittances, workers' remittances, trade receivables or payment rights (including, but not limited to, under and/or in relation to SWIFT MT100-Series and SWIFT MT200-Series payment orders (and any successors thereto) and any other similar payment orders (such as any delivered via telex, the internet or any other manner)), (b) any other class of receivables whatsoever (whether payment rights, remittances, claims or otherwise), (c) loan assets, (d) assets which have the benefit of collateral (including, but not limited to, mortgage-backed assets), and/or (e) the rights of any member of the Group to receive and/or retain any or all payments (and related proceeds) made in connection with any of (a) to (d) above (including, but not limited to, any claims against any banks, financial institutions or credit institutions obliged to make, receive or collect such payments or involved with the making, collection or reception of such payments)) whatsoever (including, but not limited to, where such backing is achieved by means of the grant of security over any such assets, property or revenues or the sale of any such assets) and any such transaction or series of related transactions may include and make provision for rights of recourse (in addition to and distinct from any rights relating to the assets, property or revenues which are subject to the relevant transaction and which arise from any grant of security or sale, as aforementioned) against any member of the Group (including, but not limited to, rights of recourse which (a) arise upon any failure to perform or default by underlying obligors under any assets, property or revenues which are subject to the relevant transaction or (b) are triggered by any breach of any provision of or any failure to satisfy any condition or test contained in the transaction documentation, where such provision, condition or test relates to any assets, property or revenues which are subject to the relevant transaction) provided that the aggregate outstanding principal amount of such Indebtedness does not at the time of its incurrence, when aggregated with the principal amount of any Indebtedness incurred at that time pursuant to a Securitisation Transaction, exceed 30% of the consolidated total assets of the Group (as determined by reference to the latest audited consolidated IFRS financial statements of the Borrower), save that where the outstanding principal amount of Indebtedness under any existing Securitisation Transaction is to be fully or partially repaid or refinanced with the proceeds of a transaction or series of transactions which itself or themselves will constitute a Securitisation Transaction, then the outstanding principal amount of Indebtedness under such Securitisation Transaction to be repaid or refinanced, as the case may be, will not be taken into account in calculating the foregoing 30% test.

"**Security**" means the security granted by the Lender to the Trustee over rights of the Lender under this Agreement, including an assignment of such rights in favour of the Trustee.

"**Series**" means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

"**Specified Currency**" means the currency specified as such in the relevant Loan Supplement.

"**Specified Default**" means, in respect of any Indebtedness an event that is specified in the applicable documents relating to that Indebtedness as an event giving rise to a right to accelerate the repayment of the Indebtedness and in respect of which any applicable grace period has passed and requirement for further action or notice by any person has been met and which is of a kind similar or analogous to an Event of Default (as defined in Clause 11 (*Events of Default*)).

"**Subscription Agreement**" means the agreement specified as such in the relevant Loan Supplement.

"**Subsidiary**" means, in relation to any Person, any corporation, association, partnership or other business entity of which more than 50 per cent. of the total voting rights of its share capital is at the time owned or controlled directly by such Person, such Person and one or more Subsidiaries of such Person or one or more Subsidiaries of such Person.

"**Supplemental Facility Fee Letter**" means the letter specified as such in the relevant Loan Supplement.

"**Supplemental Trust Deed**" means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 9 of the Principal Trust Deed).

"**Synthetic Securitisation**" means any transaction or series of related transactions whereby any member of the Group acquires for payment (in the form of premium or otherwise) from a third party protection (in the form of a derivative contract, insurance or otherwise) against exposure to the risk of loss or default in respect of all or any portion of the Group's current or future assets or property and revenues or rights arising therefrom (whether or not such protection requires continued actual exposure to such assets, property, revenue or rights).

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereof.

"**Taxes**" means any present and future tax, duty, levy, impost, assessment or other governmental charge or withholding of any nature (including penalties, interest and other liabilities related thereto).

"**Tax Indemnity Amounts**" has the meaning set out in Clause 7.2 (*Tax Indemnity*).

"**Taxing Authority**" has the meaning set out in Clause 7.1 (*Additional Amounts*).

"**True Sale Securitisation Transaction**" means any transaction or series of related transactions (in each case including, but not limited to, securitisation transactions and other forms of structured finance transactions) involving or including (i) the sale by any member of the Group of all or any portion of the Group's current or future assets or property (and revenues or rights arising therefrom) (including, but not limited to the assets, property revenues and rights set out in paragraphs (a) to (e) of the definition of Securitisation Transaction) to a company (the "**special purpose vehicle**"), (ii) the issuance by the special purpose vehicle of debt securities to fund (in part or in whole) the acquisition by the special purpose vehicle of such assets, property, rights and revenues, which debt securities are backed by such assets, property, rights and revenues, and (iii) no member of the Group becoming an issuer of debt securities or borrower of money or guarantor of any debt or borrowing including any such transaction that becomes re-characterised by any court of competent jurisdiction as a secured borrowing or similar transaction; and whether or not such transaction or series of transactions includes rights of recourse against any member of the Group including without limitation (a) upon any failure to perform or default by underlying obligors under any assets, property or revenues which are subject to the relevant transaction or (b) which are triggered by any breach of any provision of or any failure to satisfy any condition or test contained in the transaction documentation, where such provision, condition or test relates to any assets, property or revenues which are subject to the relevant transaction).

"**Trust Deed**" means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed (and as further supplemented and/or amended from time to time) and specified as such in the relevant Loan Supplement.

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited, as trustee under the Trust Deed and any other trustee or trustees thereunder.

"**VAT**" means value added tax and any other tax of a similar nature.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Facility Agreement which are not defined in this Facility Agreement but which are defined in the Trust Deed, the relevant Notes, the Agency Agreement, the Dealer Agreement or the relevant Loan Supplement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Facility Agreement otherwise require, the following shall govern the interpretation of this Facility Agreement:

1.3.1 All references to "**Clause**" or "**sub-Clause**" are references to a Clause or sub-Clause of this Facility Agreement.

1.3.2 The terms "**hereof**", "**herein**" and "**hereunder**" and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.

1.3.3 Words importing the singular number include the plural and vice versa.

1.3.4 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.3.5 Any reference herein to a document being in "**agreed form**" means that the document in question has been agreed between the proposed parties thereto, subject to any amendments that such parties may agree upon prior to each Closing Date.

2 Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to the Borrower Loans in principal amounts which will not exceed the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes of the Borrower (unless otherwise specified in the relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Facility Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions "**Account**", "**Closing Date**", "**Day Count Fraction**", "**Facility Fee**" "**Interest Payment Date**", "**Loan Agreement**", "**Notes**", "**Rate of Interest**", "**Repayment Date**", "**Specified Currency**", "**Subscription Agreement**" and "**Trust Deed**", together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Facility Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to the Borrower and the Borrower shall make a single drawing in the full amount of such Loan.

3.2 Facility Fee

No later than one Business Day prior to each Closing Date, the Borrower shall pay the Facility Fee (as defined in the relevant Loan Supplement) to the Lender in consideration of the provision of such Loan in accordance with the relevant Supplemental Facility Fee Letter and in accordance with the invoice to be issued by the Lender to the Borrower no later than two Business Days before the relevant Closing Date. In the event that the relevant closing does not occur on the relevant Closing Date, the Lender shall refund to the Borrower the relevant Facility Fee within two Business Days of such Closing Date.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the full amount of the relevant Loan to the Borrower's Account specified in the relevant Loan Supplement in the Same-Day Funds.

4 Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Loan Supplement.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, in each case to (but excluding) the next Interest Payment Date and shall be paid in arrear by the Borrower to the Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, in each case to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, which interest shall be paid in arrear by the Borrower to the relevant Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention:* If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans:* The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option is as specified in the relevant Loan Supplement;

(b) the Designated Maturity is a period specified in the relevant Loan Supplement; and

(c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this paragraph (i), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(a) if the Primary Source for Floating Rate is a Relevant Screen Page, subject as provided below, the Rate of Interest shall be:

(I) the Relevant Rate (where such Relevant Rate on such Relevant Screen Page is a composite quotation or is customarily supplied by one entity); or

(II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Relevant Screen Page,

in each case appearing on such Relevant Screen Page at the Relevant Time on the Interest Determination Date;

(b) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (a)(I) above applies and no Relevant Rate appears on the Relevant Screen Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (a)(II) above applies and fewer than two Relevant Rates appear on the Relevant Screen Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

(c) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the Relevant Financial Centre of the country of the Specified Currency or, if the Specified Currency is Euro, in Europe as selected by the Calculation Agent are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Relevant Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Relevant Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

4.4 Accrual of Interest

Interest shall accrue on each Loan up to, but excluding, the Repayment Date or Prepayment Date, as applicable, unless payment is improperly withheld or refused, in which event interest shall continue to

accrue (both before and after judgment) at the applicable Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest, Rate Multipliers and Rounding

4.5.1 If any Margin or Rate Multiplier is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.

4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 Determination and Notification of Rates of Interest and Interest Amounts

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of such Floating Rate Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to the Borrower, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Clause 4.3.2, the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of the Borrower and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Lender and the Borrower agree that such determination or calculation may be made by or at the direction of the Trustee. The Trustee shall incur no liability in respect of such determination or calculation.

4.9 Definitions

In this Clause 4, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Benchmark**" has the meaning specified in the relevant Loan Supplement;

"**Business Day**" means:

(i) in the case of a Specified Currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such Specified Currency (which, for the avoidance of doubt, shall be Brussels for Euro, New York City for U.S. dollars and Moscow for Roubles); and/or

(ii) in the case of Euro, a day on which the TARGET system is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of a Specified Currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Calculation Amount**" means the amount of the Loan as specified in the relevant Loan Supplement.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Loan for any period of time (from but excluding the first day of such period to and including the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual - ISDA**" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360"**, "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(v) if "**30E/360"** or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30;

(vi) if "**30E/360 (ISDA)"** is specified hereon, is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"'**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30; and

(vii) if "**Actual/Actual-ICMA**" is specified in the relevant Loan Supplement:

(a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(I) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(II) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from but excluding a Determination Date in any year to and including the next Determination Date; and

"**Determination Date**" means the date(s) specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date(s).

"**Effective Date**" means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the relevant Loan Supplement or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

"**EURIBOR**" means the Euro-zone interbank offered rate.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means the amount of interest payable, and

(i) in the case of Fixed Rate Loans, means the Fixed Amount or Broken Amount (each of which is specified in the relevant Loan Supplement), as the case may be.

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro.

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified herein.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

"**LIBOR**" means the London interbank offered rate.

"**Reference Banks**" mean (a) in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market, (b) in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, or (c) the institutions specified as such in the relevant Loan Supplement or, if none, four major banks selected by the

Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that are most closely connected with the Benchmark.

"**Relevant Financial Centre**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the relevant Loan Supplement or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

"**Relevant Rate**" means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Supplement.

"**Relevant Time**" means, with respect to any Interest Determination Date or Repayment Date, (a) 11.00 a.m. (London time) in the case of LIBOR, (b) 11.00 a.m. (Brussels time) in the case of EURIBOR, or (c) the local time in the Relevant Financial Centre specified in the relevant Loan Supplement or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose "**local time**" means, with respect to Europe as a Relevant Financial Centre, 11.00 a.m., Brussels time.

"**Representative Amount**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the relevant Loan Supplement or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

"**Specified Duration**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the relevant Loan Supplement or, if none is specified, a period of time equal to the relevant Interest Accrual Period, ignoring any adjustment pursuant to Clause 4.3.2.

4.10 Calculation Agent and Reference Banks

The Lender (failing which the Borrower) shall procure that there shall at all times be specified no less than four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and appointed one or more Calculation Agents if provision is made for them in a Loan Supplement and for so long as any amount remains outstanding under a Loan Agreement. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Lender shall (with the prior approval of the Borrower) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of the Borrower) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both the Borrower and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to the relevant Loan Agreement.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, the Borrower shall repay each Loan, including accrued interest thereon, not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date therefor.

5.2 Prepayment in the Event of Taxes or Increased Costs

If the Borrower is required to pay any Additional Amount in relation to any Loan Agreement as provided by Clause 7.1 (*Additional Amounts*) or any Tax Indemnity Amount in relation to any Loan Agreement as provided by Clause 7.2 (*Tax Indemnity*), or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts in relation to any Loan Agreement pursuant to Clause 9 (*Change in Law; Increase in Cost*), and in any such case such obligation cannot or could not be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not more than 60 nor less than 30 days' prior notice to the Lender (which notice shall be irrevocable), prepay the Loan relating to the relevant Loan Agreement in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan, together with any amounts then payable under Clauses 7.1 (*Additional Amounts*), 7.2 (*Tax Indemnity*) or 9 (*Change in Law; Increase in Cost*) and pay the accrued and unpaid interest on such outstanding principal amount up to and excluding such prepayment date. Prior to giving any such notice in the event of the Borrower being obliged to make an additional payment in relation to any Loan Agreement as referred to in this Clause 5.2, the Borrower shall address and deliver to the Lender an Officers' Certificate confirming that the Borrower would be required to make such payment and that the obligation to make such payment cannot or could not be avoided by the Borrower taking reasonable measures available to it.

5.3 Prepayment in the Event of Illegality

If, by reason of the introduction of any change in any applicable law, regulation, regulatory requirement or directive of any Agency at any time after the date of the relevant Loan Agreement, the Lender reasonably determines (such determination being accompanied, if so requested by the Borrower, by an Opinion of Counsel, with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the relevant Loan or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Loan (an "**Event of Illegality**"), then upon notice by the Lender to the Borrower in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; ***provided, however***, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified the Borrower. If such a basis has not been determined within the 30 days, then upon written notice by the Lender to the Borrower and the Trustee, the Borrower shall prepay such Loan (without penalty or premium) in whole but not in part (together with the interest accrued on the day of repayment), in the case of a Floating Rate Loan, on the next Interest Payment Date therefor, or, in the case of a Fixed Rate Loan, at any time or on such earlier date as the Lender shall certify to be necessary to comply with such requirements.

5.4 Reduction of a Loan Upon Cancellation of Corresponding Notes

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions, purchase Notes in the open market or by tender or by a private agreement at any price and deliver to the Lender Notes, having an aggregate principal value of at least €1,000,000 (or its equivalent in a Specified Currency), together with a request for the Lender to present such Notes to the relevant Registrar for cancellation, and may also from time to time procure the delivery to the relevant Registrar of the relevant Global Notes with instructions to cancel a specified aggregate principal amount of Notes (being at least €1,000,000 or its equivalent in a Specified Currency) represented thereby (which instructions shall be accompanied by evidence satisfactory to the relevant Registrar that the Borrower or any Subsidiary of the Borrower, as the case may be, is entitled to give such instructions), whereupon the Lender shall, pursuant to Clause 9.1 of the Agency Agreement, request the relevant Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the relevant Global Notes). Upon any such cancellation by or on behalf of the relevant Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes shall be deemed to be prepaid for all purposes as of the date of such cancellation and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

5.5 Payment of Other Amounts and Costs of Prepayment

If a Loan is to be prepaid by the Borrower pursuant to any of the provisions of this Clause 5 (except in the case of Clause 5.4), the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to (but excluding) the date of actual payment and all other sums payable by the Borrower pursuant to the relevant Loan Agreement.

5.6 Provisions Exclusive

The Borrower shall not prepay or repay any Loan except at the times and in the manner expressly provided in this Agreement. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid.

5.7 Notice of Discharge

Upon the repayment or prepayment, in accordance with this Clause 5, of the relevant Loan together with any accrued interest thereon to the date of repayment or actual payment and all other sums payable by the Borrower pursuant to the relevant Loan Agreement, the Lender shall within five Business Days deliver to the Borrower a notice of discharge in the form of a deed drafted by the Borrower acknowledging the full and complete discharge of the Borrower's duties, obligations and liabilities under or in respect of the relevant Loan Agreement and irrevocably and unconditionally releasing and discharging the Borrower from any and all future:

(i) claims or demands that the Lender has or may have against the Borrower; and

(ii) duties, obligations and liabilities that the Borrower has, or may have, to the Lender,

(iii) under or in respect of the relevant Loan Agreement.

6 Payments

6.1 Making of Payments

All payments of principal, interest and additional amounts to be made by the Borrower under each Loan Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date, the Repayment Date or a Prepayment Date (as the case may be) in Same-Day Funds to the relevant Account or as the Trustee may otherwise direct following the occurrence of an Event of Default or a Relevant Event (as defined in the Trust Deed).

The Borrower shall, before 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) and in the case of any other payments made in connection with Clause 5 (*Repayment and Prepayment*), two Business Days prior to the date on which such prepayment or repayment is due to be made, procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by tested telex or authenticated SWIFT message the payment instructions relating to such payment.

The Lender agrees with the Borrower that it will not deposit any other monies into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the Trust Deed and the Agency Agreement.

6.2 No Set-Off or Counterclaim

All payments to be made by the Borrower under each Loan Agreement shall be made in full without set-off or counterclaim (including, for the avoidance of doubt, any set-off or counterclaim in respect of any amounts owed to the Borrower under any other Loan Agreement) and shall be made free and clear of and without deduction for or on account of any set-off or counterclaim.

6.3 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event, for the Borrower to make any payments under a Loan Agreement in the manner specified in Clause 6.1 (*Making of Payments*), then the Borrower may agree with the Lender and the Trustee alternative arrangements for such payments to be

made; provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified in such Loan Agreement.

7 Taxes

7.1 Additional Amounts

All payments made by the Borrower under each Loan Agreement shall be made (except to the extent required by law) free and clear of and without deduction or withholding for or on account of any Taxes imposed, collected, withheld, assessed or levied on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein having the power to tax (each a "**Taxing Authority**") within Cyprus or Ireland. If the Lender or Borrower becomes subject at any time to any taxing jurisdiction other than or in addition to Cyprus or Ireland, as the case may be, references to jurisdiction in this Clause 7.1 shall be construed as references to Cyprus and/or Ireland and/or such other jurisdiction and in addition, upon enforcement of the fixed charge in the Trust Deed over certain rights, benefits and/or obligations under this Agreement, references in this Clause 7.1 to "Ireland" shall be construed as references to the jurisdiction which the Trustee is a resident of and acting through for tax purposes.

If the Borrower is required by applicable law to make any deduction or withholding from any payment under or in respect of a Loan Agreement for or on account of any such Taxes referred to in the preceding paragraph of this Clause 7.1, it shall, on the date such payment is made, pay such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the Lender receives and retains a net amount in the Specified Currency equal to the full amount which it would have received and retained had such deduction or withholding not been required and shall promptly account to the relevant authorities (within the time specified by legislation) for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefore to the relevant Taxing Authority. If the Lender is or will be subject to any liability or required to make any payment for or on account of Taxes in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under or in respect of a Series of Notes, the Borrower shall on demand pay to the Lender an amount in the Specified Currency equal to the loss, liability or cost which the Lender, or as the case maybe, Trustee has or will have (directly or indirectly) suffered for or on account of Tax by the Lender or the Noteholders of such Series.

7.2 Tax Indemnity

Without prejudice to the provisions of Clause 7.1 (*Additional Amounts*), if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it is obliged (or would be but for the limited recourse nature of the Notes) to make any withholding or deduction for or on account of any Taxes from any payment that is due, or would otherwise be due but for the imposition of any such withholding or deduction for or on account of any such Taxes, pursuant to a Series of Notes, the Borrower agrees to pay to the Lender, no later than 10:00 a.m. (Relevant Time) one Business Day prior to the date on which payment is due to the Noteholders of such Series in Same-Day Funds to the relevant Account, an additional amount as may be necessary to ensure that the Lender receives and retains a net amount in the Specified Currency equal to such additional amount as the Lender is required to pay in order that the net amount received by the Noteholders after such deduction or withholding will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; ***provided, however,*** that the Lender shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that any Noteholders of such Series are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, repay such additional amounts to the Borrower as are recovered (it being understood that none of the Lender, or any Paying Agent shall have any obligation to determine whether any Noteholder of such Series is entitled to such additional amount). All payments under this Clause 7.2 will be made by the Borrower, subject to the relevant expenses being properly documented.

Without prejudice to, and without duplication of the provisions of Clause 7.1 (*Additional Amounts*), if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of any Noteholder) on account of Taxes in respect of a Loan or in respect of a Series of Notes imposed by any Taxing Authority in the jurisdiction in which the Lender is resident for tax purposes, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender,

the Borrower shall, as soon as reasonably practicable, and in any event within 30 calendar days of, written demand (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) made by the Lender, indemnify the Lender against any such payment or liability, or any claim, demand, action, damages or loss in respect thereof, together with any interest, penalties, costs and expenses (including without limitation, legal fees and any applicable value added tax properly payable) payable or incurred in connection therewith.

Any payments required to be made by the Borrower under this Clause 7.2 are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 7.2 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 7.1 (*Additiona*l *Amounts*).

If the Lender intends to make a claim for any Tax Indemnity Amounts, it shall promptly notify the Borrower thereof.

7.3 Tax Credits and Refunds

If an Additional Amount is paid under Clause 7.1 (*Additional Amounts*) or a Tax Indemnity Amount is paid under Clause 7.2 (*Tax Indemnity*) by the Borrower and the Lender, in its absolute discretion, determines that it has received or been granted a credit against, a relief, remission for, or a repayment of any Taxes, then if and to the extent that the Lender determines that such credit, relief, remission or repayment (a "**Tax Benefit**") is in respect of or calculated with reference to the deduction or withholding giving rise to such increased payment, or as the case may be in respect of an additional payment with reference to the loss, liability or cost giving rise to the additional payment, the Lender shall, to the extent that it determines in its absolute discretion that it can do so without prejudice to its right to the amount of such credit, relief, remission or repayment and without worsening the position it would have been in had such Additional Amount or Tax Indemnity Amount not been required to be repaid, repay to the Borrower an amount equal to such amount as is attributable to such deduction or withholding or, as the case may be, such loss, liability or cost.

Nothing contained in this Clause 7.3 shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose any confidential information or any information relating to its tax affairs, any computations in respect thereof, or its business or any part of its business.

If the Borrower makes a withholding or deduction for or on account of Taxes from a payment under or in respect of a Loan Agreement and if an Additional Amount is paid under Clause 7.1 (*Additional Amounts*) or a Tax Indemnity Amount is paid under Clause 7.2 (*Tax Indemnity*) by the Borrower, the Borrower may apply on behalf of the Lender to the relevant Cypriot Taxing Authority for a payment to be made by such authorities to the Lender with respect to such Tax. If, whether following a claim made on its behalf by the Borrower or otherwise, the Lender receives and retains such a payment (a "**Cypriot Tax Payment**") from the Cypriot Taxing Authority with respect to such Taxes, it will as soon as reasonably possible notify the Borrower that it has received and retained that payment (and the amount of such payment); whereupon, provided that the Borrower has notified the Lender in writing of the details of an account (the "**Borrower Account**") to which a payment or transfer should be made, and that the Lender is able to make a payment or transfer under applicable laws and regulations and without worsening the position it would have been in had such Additional Amount or Tax Indemnity Amount not been required to be paid, the Lender will pay or transfer an amount equal to the Cypriot Tax Payment to the Borrower Account.

7.4 Tax Treaty Relief

The Lender, at the cost and upon the instructions of the Borrower (such costs to be properly documented by the Lender), shall make reasonable and timely efforts to assist the Borrower with completing procedural formalities necessary to obtain relief from withholding of Cypriot income tax pursuant to the double taxation treaty between Cyprus and the jurisdiction in which the Lender is resident for tax purposes, including its obligations under Clause 7.5 (*Delivery of Forms*).

7.5 Delivery of Forms

The Borrower shall advise the Lender as soon as reasonably practicable of any modification to or development in Cypriot tax laws and regulations which affect or are capable of affecting the relief of the Lender from Cypriot withholding tax in respect of payments under any Loan Agreement in order to

ensure that, prior to the first Interest Payment Date under any Loan Agreement and at the beginning of each calendar year, the Lender can at the cost and upon the instructions of the Borrower (such costs to be properly documented by the Lender) (and the Lender shall make reasonable and timely efforts to), to the extent it is able to do so under applicable law, provide the Borrower with the documents required under applicable Cypriot law or the applicable double tax treaty for the relief of the Lender from Cypriot withholding tax in respect of payments under any Loan Agreement. The Lender shall not be responsible for any failure to provide, or any delays in providing, such documents required under applicable Cypriot law or the applicable double tax treaty as a result of any action or inaction of any authority in Ireland, but shall notify the Borrower as soon as practicable about any such failure or delay with an indication of the actions taken by the Lender to obtain such documents required under applicable Cypriot law or the applicable double tax treaty.

7.6 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 7.1 (*Additional Amounts*) or 7.2 (*Tax Indemnity*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, in writing and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that the parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstance including in the case of the Lender (without limitation) by transfer of its rights or obligations under the relevant Loan Agreement(s) (but only in accordance with the Conditions); ***provided, however,*** that the Lender shall, in no circumstance, be required to undertake any expense prior to being ensured to its satisfaction that it will be reimbursed therefor.

7.7 Lender Notification

The Lender agrees promptly, upon becoming actually aware thereof, to notify the Borrower if it ceases to be resident for tax purposes in Ireland or a Qualifying Jurisdiction or if any of the representations and warranties of the Lender set forth in the Dealer Agreement or the relevant Subscription Agreement are no longer true and correct.

8 Conditions Precedent

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) no Default or Event of Default shall have occurred and be continuing, (b) the Borrower shall not be in breach of any of the terms, conditions and provisions of the relevant Loan Agreement, (c) the relevant Subscription Agreement and the relevant Supplemental Trust Deed shall have been executed and delivered, and the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement and (d) the Lender shall have received in full the amount of the Facility Fee referred to in Clause 3.2 (*Facility Fee*), if due and payable, above, as specified in the relevant Loan Supplement.

9 Change in Law; Increase in Cost

9.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of such Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority which:

9.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any

Taxes payable by the Lender on its overall net income, capital gains or any Taxes referred to in Clause 7.1 (*Additional Amounts*)); or

9.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income, capital gains or as a result of any Taxes referred to in Clause 7.1 (*Additional Amounts*)); or

9.1.3 imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining such Loan is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Lender under such Loan Agreement is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan,

then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming actually aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by an authorised attorney of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such certificate; and

(b) the Borrower, in the case of sub-Clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; ***provided, however,*** the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to such Loan Agreement,

provided, however, that this Clause 9.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clause 7.1 (*Additional Amounts*) or Clause 7.2 (*Tax Indemnity*).

9.2 Lender Tax Event

If, as a result of a change in the law, practice or interpretation of the law, the Lender is unable to obtain relief in computing its Irish tax liability for some or all of the interest payable on the Loan (having duly and timely claimed such relief and notwithstanding receipt of confirmation from the relevant tax authorities that such relief is available), the Borrower agrees to pay such additional amount to the Lender that the Lender reasonably determines would be necessary to ensure the Lender receives the amount it would have received and retained had such relief been obtained. The Borrower's obligation to pay such additional amounts shall survive the termination of the relevant Loan Agreement.

9.3 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 9.1 (*Compensation*) or 9.2 (*Lender Tax Event*) the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 9.3 shall oblige the Lender to incur any costs or expenses in taking any action hereunder unless the Borrower agrees to reimburse the Lender such costs or expenses.

10 Covenants

Provided that nothing in this Agreement shall prevent the Borrower from entering into any Borrower Permitted Reorganisation, any Contemplated Disposal or any Permitted Disposal in accordance with this Agreement, so long as any sum remains outstanding under a Loan Agreement:

10.1 Negative Pledge

The Borrower shall not, and shall procure that no Material Subsidiary shall, directly or indirectly, create, incur or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, securing any Indebtedness unless at the same time or prior thereto (i) the Notes are secured equally and rateably with such other Indebtedness or (ii) such other security for the Notes, as may be approved by the Trustee or an Extraordinary Resolution or Written Resolution of the Noteholders (as defined in the Trust Deed), is provided.

10.2 Limitation on Affiliate Transactions

The Borrower shall not, and shall procure that no Material Subsidiary shall, directly, or indirectly, conduct any business or permit to exist or enter into any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property, the rendering of any service, the making of any loan or guarantee or the creation of any other contingent obligation, whether directly or indirectly) with or for the benefit of any of its respective Affiliates (each an "**Affiliate Transaction**") unless:

(i) the terms of such Affiliate Transaction are no less favourable to the Borrower or relevant Material Subsidiary, as the case may be, than those that would be obtained in a comparable arms-length transaction with a person that is not an Affiliate of such Person; and

(ii) if the fair market value of such Affiliate Transaction as determined by the appropriate decision-making body with the authority to make such decision of the Borrower or relevant Material Subsidiary, as the case may be, is in excess of 10 per cent. of the total assets of the Group (as determined by reference to the latest audited consolidated financial statements of the Borrower prepared in accordance with IFRS), such decision-making body shall have received a written opinion from an Independent Appraiser (a copy of which opinion shall be provided to the Trustee) that such Affiliate Transaction is fair to the Borrower or relevant Material Subsidiary, as the case may be, from a financial point of view; such written opinion of an Independent Appraiser may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on all parties.

This Clause 10.2 does not apply to (a) compensation or employee benefit arrangements with any officer or director of the Borrower or a Material Subsidiary, as the case may be, arising as a result of their employment contract, (b) any Affiliate Transaction between the Borrower and any of its Material Subsidiaries or any Affiliate Transaction between any Subsidiaries of the Borrower, (c) any Affiliate Transaction entered into prior to the date of the relevant Loan Supplement the terms of which were disclosed in the Prospectus, (d) any Permitted Disposal, (e) any Contemplated Disposal, (f) any Borrower Permitted Reorganisation or (g) unless otherwise included within (a) through (f) as aforesaid, Affiliate Transactions involving an aggregate amount not to exceed, in any calendar year, 3 per cent. of the Borrower's total equity determined in accordance with IFRS (as calculated by reference to the then latest audited consolidated IFRS financial statements of the Borrower).

10.3 Maintenance of Capital Adequacy

The Borrower shall procure that the Bank is in full compliance with mandatory ratios and is in compliance in all material respects with all other requirements of the Central Bank.

10.4 Maintenance of Authorisations

The Borrower shall, and shall procure that each Material Subsidiary shall, take all action which may be necessary to (i) ensure the obtaining and continuance of, all consents, licences, approvals and authorisations required in or by the laws of Cyprus, the Russian Federation or any relevant jurisdiction or regulatory authority thereof or having regulatory authority therein and (ii) make or cause to be made all registrations, recordings and filings which may at any time be required to be obtained or made in Cyprus, the Russian Federation or any relevant jurisdiction or regulatory authority thereof or having regulatory authority therein where failure to obtain or continue any such consent, licence, approval or authorisation or make any such registration, recording or filing is likely to have a Material Adverse Effect.

10.5 Limitation on Change of Business

The Borrower shall not, and shall procure that the Bank does not, make any change to the general nature or scope of its business from that carried on at the date of the relevant Loan Supplement which is likely to have a Material Adverse Effect.

10.6 Limitation on Sale of Assets

The Borrower shall not, and shall procure that no Material Subsidiary of the Borrower shall, in any financial year, sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not, but not including Permitted Disposals, Contemplated Disposals or any Borrower Permitted Reorganisation), the whole or any part of its assets which results in a decrease in excess of 10% in the consolidated total assets of the Group (as determined by reference to the latest audited consolidated IFRS financial statements of the Borrower) to any person unless such transaction:

(i) is on an arm's length basis and on commercially reasonable terms; and

(ii) has been approved by a resolution of the Board of Directors of the relevant company resolving that the transaction complies with the requirements of this Clause and such resolution has been adopted by a majority of the disinterested members of such Board of Directors or, if there are insufficient disinterested members, by a majority of such Board of Directors acting in good faith or, in the case of the Borrower or any of its Subsidiaries incorporated in Russia, approved by any relevant managing body of the Borrower, adopted in good faith and in accordance with the relevant requirements of the laws of Cyprus or the Russian Federation, as applicable and the Borrower's constitutive documents and that a copy (in English) of such resolution has been delivered to the Trustee.

10.7 Limitation on Merger and Consolidation

The Borrower shall not and shall procure that no Material Subsidiary shall, without the prior written consent of the Trustee, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms may be construed in accordance with applicable laws or participate in any other type of corporation reconstruction, other than any Contemplated Disposal (each such reorganisation or reconstruction, other than any Contemplated Disposal, a "**Reorganisation**")) unless such Reorganisation would not or does not result in a Material Adverse Effect.

10.8 Covenant Fall Away

From and after the date on which the Borrower has reached Investment Grade Status, and provided that no Default or Event of Default has occurred and is continuing at such time, the Borrower shall be released from its obligations to comply with Clause 10.6 and Clause 10.7, and non-compliance with such Clauses 10.6 and 10.7 will not constitute an Event of Default pursuant to Clause 11.

10.9 FATCA Compliance

The Borrower hereby agrees with the Lender that it will provide the Lender, at the Lender's request, with sufficient information (as is available to the Borrower) and provide the Lender, at the Lender's request,

with all reasonable assistance necessary to ensure, and pay any costs associated with, compliance by the Lender with Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Section 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof and any law of any country other than the United States enacted in order to implement obligations under FATCA.

11 Events of Default

11.1 Events of Default

If one or more of the following events shall occur (but in the case of the happening of any of the events mentioned in Clauses 11.1.5, 11.1.6, 11.1.8, 11.1.9, 11.1.10, 11.1.11, 11.1.13 or 11.1.14 below (in each case so far as they relate to a Material Subsidiary other than the Bank) or Clauses 11.1.2, and 11.1.16 below, only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Noteholders) (each, an "**Event of Default**"), the Lender shall be entitled to the remedies set forth in Clause 11.3:

11.1.1 Non Payment

default is made for more than seven Business Days in the payment on the due date of interest or principal payable hereunder; or

11.1.2 Breach of Other Obligations

the Borrower fails to perform or comply with any one or more of its obligations under this Agreement which default is incapable of remedy or if, in the opinion of the Trustee, capable of remedy, is not to the satisfaction of the Trustee remedied within 30 Business Days after notice of such default shall have been given to the Borrower by the Trustee; or

11.1.3 Cross Default

(i) any Indebtedness (other than an Acquired Indebtedness and/or Domestic Debt) of the Borrower or any Material Subsidiary becomes, as a result of a Specified Default that is not an Excluded Event, due and payable prior to its stated maturity otherwise than at the option of the Borrower or such Material Subsidiary, as the case may be; or

(ii) any Indebtedness of the Borrower (other than an Acquired Indebtedness and/or Domestic Debt) is not paid when due or, as the case may be, within any applicable grace period; or

(iii) the Borrower fails to pay when due (or within any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness (other than an Acquired Indebtedness and/or Domestic Debt),

provided that the aggregate amount of the Indebtedness (without double counting) in respect of which one or more of the events mentioned above in this Clause 11.1.3 have occurred equals or exceeds 3 per cent. of the Borrower's total equity determined in accordance with IFRS (as calculated by reference to the then latest audited consolidated IFRS financial statements of the Borrower); or

11.1.4 Judgment

a final judgment or order or arbitration award for the payment of an aggregate amount in excess of 3 per cent. of the Borrower's total equity determined in accordance with IFRS (as calculated by reference to the then latest audited consolidated IFRS financial statements of the Borrower) is recorded or granted against the Borrower or any Material Subsidiary and continue(s) unsatisfied and unstayed for a period of 60 days after the date thereof or, if later, the date therein specified for payment; or

11.1.5 Security Enforced

an encumbrancer takes possession, or an administrative or other receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking or assets of the

Borrower or any Material Subsidiary, and where such action relates to a Material Subsidiary, the action is likely to have a Material Adverse Effect; or

11.1.6 Insolvency

any of the Borrower or a Material Subsidiary:

(i) stops payment of all or a substantial part of its debts; or

(ii) otherwise than for the purposes of such a consolidation, amalgamation, merger, reconstruction or voluntary solvent winding-up or dissolution as is referred to in sub-Clauses 11.1.7 (*Winding up of the Borrower*) and 11.1.8 (*Winding up of Material Subsidiary*), ceases or through an official action of the Board of Directors of the Borrower or such Material Subsidiary (as the case may be) threatens not to carry on business,

and where such action relates to a Material Subsidiary, the action is likely to have a Material Adverse Effect; or

11.1.7 Winding up of the Borrower

an effective resolution is passed or an order of a court of competent jurisdiction is made that the Borrower (other than as a result of any Borrower Permitted Reorganisation) be wound up, liquidated or dissolved other than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction on terms approved by an Extraordinary Resolution; or

11.1.8 Winding up of Material Subsidiary

an effective resolution is passed or an order of a court of competent jurisdiction is made for the winding up or dissolution of any Material Subsidiary except:

(a) for the purposes of or pursuant to and followed by a consolidation, amalgamation with or merger into the Borrower or any Subsidiary of the Borrower, provided that the new entity formed or coming into existence as a result of such consolidation, amalgamation, merger or reconstruction of any such Material Subsidiary, shall be a Material Subsidiary;

(b) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction (other than described in (a) above) the terms of which shall have been previously approved in writing by an Extraordinary Resolution;

(c) by way of a voluntary winding up or dissolution as a result of which there are surplus assets of such Material Subsidiary attributable to the Borrower which are to be distributed to the Borrower, provided in each case that any Reorganisation in relation to which such resolution or order is passed or made would not breach Clause 10.7 (*Limitation on Merger and Consolidation*); or

(d) where the Borrower can demonstrate to the satisfaction of the Lender, that such resolution does not have and is not likely to have a Material Adverse Effect; or

11.1.9 Insolvency Proceedings Initiated by a Third Party

the Borrower or any Material Subsidiary is declared insolvent or bankrupt by a competent court or judiciary, or proceedings shall have been initiated against either the Borrower or any Material Subsidiary under any applicable bankruptcy, reorganisation or insolvency law provided that such proceedings shall not have been (i) discharged or stayed within a period of 120 days or (ii) demonstrated to the satisfaction of the Lender to be vexatious or frivolous, and provided further that where such proceedings are in relation to a Material Subsidiary, they shall be capable of having a Material Adverse Effect; or

11.1.10 Other Insolvency Proceedings

the Borrower or any Material Subsidiary shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, reorganisation or insolvency law or make a general assignment for the benefit of, or enter into a general composition or arrangement with or for the benefit of, its creditors; or

11.1.11 Moratorium

a moratorium is agreed or declared in respect of any indebtedness of the Borrower or any Material Subsidiary or any governmental authority or agency condemns, seizes, compulsorily purchases, transfers or expropriates all or a material part of the assets, licences or shares of the Borrower or any Material Subsidiary and such seizure, compulsory purchase, transfer or expropriation by such governmental authority or agency is not reversed, ceased or terminated and the relevant assets, licences or shares (or part thereof) returned or transferred back to the relevant Person within seven days of the occurrence of such event; or

11.1.12 Ownership

the Borrower ceases to hold and/or control (directly or indirectly) in excess of 50 per cent. of the shares or voting rights in the Bank; or

11.1.13 Licences

without prejudice to Clause 11.1.14 (*Banking Licence/CBR Reorganisation*), any licence, authorisation, exemption, permit or approval required by the Borrower or any Material Subsidiary to carry on its respective business or any material part of its business is revoked or withdrawn or expires and is not renewed or otherwise ceases to apply or be in full force and effect and the failure to possess such licence, authorisation, exemption, permit or approval is likely to have a Material Adverse Effect; or

11.1.14 Banking Licence/CBR Reorganisation

(i) either of the Borrower's or, in the case of a Material Subsidiary which operates a banking business, such Material Subsidiary's banking licence is revoked, suspended, restricted or withdrawn or expires or is not renewed (on the same or substantially the same terms so far as applicable legislation permits) or otherwise ceases to be in full force and effect and, in the case of a Material Subsidiary, such revocation, suspension, restriction, withdrawal, expiry or non renewal is likely to have a Material Adverse Effect or (ii) the Central Bank initiates a reorganisation or appoints a temporary administrator of the Bank on account of the failure of the Bank to pay its debts when they fall due or to comply with any applicable mandatory economic ratio prescribed by Russian legislation; or

11.1.15 Illegality, etc.

any action, condition or thing at any time required to be taken, fulfilled or done in order to (i) enable the Borrower lawfully to enter into and perform and comply with its obligations under and in respect of any Notes, the Trust Deed and the Borrower Agreements, (ii) to ensure that those obligations are legal, valid and binding and enforceable and (iii) to make any Notes, the Trust Deed and the Borrower Agreements admissible in evidence in the courts of Ireland and Cyprus is not taken, fulfilled or done; or

11.1.16 Analogous Events

any event occurs that under the laws of the Russian Federation, United Kingdom, United States of America, Ireland or Cyprus has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

11.2 Notice of Default

The Borrower shall deliver to the Lender and the Trustee (i) within seven Business Days of any written request by the Lender or the Trustee; or (ii) as soon as reasonably practicable upon becoming aware of the occurrence thereof, written notice in the form of an Officers' Certificate stating whether any Default

or Event of Default has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur, the Lender and/or Trustee, as applicable in accordance with the Trust Deed, may, by notice in writing to the Borrower (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate; and (b) declare the relevant Loans to be immediately due and payable by the Borrower and declare all other amounts accrued and/or payable hereunder by the Borrower up to (and including) the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

11.4 Rights Not Exclusive

The rights provided for in each Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

11.5 Right of Set-off

If any amount payable by the Borrower under any relevant Loan Agreement is not paid as and when due, the Borrower authorises the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien, counterclaim or otherwise, against any assets of the Borrower in any currency that may at any time be in the possession of the Lender, at any branch or office, to the fullest extent of all amounts payable to the Lender under such Loan Agreement.

12 Default Interest and Indemnity

12.1 Default Interest Periods

If any sum due and payable by the Borrower under any Loan Agreement is not paid on the due date therefor in accordance with the provisions of Clause 6 (*Payments*) or if any sum due and payable by the Borrower under any judgment of any court in connection with such Loan Agreement is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "**unpaid sum**") is discharged shall be divided into successive periods, each of which (other than the first, which shall commence on and shall include the day on which such unpaid sum is initially due and payable and unpaid) shall start on the last day of the preceding such period and the duration of each of which shall (except as otherwise provided in this Clause 12 (*Default Interest and Indemnity*)) be selected by the Lender (but shall in any event not be longer than one month).

12.2 Default Interest

During each such period relating thereto as is mentioned in Clause 12.1 (*Default Interest Periods*) an unpaid sum shall accrue interest for each day it remains unpaid at a rate per annum equal to the Rate of Interest applicable at the time.

12.3 Payment of Default Interest

Any interest which shall have accrued under Clause 12.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

12.4 Indemnification

The Borrower undertakes to the Lender that if the Lender or any director, officer or employee of the Lender (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including, without limitation, Taxes, legal fees and expenses and any applicable stamp duties, capital duties and other similar duties payable, including any interest and penalties thereon or in connection therewith), demand, action and damages (a "**Loss**") as a result of or in connection with any Loan, any Loan Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of

the Notes and/or the Notes corresponding to such Loan or Loan Agreement being outstanding (other than in relation to tax on its own net income, profits or gains), the Borrower shall reimburse such properly documented Loss, costs, charges and expenses to the Lender on demand in an amount equal to such Loss and all documented reasonable costs, charges and expenses (including any applicable taxes thereon) which may be incurred as a result of or arising out of or in relation to any failure to pay by the Borrower or delay by the Borrower in paying the same, unless such Loss was either caused by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in the relevant Subscription Agreement.

12.5 Independent Obligation

Clause 12.4 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with each Loan Agreement or any other obligations of the Borrower in connection with the issue of any Notes by the Lender and shall not affect, or be construed to affect, any other provision of any Loan Agreement or any such other obligations.

12.6 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 12.4 (*Indemnification*) and specifying in full detail the basis (together with documented evidence to support such losses) therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

12.7 Currency Indemnity

To the fullest extent permitted by law, the obligation of the Borrower under this Facility Agreement and any Subscription Agreement in respect of any amount due in the currency (the "**first currency**") in which the same is payable shall, notwithstanding any payment in any other currency (the "**second currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the first currency that the Relevant Dealer or the Lender, as the case may be, may, acting reasonably and in accordance with normal banking procedures, purchase with the sum paid in the second currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Relevant Dealer or the Lender, as the case may be, receives such payment. If the amount in the first currency that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), the Borrower hereby agrees to indemnify and hold harmless each Relevant Dealer or the Lender, as the case may be, against any deficiency in the first currency. Any obligation of the Borrower not discharged by payment in the first currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Facility Agreement and any Subscription Agreement, shall continue in full force and effect. If the amount in the first currency that may be so purchased exceeds the Due Amount, the Lender shall promptly repay the amount of the excess to the Borrower.

13 Survival

The obligations of the Borrower pursuant to Clauses 7 (*Taxes*), 12.4 (*Indemnification*), 12.7 (*Currency Indemnity*) and 15.2 (*Lender's Costs*) shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by the Borrower, and any termination of this Facility Agreement, subject to applicable laws.

14 General

14.1 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Borrower's obligations recorded therein.

14.2 Stamp Duties

14.2.1 The Borrower shall pay all applicable stamp, registration and documentary taxes, duties or similar charges (if any) imposed on the Borrower by any person in Cyprus or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and all related documents and shall indemnify the Lender against any and all costs and expenses which

may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges upon presentation by the Lender to the Borrower of documentary evidence of such costs and expenses.

14.2.2 The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes, duties or similar charges (if any) imposed by any person in Cyprus or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and all related documents, the Borrower shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes, charges or duties and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to or resulting from delay or failure by the Borrower to procure the payment of such taxes or similar charges upon presentation by the Lender to the Borrower of documentary evidence of such costs and expenses.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege under any Loan Agreement, and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in each Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 Prescription

Subject to the Lender having received the principal amount thereof or interest thereon from the Borrower, the Lender shall forthwith repay to the Borrower the principal amount or the interest amount thereon, respectively, of any Series of Notes upon such Series of Notes becoming void pursuant to Condition 11 (*Prescription*) of such Notes.

15 Fees, Costs and Expenses

15.1 Lender's Ongoing Costs

In consideration of the Lender (i) making Loans available to the Borrower and (ii) supporting such a continuing facility, the Borrower shall, from time to time on demand of the Lender, pay as reimbursement to the Lender an amount equating to all properly incurred and documented costs, taxes and expenses (including legal fees) together with any VAT (properly payable thereon), including but not limited to those incurred in or in connection with the preservation or the enforcement of any of the rights of the Lender under this Agreement or any Loan Agreement, as applicable.

15.2 Lender's Costs

In consideration of the Lender (i) making Loans available to the Borrower and (ii) supporting such a continuing facility, the Borrower shall, from time to time on demand of the Lender (and without prejudice to the provisions of Clause 15.1 (*Lender's Ongoing Costs*)) compensate the Lender for all properly incurred and documented out-of-pocket costs and expenses (including telephone, fax, copying and travel costs) (together with any taxes and VAT properly payable thereon) it may incur, in connection with the Lender taking such action as it may consider appropriate in connection with:

15.2.1 the granting or proposed granting of any waiver or consent requested under this Agreement or any Loan Agreement, as applicable, by the Borrower;

15.2.2 the occurrence of any Default or Event of Default;

15.2.3 any amendment or proposed amendment to this Agreement or any Loan Agreement, as applicable, requested by the Borrower; and

15.2.4 maintaining the Programme (if so required) or otherwise in connection with any issue of Notes under the Programme.

16 Notices

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given in writing (in English) by email, facsimile, by hand or by courier addressed as follows:

16.1.1 if to the Borrower:

ABH Financial Limited
Themistokli Dervi, 5
Elenion Building, 2nd floor
Nicosia P.C. 1066 Cyprus
Telephone: +357 22555800
Fax: +357 22555803
Email: DCM_Treasury@alfabank.ru
Attention: The Directors

16.1.1 if to the Lender:

Alfa Holding Issuance plc
53 Merrion Square
Dublin 2
Ireland
Fax: +3531 614 6250
Email: ireland@tmf-group.com
Attention: The Directors

or to such other address or fax number as any party may hereafter specify in writing to the other. Every notice or other communication sent in accordance with this Clause 16 shall be effective upon receipt by the addressee on a Business Day in the city of the recipient, ***provided, however***, that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day, shall not take effect until 10.00 a.m. on the immediately succeeding Business Day in the place of the addressee.

17 Assignment

17.1.1 Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in Clause 17.1.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any determinations by the Lender, or any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower pursuant to sub-Clauses 7.3 (*Tax Credits and Refunds*), 7.5 (*Delivery of Forms*), 7.6 (*Mitigation*) or 9.3 (*Mitigation*).

17.1.2 The Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other person.

17.1.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement, except to the Trustee by granting the Security or pursuant to and in compliance with the Trust Deed.

18 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to a Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Loan Agreement, other than the Trustee.

19 Governing Law and Arbitration

19.1 Governing law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English Law.

19.2 Arbitration

The parties irrevocably agree that any dispute arising out of or in connection with this Agreement, including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this Clause 19.2 (a "**Dispute**"), shall be resolved:

19.2.1 subject to sub-clause 19.2.2, by arbitration in London, England, conducted in the English language by three arbitrators (with the claimant(s), irrespective of number, jointly nominating one arbitrator, and the respondent(s), irrespective of number, jointly nominating one arbitrator), in accordance with the rules set down by the LCIA (formerly the London Court of Arbitration) (the "**LCIA Rules**"), which rules are deemed to be incorporated by reference into this Clause 19.2, save that:

(i) any provision of such LCIA Rules relating to the nationality of an arbitrator shall, to that extent, not apply;

(ii) Article 5.6 of the LCIA Rules shall be amended to read as follows: "Unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA Court"; and

(iii) Article 2.1 of the LCIA Rules shall be amended in respect of any Response (as defined in the LCIA Rules) to be given by the Lender such that the Response shall be sent to the Registrar (as defined in the LCIA Rules) within 60 days of service of the Request for Arbitration.

Save as provided in sub-clause 19.2.2, the parties agree to exclude the jurisdiction of the English courts under Sections 45 and 69 of the Arbitration Act 1996; or

19.2.2 at the sole option of the Lender, by proceedings brought in the courts of England, which courts are to have non-exclusive jurisdiction. If the Lender is in the position of a respondent and wishes to exercise this option, it must do so by notice to the other parties to the Dispute within 60 days of service on it of a request for arbitration in accordance with sub-Clause 19.2.1.

For the avoidance of doubt, sub-Clause 19.2.2 is for the benefit of the Lender alone and shall not limit the right of the Lender to bring proceedings in any other court of competent jurisdiction.

19.3 Appropriate forum

Each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.

19.4 Lender's process agent

The Lender irrevocably appoints Alfa Capital Markets (the "**Lender's Agent**"), now of Salisbury House, London Wall, London EC2M 5QQ, United Kingdom, as its agent to accept service of process in England in any Dispute, provided that:

19.4.1 service upon the Lender's Agent shall be deemed valid service upon the Lender whether or not the process is forwarded to or received by the Lender;

19.4.2 the Lender shall inform all other parties to this Agreement, in writing, of any change in the address of the Lender's Agent within 28 days of such change;

19.4.3 if the Lender's Agent ceases to be able to act as a process agent or to have an address in England, the Lender irrevocably agrees to appoint a new process agent in England acceptable to the other parties to the Agreement and to deliver to the other parties to the Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

19.4.4 nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

19.5 Borrower's process agent

The Borrower irrevocably appoints Alfa Capital Markets (the "**Borrower's Agent**"), now of Salisbury House, London Wall, London EC2M 5QQ, United Kingdom, as its agent to accept service of process in England in any Dispute, provided that:

19.5.1 service upon the Borrower's Agent shall be deemed valid service upon the Borrower whether or not the process is forwarded to or received by the Borrower;

19.5.2 the Borrower shall inform all other parties to this Agreement, in writing, of any change in the address of the Borrower's Agent within 28 days of such change;

19.5.3 if the Borrower's Agent ceases to be able to act as a process agent or to have an address in England, the Borrower irrevocably agrees to appoint a new process agent in England acceptable to the other parties to the Agreement and to deliver to the other parties to the Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

19.5.4 nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

19.6 Waiver of immunity

To the extent that the Borrower may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before making of a judgment or award or otherwise) or other legal process including in relation to enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower or its assets or revenues, the Borrower agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

20 Counterparts

Each Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

21 Language

The language which governs the interpretation of each Loan Agreement is the English language.

22 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties hereto.

23 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of any Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

24 Severability

In case any provision in or obligation under any Loan Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

25 Limited Recourse and Non Petition

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, actually received from the Borrower by or for the account of the Lender (after deduction or withholding of such taxes or duties as may be required by the Lender by law in respect of such sum or in respect of the Notes and for which the Lender has not received a corresponding additional payment (also after deduction or

withholding of such taxes or duties as may be required to be made by the Lender in respect thereof) pursuant to this Agreement (the "**Lender Assets**"), subject always (i) to the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the Managers (as defined in any relevant Subscription Agreement) under that Subscription Agreement shall rank in priority to any claims of the Borrower hereunder, and that any such claim by any of the Managers or the Borrower shall be reduced pro rata so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower nor any person acting on its behalf) shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

This Clause 25 (*Limited Recourse and Non Petition*) shall survive the termination of this Agreement, subject to applicable statutory limitations.

IN WITNESS WHEREOF, the parties hereto have caused this Facility Agreement to be executed on the date first written above.

SIGNED for and on behalf of

ABH FINANCIAL LIMITED

By:

Title:

SIGNED by a duly authorised attorney of

ALFA HOLDING ISSUANCE PLC

By:

Title:

Schedule 1
Form of Loan Supplement

[DATE]

ABH FINANCIAL LIMITED

and

ALFA HOLDING ISSUANCE PLC

LOAN SUPPLEMENT

to be read in conjunction with the Facility Agreement dated 6 June 2014

in respect of

a Loan of ●

Series ●

This Loan Supplement is made on [SIGNING DATE] **between**:

ABH FINANCIAL LIMITED, a company existing under the laws of Cyprus whose registered office is at Themistokli Devi, Elenion Building, 2nd Floor, P.C. 1066, Nicosia, Republic of Cyprus (the "**Borrower**"); and

ALFA HOLDING ISSUANCE PLC, a company incorporated under the laws of Ireland, whose registered office is at 53 Merrion Square, Dublin 2, Ireland (the "**Lender**" or "**Issuer**" of the Notes).

Whereas:

(A) The Borrower has entered into a facility agreement dated 6 June 2014 (such facility agreement, as may be amended from time to time, the "**Facility Agreement**") with the Lender in respect of the Programme.

(B) The Borrower proposes to borrow ● (the "**Loan**") and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

(C) It is intended that, concurrently with the extension of the Loan under this Loan Supplement, the Lender will issue the Notes in the same aggregate nominal amount and bearing the same rate of interest as the Loan.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

"**Account**" means [the account in the name of the Lender with the Principal Paying Agent (account number ●)][each of the Secured Russian Rouble Account and the Secured Euro Account in the name of the Lender with the Principal Paying Agent]*[Note: Include latter definition if Currency Exchange*

Option is applicable] or such other account details as may be notified by the Principal Paying Agent in writing to the Borrower at least five Business Days in advance of such change;

"**Borrower's Account**" means the account in the name of the Borrower (account number [●][FURTHER DETAILS]);

["**Calculation Agent**" means ●;]

"**Closing Date**" means ●;

"**Loan Agreement**" means the Facility Agreement as amended and supplemented by this Loan Supplement;

"**Notes**" means ● [● per cent.][Floating Rate] Loan Participation Notes due ● issued by the Lender as Series ● under the Programme;

"**Repayment Date**" means ● [*amend as required for Floating Rate Notes*];

["**Secured Euro Account**" means the account in the name of the Lender (account number ●), with the Principal Paying Agent]*[Note: Only include if Currency Exchange Option applicable]*;

["**Secured Russian Rouble Account**" means the account in the name of the Lender (account number ●), with the Principal Paying Agent]*[Note: Only include if Currency Exchange Option applicable]*;

"**Specified Currency**" means ●;

"**Subscription Agreement**" means an agreement between the Lender, the Borrower and [MANAGERS] dated ● relating to the Notes; and

"**Supplemental Facility Fee Letter**" means a letter between the Lender and the Borrower dated the date hereof.

"**Trust Deed**" means the Principal Trust Deed between the Lender and the Trustee dated 6 June 2014 (as may be further amended or supplemented from time to time) as amended and supplemented by a Supplemental Trust Deed dated ● constituting and securing the Notes.

3 Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4 The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to the Borrower and the Borrower shall make a single drawing in the full amount of the Loan.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1	**Fixed Rate Loan Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Commencement Date	●
(ii)	Rate[(s)] of Interest:	● per cent. per annum [payable [annually/semi-annually] in arrear]

	(iii)	Interest Payment Date(s):	● in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
	(iv)	Fixed Amount[(s)]:	● per ● in principal amount
	(v)	Broken Amount:	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount [(s)] and the Interest Payment Date(s) to which they relate*]
	(vi)	Day Count Fraction (Clause 4.9):	● (*Day count fraction should be Actual/Actual-ICMA for all fixed rate loans other than those denominated in U.S. dollars, unless specified*)
	(vii)	Determination Date(s) (Clause 4.9):	● in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last interest period]*[**]
	(viii)	Other terms relating to the method of calculating interest for Fixed Rate Loans:	[Not Applicable/*give details*]
4.2.2	**Floating Rate Loan Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Commencement Date	●
	(ii)	Interest Period(s):	●
	(iii)	Specified Interest Payment Dates:	●
	(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(v)	Business Centre(s) (Clause 4.9):	●
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vii)	Interest Period Date(s):	[Not Applicable/*specify dates*]

[**] Only to be completed for a Loan where Day Count Fraction is Actual/Actual-ICMA.

(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	●
(ix)	Screen Rate Determination (Clause 4.3.3):	
	– Relevant Time:	●
	– Interest Determination Date:	[*[•] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date*]]
	– Primary Source for Floating Rate:	[*Specify Relevant Screen Page and rate or* "Reference Banks"]
	– Reference Banks (if Primary Source is "Reference Banks"):	[*Specify four*]
	– Relevant Financial Centre:	[*The financial centre most closely connected to the Benchmark - specify if not London*]
	– Benchmark:	[*LIBOR, LIBID, LIMEAN, EURIBOR*]
	– Representative Amount:	[*Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount*]
	– Effective Date:	[*Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period*]
	– Specified Duration:	[*Specify period for quotation if not duration of Interest Accrual Period*]
(x)	ISDA Determination (Clause 4.3):	
	– Floating Rate Option:	●
	– Designated Maturity:	●
	– Reset Date:	●
	– ISDA Definitions:	●
(xi)	Margin(s):	[+/-]● per cent. per annum
(xii)	Minimum Rate of Interest:	● per cent. per annum
(xiii)	Maximum Rate of Interest:	● per cent. per annum
(xiv)	Day Count Fraction (Clause 4.9):	●
(xv)	Rate Multiplier:	●

(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement:	●]

5 Fees and Expenses

Pursuant to Clause 3.2 (*Facility Fee*) of the Facility Agreement no later than one Business Day prior to the Closing Date, the Borrower shall pay a fee (the "**Facility Fee**") to the Lender in consideration of the provision of the Loan in accordance with the Supplemental Facility Fee Letter and the invoice to be issued by the Lender to the Borrower no later than two Business Days before the Closing Date in the amount of ●.

6 Governing Law

This Loan Supplement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

This Loan Supplement has been entered into on the date stated at the beginning.

SIGNED for and on behalf of

ABH FINANCIAL LIMITED

By:

Title:

SIGNED by a duly authorised attorney of

ALFA HOLDING ISSUANCE PLC

By:

Title:

Schedule 2
Form of Officers' Certificate

To: BNY Mellon Corporate Trustee Services Limited

One Canada Square

London E14 5AL

United Kingdom

To: Alfa Holding Issuance PLC

53 Merrion Square

Dublin 2

Ireland

From:ABH Financial Limited

Dated:

Dear Sirs

ABH Financial Limited Facility Agreement dated 6 June 2014 (the "Facility Agreement")

We refer to the Facility Agreement. Terms defined therein shall mean the same herein. This is an Officers' Certificate for the purposes thereof:

For and on behalf of

ABH Financial Limited

By:

Title:

TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions of the Notes (the "**Conditions**"), which contain summaries of certain provisions of the Trust Deed, and which (subject to completion in accordance with the provisions of the relevant Final Terms or Series Prospectus, as the case may be) will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Final Terms or Series Prospectus, as the case may be or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on any Notes in definitive form. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and the relevant Final Terms or Series Prospectus. Those definitions will be endorsed on the definitive Notes. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the "**Supplemental Trust Deed**") supplemental to a principal trust deed (the "**Principal Trust Deed**") dated 6 June 2014, each made between Alfa Holding Issuance Plc (the "**Issuer**") and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee for the Noteholders (as defined in Condition 3.1). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the "**Trust Deed**".

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (the "**Loan**") to ABH Financial Limited (the "**Borrower**") subject to, and in accordance with, a facility agreement between the Issuer and the Borrower dated 6 June 2014 (such facility agreement, the "**Facility Agreement**") as amended and supplemented by a loan supplement to be dated the Trade Date (the "**Loan Supplement**" and, together with the Facility Agreement, the "**Loan Agreement**").

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. The Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of the Trustee and the Noteholders certain of its rights and interests as lender under the Loan Agreement (other than any rights and benefits constituting Reserved Rights) as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (together with the Charge, the "**Security Interests**"). "**Reserved Rights**" are the rights excluded from the Charge, being all and any rights, interests and benefits of the Issuer in respect of the obligations of the Borrower under Clauses 3.2 (*Facility Fee*), 3.3 (*Disbursement*), 5.3 (*Prepayment in the event of illegality*) (other than the right to receive any amount payable under such Clause), 6.2 (*No Set-off or Counterclaim*), 7.1 (*Additional Amounts*) (to the extent that the Issuer has received from the Borrower the corresponding amount in respect of Cypriot taxes, penalties or interest), 7.2 (*Tax Indemnity*) (to the extent that the Issuer has received from the Borrower the corresponding amount to which the Noteholders are not entitled), 7.3 (*Tax Credits and Refunds*), 7.4 (*Tax Treaty Relief*), 9 (*Change in Law; Increase in Cost*), 12.4 (*Indemnification*) (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 12.5 (*Independent Obligation*), 12.6 (*Evidence of Loss*), 12.7 (*Currency Indemnity*) (only to the extent the Issuer has received from the Borrower the corresponding amount to which the Noteholders are not entitled), 13 (*Survival*), 15.1 (*Lender's Ongoing Costs*) and 15.2 (*Lender's Costs*) of the Facility Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to, a paying agency agreement (the "**Agency Agreement**") dated 6 June 2014 and made between the Issuer, the Borrower, the Trustee and the Agents named therein. The Bank of

New York Mellon, London Branch will act as principal paying agent (the "**Principal Paying Agent**" and a "**Paying Agent**"), a transfer agent (a "**Transfer Agent**") and calculation agent (the "**Calculation Agent**"). The Bank of New York Mellon SA/NV, Luxembourg Branch will act as the registrar in respect of the Notes (the "**Registrar**"). References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, any other Paying Agents, the Calculation Agent and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Final Terms (or the Series Prospectus, as the case may be) are available for inspection by Noteholders during normal business hours at the principal office of the Trustee being, at the date hereof, at the specified office of the Principal Paying Agent and at the registered office of the Issuer.

Certain provisions of these Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Final Terms (or the Series Prospectus, as the case may be), the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

The Trust Deed provides that, notwithstanding any other provision thereof, payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders have notice of, and have accepted, these Conditions, the Final Terms (or the Series Prospectus, as the case may be) and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Borrower under the Loan Agreement;

1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;

1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

1.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any of the Paying Agents, the Registrar or the Transfer Agents, of their respective obligations under the Agency Agreement;

1.5 the financial servicing and performance of the terms and conditions of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. the

Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower;

1.6 the Issuer and the Trustee shall be entitled to rely on certificates signed by two duly authorised officers of the Borrower (and, where applicable, certification by third parties) as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and identifying Material Subsidiaries and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security;

1.7 neither the Trustee nor the Issuer shall at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until the Issuer or the Trustee, as the case may be, has received from the Borrower the funds or adequate indemnity against, and/or security and/or prefunding that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds; and

1.8 the Issuer will not be liable for any shortfall in respect of amounts payable by or resulting from any withholding or deduction or for any payment on account of tax or duties required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement which will or may affect payments made or to be made by the Borrower under the Loan Agreement, save to the extent that it has received additional amounts under the Loan Agreement in respect of such withholding or deduction or payment, and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in the Loan Agreement. The Trustee shall have no liability for any such shortfall in respect of any such deduction, withholding or payment.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes except to the extent there is failure in its subsequent payment to the Noteholders.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take any step, action or proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/ or prefunded by the Noteholders to its satisfaction.

The obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equivalent to each sum actually received by or for the account of the Issuer (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to the Loan Agreement) from the Borrower in respect of principal, interest or, as the case may be, other amounts relating to the Loan (less any amounts in respect of the Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered by or on behalf

of the Issuer or the Trustee. Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets (including the Issuer's rights with respect to any Loan relating to any other Series of Notes) in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower and no other assets of the Issuer will be available to the Noteholders.

Notwithstanding any other provisions of these Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the Charged Property and the Assigned Rights (each as defined in the Trust Deed) in accordance with the provisions of the Trust Deed. After realisation of the security which has become enforceable and application of the proceeds in accordance with Clause 8 of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished.

None of the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreements entered into or made by the Issuer in respect of the Notes.

2. Form, Denomination and Title

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon (the minimum Specified Denomination of any Notes admitted to trading on a regulated market within the European Economic Area in circumstances which require the publication of a prospectus under Directive 2003/71/EC shall be €100,000 or its equivalent in any other currency as at the date of issue of the relevant Notes) or higher integral multiples thereof as specified in the relevant Final Terms or Series Prospectus, without interest coupons, ***provided that*** Notes with a maturity of less than 365 days shall be held in amounts not less than €300,000 (or its equivalent in other currencies).

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3. Register, Title and Transfers

3.1 Register

The Registrar will maintain a register in respect of the Notes (the " **Register**") at the specified office for the time being of the Registrar in respect of the Notes in accordance with the provisions of the Agency Agreement and shall record in the relevant Register the names and addresses of the holders of the Notes corresponding to such Register, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the relevant Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

3.2 Title

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

3.3 Transfers

Subject to Conditions 3.6 and 3.7, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of a Transfer Agent, together with such evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer *provided*, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are not less than the minimum Specified Denomination (if any). Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Notes will be issued to the transferor.

3.4 Registration and Delivery of Notes

Within five Business Days of the surrender of a Note in accordance with Condition 3.3, the Registrar shall register the transfer in question and deliver a new Note to each relevant holder for collection at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**Business Day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

3.5 No Charge

The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed Periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

3.7 Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the relevant Register or Registers, as the case may be, are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Lender with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution directing the Trustee to consent, agree to any amendments to or any modification of or waiver of, or authorise any breach or proposed breach of, the terms of the Trust Deed or the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys (other than issuing further Notes (which may be consolidated and form a single series with Notes of any

Series) and/or creating or incurring further obligations relating to such Notes and issues of notes on a limited recourse basis for the sole purpose of making loans to the Borrower or its Affiliates (as such term is defined in the Trust Deed) which are legal entities), engage in any business (other than entering into the Programme and issuing Notes thereunder for the sole purpose of financing Loans to the Borrower in accordance with the Facility Agreement and each Loan Supplement, or other issues of notes on a limited recourse basis and the making of loans to the Borrower or its Affiliates (as such term is defined in the Trust Deed) which are legal entities as aforesaid, entering into related agreements and transactions (including derivatives on a limited recourse basis) and performing any act incidental or necessary in connection with any of the foregoing, including the holding of any security in connection therewith) declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions and the Trust Deed), issue any shares (other than those in issue at the date of the Principal Trust Deed), give any guarantee or assume any other liability, or subject to the laws of Ireland, petition for any winding-up or bankruptcy.

5. Interest

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding principal amount from (but excluding) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified hereon which shall be equal to the rate per annum at which interest under the relevant Loan accrues. Accordingly, on each Interest Payment Date or as soon thereafter as the same is received by the Issuer, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the relevant Loan Agreement.

If a Fixed Coupon Amount is specified in the relevant Final Terms or Series Prospectus, the amount of interest per Calculation Amount payable on each Interest Payment Date shall be an amount equal to the Fixed Coupon Amount, provided that if a Broken Amount is specified in the relevant Final Terms or Series Prospectus as being payable on any Interest Payment Date, the amount of interest per Calculation Amount payable on such Interest Payment Date shall be an amount equal to the Broken Amount. If no Fixed Coupon Amount or Broken Amount is specified in the relevant Final Terms or Series Prospectus, the amount of interest payable shall be determined in accordance with Condition 5.4.

5.2 Interest on Floating Rate Notes

(a) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding principal amount from (but excluding) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, or as soon thereafter as the same shall be received by the Issuer, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

(b) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a

Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(c) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified hereon and as set out in the Loan Agreement.

5.3 Accrual of Interest

Interest shall accrue on each Note up to, and including, the due date for redemption or prepayment in the manner provided in these Conditions unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

5.4 Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon and the Day Count Fraction for such Interest Accrual Period as specified in the relevant Final Terms (or the Series Prospectus, as the case may be) and in the Loan Agreement, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

All capitalised terms used in this Condition 5.4 shall have the meanings ascribed to them in the Facility Agreement.

5.5 Publication of Rates of Interest and Interest Amounts

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, the Borrower, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed and/or admitted to trading on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5.2(b), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If a Loan becomes due and payable under Clause 11 of the Facility Agreement (in so far as it forms part of the relevant Loan Agreement), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

5.6 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, shall do so (or shall appoint an

agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6. Redemption

6.1 Scheduled redemption

Unless the Loan is previously prepaid or repaid pursuant to Clause 5.2, 5.3 or 5.4 of the Facility Agreement, the Borrower will be required to repay the Loan one Business Day (as defined in the Loan Agreement) before its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 per cent. of the principal amount thereof).

6.2 Early redemption

If the Loan should become repayable in full (and be repaid in full) or be prepaid pursuant to the Loan Agreement prior to its scheduled repayment date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than fifteen nor more than thirty days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts, if any, (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to Clause 11 of the Facility Agreement (in so far as it forms part of the Loan Agreement), the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7, on a *pro rata* basis to the Noteholders.

6.3 Cancellation

The Facility Agreement also provides that the Borrower or any Subsidiary of the Borrower may, among other things, from time to time deliver Notes to the Issuer, having an aggregate principal value of at least €1,000,000, together with a request for the Issuer to present such Notes to the Registrar for cancellation, whereupon the Issuer shall, pursuant to the Agency Agreement, request the Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

7. Payments, Agents and Currency Exchange Option

7.1 Principal

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent or the Registrar and in the manner provided in the Condition below.

7.2 Interest

Interest shall be paid to the person shown on the relevant Register at the opening of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest shall be made in the Specified Currency by transfer to an account in the relevant currency maintained by the payee with a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof (a "**Bank**"), or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant

Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent.

7.3 Payments subject to fiscal laws

All payments are subject in all cases to any (i) applicable fiscal laws or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of FATCA or otherwise imposed pursuant to Sections 1471 through 1474 of FATCA, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments. In these Conditions, "**FATCA**" means sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, as of the date of the Principal Trust Deed and any current or future regulations or agreements thereunder or official interpretations thereof. None of the Issuer, the Borrower, any paying agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to FATCA, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

7.4 Payments on Business Days

If the due date for payments of interest or principal is not a Business Day, a Noteholder shall not be entitled to payment of the amount due until the next following Business Day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

7.5 Accrued Interest

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed and/or admitted to trading on any stock exchange or admitted to listing by any other relevant authority, there will be a Paying Agent and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive or any law implementing the conclusions of the ECOFIN Council meeting of 26–27 November 2000. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from (but excluding) the preceding Interest Payment Date or, as the case may be, from (but excluding) the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

7.6 Payments by the Borrower

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clauses 6 and 7 of the Agency Agreement, require the Borrower to make all payments of principal and interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the "**Account**"). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Trustee and Noteholders.

7.7 Currency Exchange Option

If Currency Exchange Option is specified in the Final Terms or Series Prospectus as being applicable in respect of Notes of which the Specified Currency is Russian Roubles (such Notes being "**Russian Rouble Notes**") then Noteholders may, no later than the tenth Business Day (which has the meaning given to such term in Condition 7.4) before the due date for any payment of interest or principal, give an irrevocable notice of election (a "**Euro Noteholder Election**") to the Principal Paying Agent to receive such payment of interest or principal, as the case may be, in Euro. Upon any such election in accordance with the foregoing, such interest or principal will be converted into Euro by the Principal Paying Agent pursuant to this Condition 7.7.

For so long as any Russian Rouble Notes are represented by a Global Note, payments of principal and interest in respect of such Russian Rouble Notes will be made or procured to be made in accordance with Clause 8.1 of the Agency Agreement pursuant to which any accountholder of Euroclear and(or) Clearstream, Luxembourg may on or before the tenth Business Day prior to the Interest Payment Date or the Repayment Date give an irrevocable election to the Principal Paying Agent to receive such payment of interest or principal, as the case may be, in Euro through the notification procedures of Euroclear and/or Clearstream, Luxembourg.

Following receipt of the Exchange Amount (as defined below), the Principal Paying Agent shall, on or before 12.30 p.m. (London time) on the Business Day prior to each Interest Payment Date or any Repayment Date, as the case may be, (the "**Exchange Date**"), purchase Euro (the "**Euro Amount**") with the Exchange Amount (as defined below) at a purchase price calculated on the basis of the Applicable Exchange Rate (as defined below) for settlement on the relevant Interest Payment Date or any Repayment Date, as the case may be less any fees, including any spread on foreign exchange transactions, customarily charged by the Principal Paying Agent in connection with such conversion of the Exchange Amount.

Notwithstanding any other provision of this Condition 7, if the Russian Rouble Notes are represented by Definitive Notes and for any reason on the Exchange Date it is not possible for the Principal Paying Agent to purchase the Euro Amount with the Exchange Amount at the Applicable Exchange Rate, the Principal Paying Agent shall notify the Issuer who shall notify the relevant Noteholders in accordance with Condition 14 and the Paying Agents shall make payments on the Russian Rouble Notes in Russian Roubles into a Russian Rouble account maintained by the payee.

If the Russian Rouble Notes are represented by a Global Note and for any reason on the Exchange Date it is not possible for the Principal Paying Agent to purchase the Euro Amount with the Exchange Amount at the Applicable Exchange Rate, the Principal Paying Agent shall make payments on the Russian Rouble Notes in Russian Roubles to all Noteholders through the facilities of Euroclear and/or Clearstream, Luxembourg.

As used in this Condition 7.7:

"**Applicable Exchange Rate**" means the internal foreign exchange conversion rate for settlement, as determined by the Principal Paying Agent, on or before 12.30 p.m. (London time) on the Business Day prior to the relevant Interest Payment Date or the Repayment Date, as the case may be, following receipt by the Principal Paying Agent of the Exchange Amount which the Principal Paying Agent acting in a commercially reasonable manner uses to convert Russian Roubles into Euro at the request of its other customers; and

"**Exchange Amount**" means, in respect of each Interest Payment Date or the Repayment Date, as the case may be, the amount in Russian Roubles in aggregate equivalent to the portion of such interest and/or principal in respect of the Russian Rouble Notes due on the relevant Interest Payment Date or the Repayment Date, as the case may be, which is payable to the holders of such (if any) which have given an irrevocable election pursuant to this Condition 7.7 to receive payment of such interest and/or principal in Euro. The relevant Registrar shall on the fifth Business Day prior to the Interest Payment Date or the Repayment Date, as the case may be, notify the Principal Paying Agent of the Exchange Amount.

In respect of any Currency Exchange Option, on the Business Day prior to the Interest Payment Date or the Repayment Date, the Principal Paying Agent shall notify the Issuer who shall give due notice to the Noteholders in accordance with Condition 14 of (a) the Exchange Amount and the Euro Amount applicable to such Interest Payment Date or the Repayment Date, as the case may be, (b) the Applicable

Exchange Rate at which such Euro Amount was purchased by the Principal Paying Agent and (c) if applicable, whether such Euro were purchased from either the Principal Paying Agent or from another leading foreign exchange bank.

For the purposes of this Condition 7.7, none of the Principal Paying Agent, the Issuer or the Borrower shall be liable to any Noteholder or any other party for any losses whatsoever resulting from the application by the Principal Paying Agent of the Applicable Exchange Rate.

The Principal Paying Agent may rely conclusively on the basis on which its internal foreign exchange conversion rate (including, for the avoidance of doubt, any third party indices forming the basis for such conversation rates) for settlement has been determined and shall not be liable for losses associated with the basis for determination of such rate. The Principal Paying Agent may retain for its own account any fees, including any spread on foreign exchange transactions, customarily charged by it in connection with such conversion.

The Principal Paying Agent shall be entitled to rely on without further investigation or enquiry any notification or irrevocable instructions received by it pursuant to this Condition 7 and shall not be liable to any party for any losses whatsoever resulting from acting in accordance with such notifications even though subsequent to its acting it may be found that there was some defect in the notification or the notification was not authentic.

Any foreign exchange transaction effected by the Principal Paying Agent will generally be a transaction to buy or sell currency between the Issuer and either the Principal Paying Agent or its affiliate. The Principal Paying Agent or its affiliate will trade the foreign exchange transaction as a principal for its own account, and not as an agent, fiduciary, or broker on behalf of the Issuer. In certain circumstances, the foreign exchange transaction may be transmitted to a sub-custodian. In such cases, the Principal Paying Agent, or its affiliate may not be the foreign exchange counterparty and the foreign exchange transaction may not be processed and priced as described herein. In forwarding certain foreign exchange transactions to the sub-custodian or affiliate for execution, the Principal Paying Agent does not serve as agent, fiduciary, or broker on behalf of the Issuer.

8. Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes, duties or assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall make such additional payments ("**additional amounts**") as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from the Borrower under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from the Borrower, the Issuer will account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, provided that no such additional amount will be payable in respect of any Note:

8.1 to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with Ireland other than the mere holding of such Note or the receipt of payments in respect thereof;

8.2 presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;

8.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

8.4 presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

Notwithstanding anything to the contrary in the preceding paragraph, none of the Issuer, the Borrower any paying agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to FATCA, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used herein, "**Relevant Date**" (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable time and such failure is continuing.

At any time after the occurrence of an Event of Default (as defined in the Facility Agreement) or of a Relevant Event (as defined in the Trust Deed), but subject, in the case of the Issuer, to the non-petition covenant in Condition 1, the Trustee may, at its discretion, and without notice and shall, if requested to do so by Noteholders holding 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in each case, subject to it being secured and/or indemnified and/or prefunded to its satisfaction, (i) (in the case of an Event of Default) declare all amounts payable under the Loan Agreement by the Borrower to be due and payable, or (ii) (in the case of a Relevant Event) exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee. Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10. Meetings of Noteholders; Modification of Notes, Trust Deed and Loan Agreement; Waiver; Substitution of the Issuer; Appointment/Removal of Trustees

10.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

10.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or the Loan Agreement which in the sole opinion of the Trustee is (i) of a formal, minor or technical nature or is made to correct a manifest error; or (ii) (save as provided in the Trust Deed) is not materially prejudicial to the interests of the Noteholders (as a class). The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions or the Trust Deed or by the Borrower of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan

Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class); provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

10.3 Substitution

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of the Borrower shall, having obtained the prior written consent of the Borrower (if such substitution is not to be made at the request of the Borrower) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such certain requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholder in accordance with Condition 14 or the Borrower shall use its best endeavours to ensure that the substitute obligor does so.

10.4 Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10.5 Appointment and Removal of Trustee

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that, in the case of removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a trustee in office after such resignation.

11. Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12. Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking any step or action including instituting or taking any proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or the Borrower and any entity related to the Issuer and/or the Borrower without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other

manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Borrower, the Trustee and the Noteholders.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement. The Trustee is entitled to assume that the Borrower is performing all of its obligations pursuant to the Loan Agreement (and shall not incur any liability for doing so). The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

The Trustee is entitled to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing a certificate signed on behalf of the Issuer or the Borrower by a director or an authorised signatory of the Issuer or the Borrower as to any fact or matter upon which the Trustee may, in the exercise of any of its trusts, duties, powers, authorities, rights and discretions under the Trust Deed, require to be satisfied or have information, or to the effect that in the opinion of the person so certifying any particular transaction or thing is expedient, and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by the Trustee acting on such certificate.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14.

13. Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of the Registrar or at the specified office of the Principal Paying Agent in London on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14. Notices

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the relevant Register and (ii) so long as the Notes are admitted to trading on the Euronext Dublin, when such notice is filed in the Companies Announcement Office of the Euronext Dublin. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of

certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes of such Series.

16. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. Governing Law

The Notes, the Agency Agreement, the Trust Deed and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the exclusive jurisdiction of the courts of England and has appointed an agent for the service of process in England.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Conditions while the Notes are represented by the Global Notes.

Unless otherwise indicated in the Final Terms or Series Prospectus, the Notes will be represented by one or more Global Notes deposited with, and registered in the name of The Bank of New York Mellon, London Branch as nominee of and as common depositary for Euroclear and Clearstream, Luxembourg.

Unless otherwise indicated in the relevant Final Terms or Series Prospectus, beneficial interests in a Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. By the acquisition of a beneficial interest in a Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. Person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all relevant Dealers have so certified) (the "**distribution compliance period**"), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. Person in an offshore transaction within the meaning of, and in accordance with, Regulation S. See "*Transfer Restrictions*".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement.

No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of Definitive Notes. The Notes are not issuable in bearer form. In addition, each Global Note will contain provisions which may modify the Conditions as they apply to the Notes evidenced by such Global Note. The following is a summary of these provisions:

Notices

Notwithstanding Condition 13 (*Replacement of Notes*) of the Notes, so long as a Global Note is held by or on behalf of a clearing system, notices to Noteholders represented by such Global Note may be given by delivery of the relevant notice to that clearing system. For so long as the Notes are listed on the Euronext Dublin, the Issuer will also publish notices in accordance with the rules of the Euronext Dublin.

Record Date

Notwithstanding Condition 7.2, "Record Date" shall mean the Clearing System Business Day before the relevant due date for payment where "Clearing System Business Day" means in respect of a Global Note held on behalf of Euroclear or Clearstream, Luxembourg, a day when Euroclear or Clearstream, Luxembourg is open for business.

Payments

To the extent that the Issuer has actually received the relevant funds from ABH Financial, payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the Notes, against presentation and surrender of such Global Note to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note. Payment while Notes are represented by a Global Note will be made in accordance with the procedures of the relevant clearing system.

Meetings

The holder of a Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each Note for which the relevant Global Note may be exchangeable.

Trustee's Powers

In considering the interests of Noteholders whilst the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Cancellation

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of ABH Financial (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

Transfers

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon.

Currency Exchange Option

With respect to any Russian Rouble Note represented by a Definitive Note held by Noteholders that have made an irrevocable election in accordance with the Conditions to receive payments in Euro, the Principal Paying Agent shall, on or before 12.30 p.m. (London time) on the Business Day prior to each due date for any payment of interest or principal, as the case may be, purchase the Euro Amount with the Exchange Amount (each as

defined in "Terms and Conditions of the Notes") and the Paying Agents will pay, or procure the payment of the Euro Amount to Noteholders that have made an irrevocable election in accordance with the Conditions to receive payments in Euro by wire transfer of same days funds for value the due date for payment. If for any reason it is not possible to purchase the Euro Amount with the Exchange Amount while any Russian Rouble Notes are represented by Definitive Notes, the Principal Paying Agent shall notify the relevant Noteholders and shall make all payments on the Russian Rouble Notes in Russian Roubles into a Russian Rouble account maintained by the payee with a bank in London.

Currency Exchange Option for Global Notes

For so long as any Russian Rouble Notes are represented by a Global Note, payments of principal and interest in respect of such Russian Rouble Notes will be made or procured to be made in accordance with Clause 8 of the Agency Agreement pursuant to which any accountholder of Euroclear and(or) Clearstream, Luxembourg may on or before the tenth business day prior to the Interest Payment Date or the Repayment Date give an irrevocable election to the Principal Paying Agent to receive such payment of interest or principal, as the case may be, in Euro through the notification procedures of Euroclear and (or) Clearstream, Luxembourg.

On the Business Day prior to the Interest Payment Date or the Repayment Date, the Principal Paying Agent shall give due notice to the Noteholders in accordance with Condition 14 of (a) the Exchange Amount and the Euro Amount applicable to such Interest Payment Date or the Repayment Date, as the case may be, (b) the Applicable Exchange Rate at which such Euro Amount was purchased by the Principal Paying Agent and (c) if applicable, whether such Euro were purchased from either the Principal Paying Agent or from another leading foreign exchange bank.

With respect to any Russian Rouble Notes which are represented by a Global Note, as early as practicable on the relevant due date for payment of interest or principal the Principal Paying Agent will pay, or procure the payment of, the Euro Amount pro-rata to their interests in the Global Note, to Euroclear and Clearstream, Luxembourg accountholders that have made an irrevocable election to receive payments in Euro, through the facilities of Euroclear and Clearstream, Luxembourg. If, while Russian Rouble Notes are represented by a Global Note, for any reason it is not possible for the Principal Paying Agent to purchase the Euro Amount with the Exchange Amount at the Applicable Exchange Rate, the Principal Paying Agent shall so notify the Noteholders and shall make payment on the Russian Rouble Notes in Russian Roubles to accountholders in Euroclear and Clearstream, Luxembourg.

Notwithstanding any other provision of the Agency Agreement to the contrary, including the Conditions, (i) all costs of the purchase of Euro with the Exchange Amount shall be borne pro rata by the relevant Noteholders of the Russian Rouble Notes by deduction from the Euro Amount to be made by the Principal Paying Agent and (ii) the Issuer shall have no obligation whatsoever to pay any commissions or expenses, or to indemnify the Noteholders against any difference between the Euro Amount received by such Noteholders and their pro rata portion of the Exchange Amount.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in the dealer agreement dated 6 June 2014 (the "**Dealer Agreement**") between the Issuer, ABH Financial, the Arrangers and the Permanent Dealers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be subscribed by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such subscription and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer and ABH Financial has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer or sell Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Principal Paying Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S. In addition, until 40 days after the commencement of the offering any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act.

Notes will be offered and sold outside the United States to non-U.S. Persons in reliance on Regulation S.

This Base Prospectus has been prepared by the Issuer and ABH Financial for use in connection with the offer and sale of the Notes outside the United States and the resale of the Notes in the United States and for the listing of Notes on Euronext Dublin, or other stock exchange specified in the Final Terms or Series Prospectus. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. Person. Distribution of this Base Prospectus by any non-U.S. Person outside the United States to any U.S. Person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. Person or other person within the United States is prohibited.

United Kingdom

Each Dealer has represented and agreed that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other

than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each of the Dealers has represented and agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian Law.

Republic of Cyprus

Each Dealer has severally represented, warranted and undertaken as follows:

(1) it has not and will not, offer, sell or deliver the Notes, and has not distributed and will not distribute in Cyprus this Base Prospectus or any document, circular, advertisement or other offering material, except under circumstances which will result in compliance with the Regulation (EU) 2017/1129 of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market (the "**Prospectus Regulation**") and any other applicable laws and regulations in effect at the relevant time;

(2) it has complied and will comply with all applicable provisions of the Prospectus Regulation with respect to anything done by it in relation to the Notes in, from or otherwise involving Cyprus; and

(3) it has not and will not provide from within Cyprus any "investment services" and/or perform any "investment activities" (as these are defined in the Directive 2014/65/EU on financial instruments (MiFID II) transposed into national legislation by the Investment Services and Activities and Regulated Markets Law, L.87(I)/2017 (the "**Investment Services Law**"), or if it provides investment services from outside Cyprus it will be regulated accordingly from the relevant jurisdiction except under circumstances which will result in compliance with the Investment Services Law and any other applicable laws and regulations in effect at the relevant time.

Ireland

Each Dealer has represented, warranted and agreed that:

(a) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Union (Markets in Financial Instruments) Regulations 2017 (as amended, the "**MiFID II Regulations**"), including, without limitation, Regulation 5 (*Requirement for authorisation (and certain provisions concerning MTFs and OTFs*) thereof, any rules or codes of conduct made under the MiFID II Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);

(b) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Companies Act 2014 of Ireland (as amended, the "**Companies Act**"), the Central Bank Acts 1942-2018 (as amended) and any codes of practice made under Section 117(1) of the Central Bank Act 1989 (as amended);

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus Regulation (2017/1129/EU) and any rules issued by the Central Bank of Ireland (the "**Central Bank**") under Section 1363 of the Companies Act; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014) (as amended) and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

General

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable securities laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Base Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or ABH Financial.

Apart from the approval of this Base Prospectus as a "base prospectus" by the Central Bank, no action has or will be taken in any jurisdiction by the Issuer, ABH Financial or any of the Dealers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Dealer has undertaken to the Issuer and ABH Financial that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

These selling restrictions may be modified by the agreement of the Issuer, ABH Financial, the Permanent Dealers and the Arrangers following a change in a relevant law, regulation or directive.

The Arrangers and their affiliates have engaged in transactions with Alfa Banking Group (including, in some cases, credit agreements and credit lines) in the ordinary course of its banking business and the Arrangers performed various investment banking, financial advisory, and other services for Alfa Banking Group, for which it received customary fees, and the Arrangers and their affiliates may provide such services in the future.

TAXATION

The following is a general description of the material Irish and Cypriot tax considerations relating to the Notes issued and each Loan. It does not purport to be a complete analysis of all tax considerations relating to the Notes and each Loan, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under such Notes and the consequences of such actions under the tax laws of those countries in light of their particular circumstances. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Irish Taxation

The following is a summary of the principal Irish withholding tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as Euronext Dublin) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

(i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

(ii) the person who is the beneficial owner of the Notes is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form.

Thus, subject to the discussion below, so long as the Notes continue to be quoted on Euronext Dublin and are held in a clearing system recognised by the Irish Revenue Commissioners (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised) interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland.

Interest or other distributions paid on the Notes which are profit dependent or any part of which exceeds a reasonable commercial return could, under certain anti-avoidance provisions, be re-characterised as a non-deductible distribution and be subject to dividend withholding tax in certain circumstances. However, this should not apply on the basis of a confirmation by the Issuer that, at the time the Notes were issued, the Issuer was not in possession or aware of any information which could reasonably be taken to indicate that interest or other distributions paid on the Notes would not be subject, without reduction computed by reference to the amount of such interest or other distribution, to a tax in a relevant territory which generally applies to profits, income or gains received in that relevant territory by persons from sources outside that relevant territory, where

the term "relevant territory" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Stamp Duty

No stamp duty or similar tax is imposed in Ireland on the issue, transfer or redemption of the Notes provided the Issuer is a qualifying company for the purposes of Section 110 of the Taxes Consolidation Act 1997 and the proceeds of the Notes are used in the course of the Issuer's business).

Cypriot Taxation

The following is a summary based on the laws and practices currently in force in the Republic of Cyprus regarding the tax position of investors beneficially owning their Notes and should be treated with appropriate caution. Particular rules may apply to certain classes of taxpayers holding Notes. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Definition of tax residency for corporate tax purposes

The Cypriot Income Tax Law defines the term "resident", when applied to a company, as a company whose management and control is exercised from Cyprus. There is no definition in the Cypriot Income Tax Law as to what constitutes "management and control" and no detailed guidelines have been issued by the Cypriot tax authorities. However, as per Circular 2015/19, issued by the Cypriot Tax Department on 30 October 2015, a company applying for a tax residency certificate should complete a questionnaire which requires the applicant to provide certain information on the areas which the Cypriot tax authorities take into account in assessing the tax residency status of a company.

The Special Contribution for Defence of the Republic Law ("**Defence Tax Law**") defines the term "resident" for corporate persons in the same way this is defined in the Cypriot Income Tax Law.

A company which is considered to be resident for tax purposes in Cyprus is subject to tax in Cyprus in accordance with the provisions of the Income Tax Law and Defence Tax Law, collectively referred henceforth as "**Cypriot income tax laws**", on its worldwide income taking into consideration certain exemptions and adjustments.

Definition of tax residency for personal tax purposes

The Cypriot Income Tax Law defines the term "resident", when applied to an individual, as an individual who is physically present in Cyprus for a period or periods exceeding in aggregate more than 183 days in any tax year (tax year being the same as the calendar year).

Additionally, as of 1 January 2017 the definition of tax resident includes an individual who does not stay in any other state for one or more periods exceeding in aggregate 183 days in the same tax year and who is not considered a resident for tax purposes in any other state in the same tax year, provided that the individual cumulatively meets the following conditions:

- Stays in Cyprus for at least 60 days in the tax year;
- Exercises any business in Cyprus and/or is employed in Cyprus and/or holds an office for a person who is tax resident in Cyprus at any time during the tax year;
- Maintains a permanent residence in Cyprus which is owned or rented by the individual

It is further provided that an individual, who cumulatively fulfils the aforementioned conditions, is not

considered a resident for tax purposes in Cyprus in the tax year, if during the said tax year the exercise of any business in Cyprus and/ or the employment in Cyprus and/or the holding of an office for a person tax resident in Cyprus is terminated.

The Defence Tax Law defines the term "resident", when applied to an individual, as an individual who is a resident as per the provisions of the Cypriot Income Tax Law and who additionally has his/her domicile in Cyprus. An individual is considered to have his/her domicile in Cyprus if he/she has a Cypriot domicile of origin as defined in the Wills and Succession Law, but it does not include:

- An individual who has obtained and maintained a domicile of choice outside of Cyprus in accordance with the Wills and Succession Law, provided that such an individual has not been a tax resident of Cyprus, as this is defined in the Cypriot Income Tax Law, for any period of twenty consecutive years preceding the tax year; or

- An individual who has not been a tax resident of Cyprus, as this is defined in the Cypriot Income Tax Law, for a period of twenty consecutive years prior to 16 July 2015 (prior to 2015 tax year).

Notwithstanding of the domicile of origin, an individual who has been a tax resident of Cyprus, as this is defined in the Cypriot Income Tax Law, for at least seventeen years out of the last twenty years prior to the relevant tax year, is deemed to have his/her domicile in Cyprus.

Withholding tax

On the basis of the current provisions of the Cypriot Defence Tax Law, Cyprus levies withholding tax at the rate of 30% on interest payments made to companies which are considered to be resident for tax purposes of Cyprus, in case the interest is neither accruing in the ordinary course of their business nor closely connected therewith.

Moreover, as of 26 June 2019, Cyprus levies withholding tax at the rate of 3% on interest payments received or credited in relation to corporate bonds made to individuals who are considered to be resident for tax purposes of Cyprus and who additionally have a Cypriot domicile (as defined in the Defence Tax Law). Cyprus does not levy any withholding tax on interest payments made to persons not being resident for tax purposes of Cyprus or to individuals who are tax residents of Cyprus but do not have a Cypriot domicile (as defined in the Defence Tax Law).

On interest payments to be made to the Issuer

Cyprus does not levy any withholding tax on interest payments made to persons not being resident for tax purposes of Cyprus. In this respect, interest payments to be made by ABH Financial to the Issuer, which will not be a tax resident of Cyprus, under the Loan Supplement Agreement should not be subject to any withholding tax in Cyprus.

On payments to be made to the Issuer under the Loan Agreement (Additional Amounts and/or Tax Indemnity Amounts)

It is not entirely clear as to how the payments to be made by ABH Financial under the Loan Agreement (Additional Amounts and/or Tax Indemnity Amounts) could be legally characterised for Cypriot withholding tax purposes. To the extent that such payments represent interest payments, such payments should not be subject to withholding tax in Cyprus, as explained above. If any payments to the Issuer are subject to withholding tax in Cyprus, as a result of which ABH Financial would have to reduce the amount payable to the Issuer by the amount of tax withheld, ABH Financial will be obliged (subject to certain conditions) to increase the payments to the Issuer as may be necessary so that the net payments received by the Issuer (and the Noteholders respectively) will be equal to the amounts it would have received in the absence of such withholding. Although there is no official guidance in Cyprus, it is expected that gross-up provisions should be applicable in practice with regard to interest payments and in such an instance, the withholding tax (as explained above) should be imposed on the grossed up amount.

On the basis of the Cypriot General Health Insurance Law ("**GESY Law**"), any Cypriot person making interest payments to an individual who is considered to be resident for tax purposes of Cyprus, as the term is defined for income tax purposes, is under an obligation to levy a withholding tax of 2.65% on the gross amount of interest. In the case of ABHF, the interest payments to the Issuer shall not be subject to withholding tax under the GESY Law.

Value Added Tax considerations

The standard VAT rate in Cyprus is currently 19 per cent.

Definition of residency for VAT purposes

- A legal person is regarded as resident/established in Cyprus if the essential decisions concerning the central administration of the legal person are carried out in Cyprus.

- A natural person is regarded as resident at the place of their permanent address (i.e. the address entered in the population or similar register), or the address indicated by that person to the relevant tax authorities, unless there is evidence that this address does not reflect reality) or usual residence (i.e. place where that natural person usually lives as a result of personal and occupational ties).

Interest income accruing on the Notes

Interest income accruing on the Notes will be exempt from Cypriot VAT if the Noteholders is a taxable person established/resident in Cyprus, or outside the scope of Cypriot VAT if the Noteholder is not a taxable person or is not resident/established in Cyprus.

VAT considerations on interest payments to be made to the Issuer

As per the VAT legislation, interest paid by ABH Financial to the Issuer is exempt from VAT.

VAT considerations on Additional Amounts and Tax Indemnity Amounts

Any additional payments by ABH Financial to the Issuer under the Loan Agreement (other than the interest or repayment of principal amount) may be subject to VAT in Cyprus, since ABH Financial is a taxable person established in Cyprus. ABH Financial may therefore have the obligation to self-charge Cypriot VAT on such payments. Additional payments to the Issuer may be exempt from VAT depending on the nature of the relevant payments. Specifically, additional payments will be exempt from VAT if they are considered among others as additional interest or constitute consideration paid to the Issuer for the management of the loan.

The person liable to account for such VAT, if applicable, is ABH Financial and shall not affect the Additional Payment to the Issuer.

Any payments made by ABH Financial to the Issuer representing tax indemnity should not be subject to Cypriot VAT on the basis that they fall outside the scope of the Cypriot VAT legislation. Such payments cannot be regarded as constituting consideration for any supply provided in exchange for the payments. The same treatment should apply in the case of such payments being regarded as additional interest.

FORM OF FINAL TERMS

Final Terms dated ●

ABH Financial Limited

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]
by Alfa Holding Issuance plc
for the purpose of financing a Loan to ABH Financial Limited
under a €1,200,000,000 Programme for the Issuance of Loan Participation Notes

PART A – CONTRACTUAL TERMS[1]

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the Base Prospectus dated 15 April 2020 [and the supplemental Base Prospectus dated ●] which [together] constitute[s] a base prospectus for the purposes of Regulation (EU) 2017/1129, as amended (the "**Prospectus Regulation**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Regulation and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and ABH Financial and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing [at http://www.ise.ie] [and] [during normal business hours at [address] [and copies may be obtained from [address].

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.*]

1	(i)	Issuer:	Alfa Holding Issuance plc
	(ii)	Borrower:	ABH Financial Limited
2	[(i)]	Series Number:	●
	[(ii)]	Tranche Number:	●
		[*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)*]	●
3	Specified Currency or Currencies:		●
4	Aggregate Nominal Amount of Notes admitted to trading		●
	[(i)]	Series:	●
	[(ii)]	Tranche:	●
5	Issue Price:		● per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
6	(i)	Specified Denominations:	● plus higher integral multiples of ● thereafter[2]

[1] Prospectus Regulation language to be removed if the Notes are not listed on a EU regulated market.

	(ii)	Calculation Amount:	●
7	(i)	Issue Date:	●
	(ii)	Interest Commencement Date:	●
8	Maturity Date:		[*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9	Notes Interest Basis:		[● per cent. Fixed Rate] [[[LIBOR] [LIBID] [LIMEAN] [EURIBOR]] +/– ● per cent Floating Rate] (further particulars specified in paragraphs 15 and 16 below)
10	Redemption/Payment Basis:		[Redemption at par]
11	[(i)]	Status and Form of the Notes:	Senior, Registered
	[(ii)]	Status of the Loan:	Senior
	[(iii)]	[Date [Board] approval for issuance of Notes [and borrowing of the Loan] obtained from the Issuer [and Borrower, respectively]:	● [and ●, respectively]] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)]*
12	Method of distribution:		[Syndicated/Non-syndicated]
13	Financial Centres (Condition 7):		●
14	Currency Exchange Option:		[Applicable/Not Applicable]

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE LOAN

15	Fixed Rate Note Provisions:		[Applicable/Not Applicable] *(if not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate [(s)] of Interest:	[● per cent. per annum payable [annually/semi-annually] in arrear
	(ii)	Interest Payment Date(s):	● in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted] commencing on ●
	(iii)	Fixed Coupon Amount [(s)]:	● per Calculation Amount
	(iv)	Broken Amount:	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate*]

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[2] Section 6: The issue of Notes with a maturity of less than one year by the Issuer, where the issue proceeds are to be accepted in the United Kingdom, will be subject to Section 19 of the FSMA unless their denomination is £100,000 or more (or its equivalent in other currencies) and they are only issued to "professionals" within Article 9(2) of the Financial Services and Markets Act (Regulated Activities) Order 2001:
Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).
The Central Bank of Ireland requires that Notes with a maturity of less than one year have a minimum denomination of €300,000, or the foreign currency equivalent and that the other requirements of Notice BSD C 01/02 dated 12 November 2002 (as amended) issued by the Central Bank of Ireland (including an investment grade rating requirement) are satisfied.

	(v)	Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA) [Actual/Actual - ICMA] [*Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in [U.S. dollars]*]
	(vi)	Determination Date(s) (Condition 5):	● in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]*[3]
16	Floating Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Period(s):	●
	(ii)	Specified Interest Payment Dates:	●
	(iii)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day/Convention]
	(iv)	Interest Period Date(s):	● (Not applicable unless different from Interest Payment Date)
	(v)	Additional Business Centre(s):	●
	(vi)	[Date [Manner in which the Rate(s) of Interest is/ are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	●
	(viii)	Screen Rate Determination:	See paragraph 7 under Part B
	(ix)	Reference Rate:	[LIBOR][LIBID] [LIMEAN][EURIBOR]
	(x)	ISDA Determination:	See paragraph 7 under Part B
	(xi)	Margin(s):	[[+/–]● per cent. per annum]
	(xii)	Minimum Rate of Interest:	● per cent. per annum
	(xiii)	Maximum Rate of Interest:	● per cent. per annum
	(xiv)	Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA) [Actual/Actual - ICMA]
	(xv)	Rate Multiplier:	●
PROVISIONS RELATING TO REDEMPTION			
17	Final Redemption Amount of each Note:		[● per Note of ● specified denomination]
18	Early Redemption Amount(s) of each Note payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date:		●

[3] Only to be completed for an issue where Day Count Fraction is Actual/Actual-ICMA

DISTRIBUTION

19	(i)	If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
20		If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
21		U.S. Selling Restrictions:	[Reg. S Compliance Category]

GENERAL

22	The aggregate principal amount of the Notes issued has been translated into [Euro] at the rate of ●, producing a sum of (for the Notes not denominated in [Euro]):	[Not Applicable/EUR●]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of the Notes described herein pursuant to the €1,200,000,000 Programme for the Issuance of Loan Participation Notes of ABH Financial.]

RESPONSIBILITY

Each of the Issuer and ABH Financial accept responsibility for the information contained in these Final Terms [● has been extracted from ●]. [Each of the Issuer and ABH Financial confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by ●, no facts have been omitted which would render the reproduced inaccurate or misleading.]

SIGNED by a duly authorised attorney of
ALFA HOLDING ISSUANCE PLC

By:

Name:
Title:

For and on behalf of
ABH FINANCIAL LIMITED

By:

Name:
Title:

FORM OF FINAL TERMS

PART B – OTHER INFORMATION

1 LISTING

(i)	Listing:	[Ireland/Other Markets]
(ii)	Admission to trading:	[Application has been made to the Irish Stock Exchange trading as Euronext Dublin for the Notes to be admitted to the official list and trading on its regulated market with effect from ●.] [Not Applicable.]
(iii)	Estimate of total expenses related to admission to trading:	●

2 RATINGS

Ratings: [Not Applicable/The Notes to be issued have been rated/It is expected that the Notes will be rated]:

[S & P: ●]
[Fitch: ●]
[[Other]: ●]

● is established in the EEA and registered under Regulation (EC) No. 1060/2009, as amended (the "CRA Regulation") and is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation] [● is not established in the EEA and is not certified under Regulation (EC) No 1060/2009, as amended.] [● is not established in the EEA but the rating it has given to the Note is endorsed by ● which is established in the EEA and registered under Regulation (EC) No 1060/2009, as amended.] [●is not established in the EEA.]

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation. The ESMA is obliged to maintain on its website, www.esma.europa.eu/page/List-registered-and-certified-CRAs, a list of credit rating agencies registered and certified in accordance with the CRA Regulation. The ESMA website is not incorporated by reference into, nor does it form part of, this Base Prospectus. This list must be updated within five working days of ESMA's

adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation. Therefore such a list is not conclusive evidence if the status of the relevant rating agency as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. (*The above disclosure should reflect the rating allocated to the Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3 [NOTIFICATION

The Central Bank of Ireland has provided the competent authority(ies) of [insert details of relevant Home Member State(s)] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the provisions of Directive 2003/71/EC and Commission Regulation (EC) No 809/2004.]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. This may be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."][4]

5 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

The proceeds from the offering of the Notes will be used by the Issuer for the sole purpose of financing the Loan. The proceeds of the Loan, expected to be ● before taking into account commissions and expenses, will be used by ABH Financial for [general corporate purposes]. Total commissions and expenses relating to the offering of the Notes are expected to be approximately ●.

6 [Fixed Rate Notes only – YIELD

Indication of yield:	[● The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield]

7 OPERATIONAL INFORMATION

ISIN Code:	●
Common Code:	●
[CUSIP Code	[●]]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking *société anonyme* and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s [and addresses])*]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying	●

[4] If there are material interests, but they are not discussed in "Subscription and Sale", insert the section name where they are discussed instead. If there are no material interests, delete the whole of paragraph 4.

Agent(s) (if any):

8 THE LOAN

Terms of the Loan

(i)	Loan:	[*Insert currency and amount of Loan*]
(ii)	Date of Drawdown:	[*Insert Closing Date*]
(iii)	Repayment Date:	●
(iv)	Governing Law:	●

Interest

The Loan is a [Fixed Rate][Floating Rate] Loan. Interest shall be calculated as set out below:

Fixed Rate Loan Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub paragraphs of this paragraph*)
(i)	Interest Commencement Date:	●
(ii)	Rate[(s)] of Interest:	● per cent. per annum [payable [annually/semi-annually] in arrear]
(iii)	Interest Payment Date(s):	● in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
(iv)	Fixed Amount[(s)]:	● per ● in principal amount
(v)	Broken Amount:	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount [(s)] and the Interest Payment Date(s) to which they relate*]
(vi)	Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA) [Actual/Actual - ICMA] (*Day count fraction should be Actual/Actual-ICMA for all fixed rate loans other than those denominated in [U.S. dollars], unless specified*)
(vii)	Determination Date(s):	● in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last interest period]***
Floating Rate Loan Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Commencement Date:	●
(ii)	Interest Period(s):	●
(iii)	Specified Interest Payment Dates:	●
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business

		Day Convention/Preceding Business Day Convention]
(v)	Business Centre(s) (Clause 4.9):	●
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Interest Period Date(s):	[Not Applicable/*specify dates*]
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	●
(ix)	Screen Rate Determination (sub-Clause 4.3.3):	
	– Relevant Time:	●
	– Interest Determination Date:	[● *[TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date*]]
	– Primary Source for Floating Rate:	[*Specify relevant screen page and rate or* "Reference Banks"]
	– Reference Banks (if Primary Source is "Reference Banks"):	[*Specify four*]
	– Relevant Financial Centre:	[*The financial centre most closely connected to the Benchmark - specify if not London*]
	– Benchmark:	[*LIBOR, LIBID, LIMEAN, EURIBOR*]
	– Representative Amount:	[*Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount*]
	– Effective Date:	[*Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period*]
	– Specified Duration:	[*Specify period for quotation if not duration of Interest Accrual Period*]
(x)	ISDA Determination (Clause 4.3):	
	– Floating Rate Option:	●
	– Designated Maturity:	●
	– Reset Date:	●
	– ISDA Definitions:	●
(xi)	Margin(s):	[+/–]● per cent. per annum
(xii)	Minimum Rate of Interest:	● per cent. per annum
(xiii)	Maximum Rate of Interest:	● per cent. per annum
(xiv)	Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA) [Actual/Actual - ICMA]

(xv) Rate Multiplier: •

GENERAL INFORMATION

1. Each of ABH Financial and the Issuer has obtained or will obtain all necessary consents, approvals and authorisations in Cyprus and Ireland in connection with any Loan and the issue and performance of the corresponding Series of Notes. The establishment of the Programme was authorised by the board of directors of the Issuer on 4 June 2014 and the update of the Programme was authorised by the Board of Directors of the Issuer on 20 March 2020. The establishment of the Programme was authorised by the Board of Directors of ABH Financial on 15 May 2014.

2. Application has been made to Euronext Dublin for the Notes issued under the Programme within 12 months of this Base Prospectus to be admitted to the Official List and trading on Regulated Market on Euronext Dublin by the Issuer through the listing agent, Arthur Cox Listing Services Limited. However, Notes may be issued pursuant to the Programme which will not be listed on any stock exchange. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of Euronext Dublin or to trading on the regulated market of Euronext Dublin for the purposes of the Prospectus Regulation.

3. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of Ireland for the issue and performance of each Series of Notes.

4. There has been no significant change in the financial position or financial performance or, save as disclosed in "*Risk Factors—Risks related to the Alfa Banking Group's business and industry—The instability of the global economy and financial markets could have a material adverse effect on the Alfa Banking Group's business, liquidity and financial condition*", prospects of Alfa Banking Group and no material adverse change in the financial position or financial performance or prospects or trading performance of ABH Financial or the Issuer since 31 December 2019. The Issuer has no subsidiaries.

5. ABH Financial is not involved in, or has not been involved in, any governmental, legal or arbitration proceedings that may have had in the twelve months before the date of this Base Prospectus, a significant effect on the financial position or profitability of ABH Financial, nor, so far as ABH Financial is aware, are any such proceedings pending or threatened.

6. The Issuer is not, and has not been, involved in any governmental, legal or arbitration proceedings that may have had, since 31 December 2019, a significant effect on the Issuer's financial position or profitability, nor, so far as the Issuer is aware, are any such proceedings pending or threatened.

7. As set out on page 116 of this Base Prospectus, certain of Alfa Bank's directors and executive officers also serve as directors or officers, or hold shareholdings, in other companies. Save as disclosed in the section "*Management – Conflicts of Interest*", there are no potential conflicts of interest between any duties of the members of the management or supervisory bodies of ABH Financial towards the Issuer and/or ABH Financial and their private interests and/ or other duties.

8. For so long as any Series of Notes is outstanding, copies of the audited consolidated financial statements of ABH Financial for the years ended 31 December 2019 and 2018 may be obtained free of charge in physical form at the specified offices of the Trustee and the registered office of the Issuer during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted).

9. For so long as any Series of Notes is listed on Euronext Dublin, copies of the following documents will be available for inspection in physical form at the specified offices of the Trustee and the registered office of the Issuer during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

   - the Memorandum and Articles of Association of ABH Financial and the Constitution of the Issuer;
   - the Trust Deed in respect of the Notes (including the form of the Global Note and definitive Notes);
   - the Agency Agreement;
   - the Facility Agreement;
   - each Final Terms or Series Prospectus for Notes which are listed on Euronext Dublin or any other stock exchange (save that Final Terms or Series Prospectus relating to a Note which is neither

admitted to trading on a regulated market within the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, ABH Financial and the Principal Paying Agent as to its holding of Notes and identity); and

- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

For so long as any Series of Notes is listed on Euronext Dublin, the following documents in electronic form will be available from the date hereof on https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=732&uID=5305&FIELDSORT=docId website:

- the articles of association of the Issuer;
- the Trust Deed;
- the Final Terms;
- the Series Prospectus; and
- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

10. ABH Financial does not prepare financial statements in accordance with U.S. GAAP.

11. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms or Series Prospectus.

12. As at the date of this Base Prospectus, ABH Financial is in compliance with applicable Cypriot law corporate governance requirements in all material respects.

13. None of ABH Financial or the Issuer intends to provide any post-issuance transaction information regarding any Series of Notes or Loan.

14. Any website referred to in this document does not form part of the Base Prospectus and has not been scrutinised or approved by the Central Bank of Ireland.

15. LEI of ABH Financial is 549300L3G5PXCIF26N96 and LEI of the Issuer is 635400B5HEY3LBJ47A25.This Base Prospectus refers to certain sovereign ratings as well as certain ratings assigned to ABH Financial by Standard & Poor's, Moody's and Fitch. Moody's is not established in the EEA and is not certified under the CRA Regulation (EC) No 1060/2009 on credit rating agencies, as amended pursuant to Regulation 513/2011/EU of the European Parliament and the Council of 11 May 2011 (the "**CRA Regulation**"). Fitch and Standard & Poor's are established in the EEA and registered under the CRA Regulation, as set out in the list of credit rating agencies registered in accordance with the CRA Regulation published on the website of the European Securities and Markets Authority ("**ESMA**"), www.esma.europa.eu/page/List-registered-and-certified-CRAs , pursuant to the CRA Regulation.

Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) disclosed in this Base Prospectus or the rating(s) assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms or Series Prospectus. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the EEA and registered (or which has applied for registration and not been refused) under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a CRA which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms or Series Prospectus.

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation. The ESMA is obliged to maintain on its website, www.esma.europa.eu/page/List-registered-and-certified-CRAs , a list of credit rating agencies registered and certified in accordance with the CRA Regulation. The ESMA website is not incorporated by reference into, nor does it form part of, this Base Prospectus. This list must be updated within five working days of ESMA's adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation. Therefore such a list is not conclusive evidence if the status of the relevant rating agency as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

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ABH FINANCIAL LIMITED

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

31 December 2019

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Independent Auditor's Report

To the Shareholders and Board of Directors of ABH Financial Limited:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of ABH Financial Limited (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2019, 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 2019;
- 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) and 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: USD 58 million, which represents 5% of average profit before tax for the past three years.

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.

Credit loss allowance for loans and advances to customers.

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	USD 58 million.
How we determined it	5% of average profit before tax of the past three years.
Rationale for the materiality benchmark applied	We chose average profit before tax of the past three years to mitigate the volatile nature of profit before tax in recent years. We chose 5%, which, in our experience, is within the range of acceptable quantitative materiality thresholds commonly used for this benchmark for public interest entities.

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
Credit loss allowance for loans and advances to customers	
We focused on this matter due to the significance of loans and advances to customers balance and in particular the significance of management judgements and estimates required for calculation of the related credit loss allowance. Collective assessment of ECL is based on models, which use internally developed risk metrics assigned to the balances. Individual assessment of ECL is based on models which use expected future cash flows related to individual balances under different scenarios. The design of and inputs to the models are subject to significant management judgement. Note 4 "Critical Accounting Estimates and Judgments in Applying Accounting Policies", Note 10 "Loans and Advances to Customers" and Note 31 "Financial Risk Management" to the consolidated financial statements provide detailed information on the credit loss allowance for loans and advances to customers.	We assessed significant changes applied by the Group to the ECL policies and models and checked their consistency with the requirements of IFRS 9. We assessed and tested (on a sample basis) the design and operating effectiveness of the controls over identification of the overdue loans and the data transfer from source systems to ECL models. We tested (on a sample basis) significant loans and advances to legal entities, which had not been identified by management as impaired and formed our own judgement as to whether that was appropriate. We tested (on a sample basis) loans and advances to legal entities with individual assessment of ECL. We analysed adequacy of scenarios used and their likelihood, examined the expected future cash flows used by management, challenged the assumptions, including valuation of collateral and timing of cash flows, compared management estimates to available external evidence and re-performed discounted cash flows calculations. We assessed the operation of credit loss allowance models for loans and advances to legal entities and formed our own judgement as to whether or not the credit loss allowance was appropriate. We analysed the calculation of credit loss allowance of loans and advances to individuals, confirmed the logic and main assumptions used in the models applied by management. We performed various analytical procedures and backtesting over credit loss allowance for loans and advances to customers to ensure its reasonableness. The system of allocation of loans into the three stages defined by IFRS 9 is essential for the measurement of ECL and setting aside credit loss allowances. Hence, we assessed the policies applied by the Group in this area and tested their application. We also verified the completeness and accuracy of the credit risk disclosures required by the IFRS.

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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.

We performed a full scope audit of JSC "ALFA-BANK" (Russian subsidiary of the Company, representing more than 90% of the Group's total assets, revenue and net profit). In addition, we performed other limited audit procedures on the remaining components of the Group.

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 Natalia Mileshkina.

АО ПрайсвотерхаусКуперс Аудит

20 February 2020
Moscow, Russian Federation

N.A. Mileshkina, certified auditor (licence No. 01-000197), AO PricewaterhouseCoopers Audit

Audited entity: ABH Financial Limited

The Republic of Cyprus registration number №284510 from 4 April 2011 under Companies Act, Cap.113

The Company is registered at Themistokli Dervi, 5, Elenion Building, 2nd floor, CY-1066, Nicosia, Cyprus

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

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association «Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 12006020338

ABH Financial Limited
Consolidated Statement of Financial Position

In millions of US Dollars	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	7	6 450	4 333
Mandatory cash balances with central banks		422	336
Financial assets at fair value through profit or loss	8	1 120	863
Repurchase receivables relating to financial assets at fair value through profit or loss	8	3	8
Due from other banks	9	3 542	4 193
Loans and advances to customers	10	38 643	29 684
Investments	11	7 171	5 822
Repurchase receivables relating to investments	11	132	78
Other financial assets	12	724	980
Other assets	13	443	422
Premises and equipment and right-of-use assets	14	816	480
TOTAL ASSETS		**59 466**	**47 199**
LIABILITIES			
Due to other banks	15	2 448	1 872
Customer accounts	16	41 422	32 106
Debt securities issued	17	3 876	3 259
Loan from the SDIA	18	470	367
Subordinated debt	19	1 566	1 195
Other financial liabilities	21	1 126	648
Other liabilities	22	358	339
Deferred tax liability	29	58	215
TOTAL LIABILITIES		**51 324**	**40 001**
EQUITY			
Share capital	23	1 265	1 265
Perpetual loan participation notes	24	966	943
Fair value reserve for investments at fair value through other comprehensive income		5	5
Revaluation reserve for premises		45	49
Cumulative translation reserve		(1 438)	(1 764)
Retained earnings		7 258	6 656
Net assets attributable to the Company's owners		**8 101**	**7 154**
Non-controlling interests		**41**	**44**
TOTAL EQUITY		**8 142**	**7 198**
TOTAL LIABILITIES AND EQUITY		**59 466**	**47 199**

These consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 20 February 2020 and any further changes require approval of this body.

In millions of US Dollars	Note	2019	2018
Interest income calculated using the effective interest method	25	3 695	3 266
Other similar income		273	205
Interest expense calculated using the effective interest method	25	(1 704)	(1 460)
Other similar expense		(14)	-
Deposit insurance expense		(133)	(91)
Net margin	**25**	**2 117**	**1 920**
Net credit loss allowance charge	10	(652)	(261)
Net margin after credit loss allowance		**1 465**	**1 659**
Fee and commission income	26	1 569	1 458
Fee and commission expense	26	(525)	(480)
Gains less losses arising from trading securities		27	(3)
Gains less losses arising from interest-based derivatives		17	(4)
Gains less losses arising from foreign currencies	27	(225)	251
Gains less losses arising from investments		(5)	(11)
Gains less losses arising from acquisition of own debts		1	1
Impairment of goodwill		(10)	-
Gains less losses from investment properties		(4)	17
Loss on disposal of subsidiaries		-	(20)
Other provisions	11,12,13,33	(30)	(3)
Other operating income		13	5
Operating expenses	28	(1 318)	(1 236)
Profit before tax		**975**	**1 634**
Income tax expense	29	(271)	(313)
Profit for the year		**704**	**1 321**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Debt investments at fair value through other comprehensive income:			
- Fair value gains less losses during the period	11	-	(14)
- Reclassification adjustments for losses included in profit or loss	11	-	6
Effect of translation of the financial statements of foreign operations		946	(1 497)
Net change in hedge of net investment in foreign operations	37	(773)	1 106
Income tax on items that may be reclassified to profit or loss	29	153	(219)
Items that will not be reclassified to profit or loss:			
Revaluation of premises	14	(3)	(7)
Income tax on items that will not be reclassified to profit or loss	29	1	1
Other comprehensive income/(loss) for the year		**324**	**(624)**
Total comprehensive income for the year		**1 028**	**697**
Profit attributable to:			
The Company's owners		708	1 325
Non-controlling interests		(4)	(4)
Profit for the year		**704**	**1 321**
Total comprehensive income attributable to:			
The Company's owners		1 032	701
Non-controlling interests		(4)	(4)
Total comprehensive income for the year		**1 028**	**697**

ABH Financial Limited
Consolidated Statement of Changes in Equity

In millions of US Dollars	Attributable to the Company's owners							Non-controlling interests	Total equity
	Share capital (Note 23)	**Perpetual loan participation notes (Note 24)**	**Fair value reserve for investments at FVOCI**	**Revaluation reserve for premises**	**Cumulative translation reserve**	**Retained earnings**	**Total**		
Balance as at 1 January 2018	**1 265**	**695**	**11**	**55**	**(1 167)**	**5 365**	**6 224**	**67**	**6 291**
Profit	-	-	-	-	-	1 325	1 325	(4)	1 321
Other comprehensive income	-	-	(6)	(6)	(612)	-	(624)	-	(624)
Total comprehensive income	-	-	(6)	(6)	(612)	1 325	701	(4)	697
Contribution from noteholders (Note 24)	-	499	-	-	-	-	499	-	499
Discretionary interest payments and redemptions of perpetual loan participation notes	-	(251)	-	-	-	(43)	(294)	-	(294)
Disposal of subsidiary	-	-	-	-	15	-	15	5	20
Changes of non-controlling interests	-	-	-	-	-	9	9	(24)	(15)
Balance as at 31 December 2018	**1 265**	**943**	**5**	**49**	**(1 764)**	**6 656**	**7 154**	**44**	**7 198**
Profit	-	-	-	-	-	708	708	(4)	704
Other comprehensive income	-	-	-	(2)	326	-	324	-	324
Total comprehensive income	-	-	-	(2)	326	708	1 032	(4)	1 028
Realised revaluation reserve	-	-	-	(2)	-	2	-	-	-
Contribution from noteholders (Note 24)	-	79	-	-	-	-	79	-	79
Discretionary interest payments on perpetual loan participation notes	-	-	-	-	-	(77)	(77)	-	(77)
Changes in perpetual loan participation notes	-	(56)	-	-	-	(4)	(60)	-	(60)
Dividends (Note 23)	-	-	-	-	-	(28)	(28)	-	(28)
Changes of non-controlling interests	-	-	-	-	-	1	1	1	2
Balance as at 31 December 2019	**1 265**	**966**	**5**	**45**	**(1 438)**	**7 258**	**8 101**	**41**	**8 142**

In millions of US Dollars	Note	2019	2018
Cash flows from operating activities			
Interest received		3 975	3 479
Interest paid, other than on debt securities issued, loan from the SDIA and subordinated debt		(1 295)	(1 066)
Deposit insurance paid		(123)	(91)
Fees and commissions received		1 562	1 458
Fees and commissions paid		(504)	(475)
Net income received from financial assets at FVTPL		(2)	(20)
Net income received from trading in foreign currencies		(30)	180
Net income received from interest-based derivatives		(14)	(11)
Other operating income received		16	19
Staff costs paid		(713)	(707)
Other operating expenses paid		(423)	(406)
Income tax paid		(302)	(355)
Cash flows from operating activities before changes in operating assets and liabilities		**2 147**	**2 005**
Changes in operating assets and liabilities			
Net change in mandatory cash balances with central banks		(44)	(66)
Net change in financial assets at FVTPL and repurchase receivables		(263)	636
Net change in due from other banks		792	(621)
Net change in loans and advances to customers		(6 819)	(6 198)
Net change in other financial assets and other assets		(28)	(51)
Net change in due to other banks		466	-
Net change in customer accounts		6 503	6 361
Net change in other financial liabilities and other liabilities		58	(80)
Net cash from operating activities		**2 812**	**1 986**
Cash flows from investing activities			
Acquisition of investments at FVOCI		(12 109)	(11 615)
Proceeds from disposal and redemption of investments at FVOCI		11 027	9 791
Acquisition of investments at AC		(527)	(658)
Proceeds from redemption of investments at AC		713	629
Proceeds from disposal of investments in associate		4	-
Acquisition of premises, equipment, intangible assets and investment properties		(269)	(191)
Proceeds from disposal of premises, equipment and investment properties		41	1
Net cash used in investing activities		**(1 120)**	**(2 043)**
Cash flows from financing activities			
Proceeds from debt securities issued		893	1 310
Repayment of debt securities issued		(528)	(1 315)
Interest paid on debt securities issued		(239)	(244)
Repayment of loan from the SDIA		(1)	(3)
Interest paid on loan from the SDIA		(4)	(4)
Proceeds from subordinated debt		853	-
Repayment of subordinated debt		(557)	(59)
Interest paid on subordinated debt		(103)	(103)
Proceeds from perpetual loan participation notes		79	499
Repayment of perpetual loan participation notes		(56)	(235)
Interest paid on perpetual loan participation notes		(77)	(74)
Dividends	23	(28)	-
Repayment of lease liabilities		(44)	-
Net cash used in financing activities		**188**	**(228)**
Net uncrease / (decrease) in cash and cash equivalents		**1 880**	**(285)**
Cash and cash equivalents at the beginning of the year	7	4 333	5 114
Effect of exchange rate changes on cash and cash equivalents		237	(496)
Cash and cash equivalents as at the end of the year	**7**	**6 450**	**4 333**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019 for ABH Financial Limited (the "Company") and its subsidiaries (the "Group").

The Company is a limited liability company registered in the Republic of Cyprus. The Company is a wholly owned subsidiary of ABH Holdings S.A. ("ABHH").

ABHH is a Luxembourg company, owned by seven shareholders: Mr. Fridman, Mr. Khan, Mr. Kuzmichev, Mr. Aven, Mr. Kosogov, UniCredit S.p.A., and a non-profit organisation "The Mark Foundation for Cancer Research" (the "Shareholders"). None of the Shareholders individually or jointly controls and/or owns a 50% or more interest in ABHH.

The Company is registered at Themistokli Dervi, 5, Elenion Building, 2nd floor, CY-1066, Nicosia, Cyprus.

The Group comprises three main segments: corporate and investment banking, retail banking and treasury operations (Note 30). The corporate banking, retail banking and treasury operations of the Group are carried out principally by Joint Stock Company "ALFA-BANK" ("Alfa-Bank") and its subsidiaries. The investment banking activities of the Group are carried out mainly by Alfa Capital Holdings (Cyprus) Limited together with Alfa-Bank and certain other subsidiaries. A substantial part of the Group's activities are carried out in the Russian Federation.

As at 31 December 2019 the Group had 825 offices (including branches, regional branches and outlets), most of which were operated by Alfa-Bank (2018: 752 offices).

Alfa-Bank is a wholly owned subsidiary of the Company. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the "CBRF") since 1991. Alfa-Bank operates in all banking sectors of the Russian financial markets, including interbank, corporate and retail loans and deposits, foreign exchange operations and debt and equity trading. A complete range of banking services is provided in Russian Roubles ("RR") and foreign currencies to its customers. Alfa-Bank participates in the State deposit insurance scheme. The State Deposit Insurance Agency (the "SDIA") guarantees repayment of 100% of individual deposits up to RR 1.4 million per individual in case of the withdrawal of a license of a bank or the CBRF imposes moratorium on payments. Alfa-Bank is licensed by the Federal Commission on Securities Market for trading in securities. Alfa-Bank's registered office is located at 27 Kalanchevskaya Street, Moscow 107078, the Russian Federation.

Amsterdam Trade Bank N.V. ("ATB") is a subsidiary of Alfa-Bank. ATB is registered at World Trade Center Tower I, Level 6, Strawinskylaan 1939, Amsterdam, the Netherlands.

Limited Liability Company Alfa Leasing ("Alfa Leasing") is a wholly owned subsidiary of Alfa-Bank. Alfa Leasing operates in the Russian Federation and provides finance and operating lease services to corporate and retail customers. Alfa Leasing is registered at 46 Bolshaya Pereyaslavskaya Street, Building 2, 4nd floor, room I-15, the Russian Federation.

Alfa Capital Holdings (Cyprus) Limited is primarily involved in the investment banking business including proprietary trading and brokerage activities, investment and merchant banking and asset management. Alfa Capital Holdings (Cyprus) Limited is regulated by the Cyprus Securities and Exchange Commission and licensed principally for brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally (with certain restrictions) and outside Cyprus. Alfa Capital Holdings (Cyprus) Limited is registered at Themistokli Dervi, 5, Elenion Building, 2nd floor, CY-1066, Nicosia, Cyprus.

2 Operating Environment of the Group

The Group has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 33). In recent years the Russian economy has been negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Stable oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019. The operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2 Operating Environment of the Group (Continued)

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Alfa-Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with accounting regulations or applicable companies' law in their respective jurisdictions. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

Presentation currency. These consolidated financial statements are presented in millions of US Dollars. The US Dollar has been selected as the presentation currency of the Group as US Dollar is the currency which management of the Group uses to manage business risks and exposures, and measure the performance of its businesses.

Functional currencies. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. In particular, Alfa-Bank and Alfa Leasing have Russian Roubles as their functional currency, as their activities are mostly based in the Russian Federation and are dependent on the condition of the Russian economy. Amsterdam Trade Bank N.V. has Euro as its functional currency, as its activities are mostly based in Europe. ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited have US Dollars as their functional currency, as the companies operate internationally on markets mainly influenced by the US Dollar. Management evaluates the appropriateness of the respective functional currencies for the entities of the Group from time to time, so that the functional currency of any entity of the Group may change, once the economic conditions it is reliant on so dictate. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under "Foreign Currency Translation" section of this Note.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

3 Summary of Significant Accounting Policies (Continued)

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("gain on bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

Foreign currency translation. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end exchange rates are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Loans between group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognized in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognized in other comprehensive income.

The results and financial position of each Group entity (none of which is in a hyperinflationary economy) are translated into US Dollar as presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses 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 dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

3 Summary of Significant Accounting Policies (Continued)

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

As at 31 December 2019 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 61.9057 (2018: USD 1 = RR 69.4706), the average exchange rate for 2019 was USD 1 = RR 64.7362 (2018: USD 1 = RR 62.7078).

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price which management considers is the most representative of fair value was used to measure fair value.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

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 38.

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

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

3 Summary of Significant Accounting Policies (Continued)

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 net carrying amount of the financial instrument.

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

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

All purchases and sales of financial 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, how risks are assessed and managed and how the assets' performance is assessed. 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.

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.

3 Summary of Significant Accounting Policies (Continued)

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. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the 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.

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 31 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 31. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

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 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.

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, 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short-term placements with other banks, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

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

Mandatory cash balances with central banks. Mandatory cash balances with central banks are carried at AC and represent non-interest-bearing mandatory reserve deposits with the CBRF and other local central banks, 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 other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. 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.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a receivable 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:

1) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI, and that are not voluntary designated at FVTPL, are measured at AC.

2) FVTPL: loans that do not meet the criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on forward-looking ECL model. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

3 Summary of Significant Accounting Policies (Continued)

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. These assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these asset categories.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the acquisition method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

Loan commitments. The Group issues commitments to provide loans. 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 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 consolidated statement of financial position as an asset.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee’s beneficiary.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities into one of the following measurement categories:

1) AC: debt securities that are held for collection of contractual cash flows and where those cash flows represent SPPI, and that are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch, are measured at AC.

2) FVOCI: debt securities that are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. 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.

3) FVTPL: investments in debt securities that do not meet the criteria for AC or FVOCI are measured at FVTPL (mandatory FVTPL). The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition (designated FVTPL) if applying this option significantly reduces or eliminates an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases (the recognition mismatch or the measurement mismatch).

3 Summary of Significant Accounting Policies (Continued)

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 investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than 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 reversal, 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.

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

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or 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.

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

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an ordinary transaction, without deduction of any transaction costs. Fair value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented in the line Gains less losses from investment properties.

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

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

3 Summary of Significant Accounting Policies (Continued)

Premises of the Group are subject to revaluation on a regular basis. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised on the retirement or disposal of the asset. The amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated statement of financial position at their estimated fair value at the date of acquisition of the acquired subsidiary, being their cost to the Group.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to profit or loss for the year, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in profit or loss for the year. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises and equipment are determined by comparing their carrying amount with the sale proceeds and are recognised in profit or loss for the year.

Computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Internal development costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year are recorded as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software.

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives of five to ten years.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises	2% per annum;
Office equipment	16% - 20% per annum;
Computer equipment	25% - 33% per annum;
Leasehold improvements	over the term of the underlying lease.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

3 Summary of Significant Accounting Policies (Continued)

Accounting for leases by the Group as a lessee from 1 January 2019. From 1 January 2019, leases entered by the Group are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the right-of-use asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are disclosed within premises and equipment and right-of-use assets line, lease liabilities are disclosed within other liabilities line of the consolidated statement of financial position. Finance cost is disclosed within other similar expense line, depreciation of right-of-use assets is disclosed within operating expenses line of the consolidated statement of profit or loss. Cash outflow for lease liabilities is disclosed within cash flows from financing activities of the consolidated statement of cash flows.

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable under cancellable and non-cancellable operating leases,
- variable lease payments that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee’s incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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

Payments associated with short-term leases, leases of low-value assets and variable lease payments not dependent on index or rate are recognised on a straight-line basis as an expense in profit or loss.

Accounting for operating leases by the Group as a lessee prior to 1 January 2019. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease. Operating leases include long-term leases with rental payments contingent on cadastral values regularly reviewed by the government.

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

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within other similar income in profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Credit loss allowance is recognised in accordance with the general ECL model. The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

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

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

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.

Debt securities issued. Debt securities issued include promissory notes, bonds, commercial paper and term notes. Promissory notes issued by the Group have a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the purchaser can discount in the over-the-counter secondary market. Debt securities are stated at AC.

If the Group purchases its own debt securities issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss for the year as gains less losses arising from acquisition of own debts.

Subordinated debt. Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at AC.

Acquired own subordinated notes are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss for the year as gains less losses arising from acquisition of own debts.

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends that are declared after the end of the reporting period are disclosed as subsequent events.

Derivative financial instruments and hedge accounting. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at their fair value.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the year in gains less losses arising from foreign currencies, gains less losses arising from trading securities and other operating income, depending on the related contracts, unless the derivatives qualify as hedging instruments.

The Group applies hedge accounting for its existing hedge by foreign currency exchange forward contracts of part of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency. Also, the Group applies hedge accounting for its existing hedge of interest payments on borrowings and loans and advances to customers using interest rate swaps. The Group receives a floating rate and pays a fixed rate on the interest rate swaps for its existing hedge of interest payments on loans and advances to customers. The Group receives a fixed rate and pays a floating rate on the interest rate swaps for its existing hedge of interest payments on borrowings. Credit risk on the loans and advances to customers is not designated as part of the hedge relationship.

3 Summary of Significant Accounting Policies (Continued)

The Group made an accounting policy choice to continue to apply the hedge accounting requirement of IAS 39, pending the macro hedging project being finalised.

The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

The hedge effectiveness of part of Russian Rouble net investment in subsidiaries of the Group is measured by reference to changes in RR/USD spot rates. Only the change in the fair value of the foreign currency exchange forward contracts due to changes in spot rates is reported in other comprehensive income and the remaining change in the fair value of those contracts is included in profit or loss. Accumulated hedging gains or losses recorded through other comprehensive income are recycled from other comprehensive income to profit or loss in the period when the hedged item is disposed of.

In order to assess hedge effectiveness, the Group regularly performs two kinds of effectiveness tests: prospective effectiveness test (a forward-looking test of whether a hedging relationship is expected to be highly effective in future periods); and retrospective effectiveness test (a backward-looking test of whether a hedging relationship has actually been highly effective in a past period).

A hedge is regarded as highly effective only if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period, for which the hedge is designated – prospective effectiveness test, range of 80%-125% is used; and
- The actual results of the hedge – retrospective effectiveness test; range of 80%-125% is used.

Income taxes. 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. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation rates enacted or substantively enacted at the end of the reporting period which are expected to apply when the temporary differences will reverse or the tax loss carry forwards will be utilised are used to determine deferred income tax balances. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

3 Summary of Significant Accounting Policies (Continued)

Interest income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within "other similar income" line in profit or loss.

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. 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.

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. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Fee and commission income on operations with plastic cards is recognised upon customer's settlements with plastic cards and with references to reports by payment systems.

Customer loyalty programs. The Group offers number of customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. For point-based programs, the Group generally recognised a liability for the accumulated points that are expected to be utilised by the customers, which is reversed to profit or loss as the points expire. Cashbacks on plastic card transactions reduce fee and commission income.

Deposit insurance expenses. Deposit insurance expenses comprise of contributions paid to the SDIA. Contributions are not linked to particular customer deposits or deposit products.

Fiduciary assets and custody services. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. The amount of the fee received or receivable represents the consideration for the services.

3 Summary of Significant Accounting Policies (Continued)

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

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in accordance with the existing employee compensation plans in a year in which the associated services are rendered by the employees. Discretionary employee compensations are subject to management's approval and are disclosed within staff costs. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

***Segment reporting*.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all segments are reported separately.

Presentation of consolidated statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 31.

Accounting policy for perpetual loan participation notes. Refer to Note 24.

Amendments of the consolidated financial statements after issue. The Board of Directors has the power to amend the consolidated financial statements after issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

ECL measurement. Measurement of ECLs is a significant estimate that involves design of methodology, models and relevant and complete data inputs to those models. Refer to Note 31 for details of ECL measurements methodology applied by the Group. The following components of ECL calculation have the major impact on credit loss allowance for ECLs: default definition, 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 its models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

A movement of 10% of loans and advances to customers from Stage 1 (12-months ECL) to Stage 2 (lifetime ECL) would result in an increase in credit loss allowance of USD 200 million (2018: USD 196 million). A movement of 10% of loans and advances to individuals from Stage 2 to Stage 3 would result in an increase in credit loss allowances of USD 26 million (2018: USD 40 million). A 10% decrease in discounted cash flows from Stage 3 loans and advances to corporate borrowers would result in an increase in credit loss allowance of USD 20 million (2018: USD 37 million).

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Assessment of 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. The Group applied a threshold of 10% to determine whether differences against benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

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 par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Groups' loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Group or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Group. The cash flows are SPPI if such clauses merely reduce the Group's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Group considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

The Group's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

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.

Functional currencies of different entities of the Group. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities.

In determination of the functional currencies of ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited, the Group based its judgement on the fact that the companies operate internationally on markets mainly influenced by the US Dollar (not Russian Rouble). Moreover, the majority of their operations are denominated in US Dollars. The US Dollar is also the currency in which their business risks and exposures are managed and the performance of their business is measured.

Accounting for perpetual loan participation notes. Refer to Note 24.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The Group has adopted IFRS 16 with a date of transition of 1 January 2019 and applied the standard using the modified retrospective method, without restatement of comparatives. The Group recognised a right of use asset of USD 136 million against a corresponding lease liability on 1 January 2019. Right-of-use assets are mainly represented by office premises.

A reconciliation of the operating lease commitments to this liability was as follows:

In millions of US Dollars	**1 January 2019**
Future lease payments under non-cancellable operating leases as previously disclosed	131
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	39
Effect of discounting to present value	(17)
Leases with calculation of the rent based on the cadastral value	(13)
Recognition exemption: short-term leases	(4)
Total lease liabilities	**136**

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- exemption on leases of low-value assets;
- reliance on previous assessments on whether leases are onerous in assessing whether the right-of-use asset is impaired);
- the accounting for operating leases with a remaining lease term of less than 12 months and no expectations to extend the lease as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

Amendment to IAS 12 "Income Taxes" included in the Annual Improvements to IFRSs 2015-2017 cycle. The Group adopted the changes to IAS 12 "*Income Taxes*" with effect from 1 January 2019. As a result of these amendments, the tax benefits of distributions on perpetual instruments that are classified as equity under IFRS but are considered liabilities for tax purposes are no longer recognised directly in equity but in profit or loss because these tax benefits are linked more directly to past transactions or events that generated distributable profits than to the distributions to owners.

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

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued in 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 in October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted.

***IFRS 17 "Insurance Contracts" (issued in May 2017 and effective for annual periods beginning on or after 1 January 2021*).** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its consolidated financial statements.

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

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued in 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. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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

Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

6 New Accounting Pronouncements (Continued)

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process.

Classification of liabilities as current or non-current (amendment to IAS 1). In January 2020, the IASB issued a narrow-scope amendment to IAS 1 "Presentation of Financial Statements**"**, to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The amendment requires the following:

- Liabilities are classified as non-current if the entity has a right to defer settlement for at least 12 months at the end of the reporting period. The standard will no longer refer to unconditional rights. The focus is on the rights of the entity to defer, and not the rights of a lender to call for repayment.
- The assessment determines whether a right exists, but it does not consider whether the entity will exercise the right (i.e. management's expectations do not affect classification).
- The right to defer only exists if the entity complies with any relevant conditions at the reporting date. A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date.
- "Settlement" is defined as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments. More guidance is now provided for convertible instruments.

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

7 Cash and Cash Equivalents

In millions of US Dollars	**2019**	**2018**
Cash on hand	1 140	906
Cash balances with central banks (other than mandatory cash balances)	2 147	1 237
Correspondent and settlement accounts with banks and financial institutions		
- Russian Federation	394	360
- Europe and USA	2 138	965
- Other countries	54	35
Overnight placements with other banks		
- Russian Federation	572	510
- Europe and USA	-	320
- Other countries	5	-
Total cash and cash equivalents	**6 450**	**4 333**

The credit quality of balances on correspondent and settlement accounts with banks and financial institutions is managed through a system of qualitative risk management procedures comprising credit risk assessment before acceptance. After establishing a correspondent account, depending on the magnitude of the balance, management carries out regular monitoring of the financial position and performance of the counterparties.

As at 31 December 2019 the three largest aggregate balances on correspondent and settlement accounts and overnight placements amounted to USD 1 680 million (2018: USD 1 014 million) or 53% (2018: 46%) of the correspondent and settlement accounts and overnight placements, while the ten largest aggregate balances on correspondent and settlement accounts and overnight placements amounted to USD 2 855 million (2018: USD 1 944 million) or 90% (2018: 89%) of the correspondent and settlement accounts and overnight placements.

Analysis by credit quality of correspondent and settlement accounts and overnight placements with other banks was as follows as at 31 December 2019:

In millions of US Dollars	**Correspondent and settlement accounts with banks and financial institutions**	**Overnight placements with other banks**	**Total**
First class	2 582	485	3 067
Good and standard	4	78	82
Acceptable	-	14	14
Total correspondent and settlement accounts and overnight placements with other banks	**2 586**	**577**	**3 163**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 31 for the ECL measurement approach.

Analysis by credit quality of correspondent and settlement accounts and overnight placements with other banks was as follows as at 31 December 2018:

In millions of US Dollars	**Correspondent and settlement accounts with banks and financial institutions**	**Overnight placements with other banks**	**Total**
First class	1 351	830	2 181
Good and standard	9	-	9
Total correspondent and settlement accounts and overnight placements with other banks	**1 360**	**830**	**2 190**

7 Cash and Cash Equivalents (Continued)

Refer to Note 31 for the description of credit quality ratings.

For the purposes of measurement the Group classified all balances included in cash and cash equivalents as financial assets at AC. Currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 31.

8 Financial Assets at Fair Value through Profit or Loss and Repurchase Receivables

In millions of US Dollars	**2019**	**2018**
Trading securities		
Corporate Eurobonds	591	442
Corporate bonds	155	120
Eurobonds and bonds of other states	54	29
Russian Federation bonds and Eurobonds	3	9
Total debt trading securities	**803**	**600**
ADRs and GDRs	100	8
Corporate shares	20	7
Total equity trading securities	**120**	**15**
Total trading securities	**923**	**615**
Repurchase receivables relating to trading securities		
Corporate Eurobonds	-	7
Eurobonds and bonds of other states	-	1
Total repurchase receivables relating to debt trading securities	**-**	**8**
Corporate shares	3	-
Total repurchase receivables relating to trading securities	**3**	**8**
Other financial instruments mandatorily measured at FVTPL	**197**	**248**
Total financial assets at FVTPL and repurchase receivables	**1 123**	**871**

Repurchase receivables represent trading securities sold under sale and repurchase agreements with other banks (Note 15). The counterparty financial institutions have a right to resell or pledge these securities.

Corporate Eurobonds are interest-bearing securities issued mainly by large Russian and European companies and freely tradable internationally. Corporate bonds are interest-bearing securities issued by large Russian companies and freely tradable in the Russian Federation.

8 Financial Assets at Fair Value through Profit or Loss and Repurchase Receivable (Continued)

	31 December 2019			31 December 2018		
	Maturity	**Coupon rates**	**Yields to maturity**	**Maturity**	**Coupon rates**	**Yields to maturity**
Corporate Eurobonds	Jan. 2020 – Sep. 2047	3.2% - 13.9%	2.4% - 26.9%	Jan. 2019 – Sep. 2047	2.8% - 9.5%	3.1% - 38.9%
Corporate bonds	January 2020 - May 2033	6.8% - 10.5%	0.3% - 15.2%	May 2020 - May 2033	7.9% - 14.0%	4.6% - 15.2%

As at 31 December 2019 other financial instruments at FVTPL includes USD 197 million loans and advances to customers mandatorily measured at FVTPL under IFRS 9 because the contractual cash flows of these assets are not solely payments of principal and interest on the principal amount outstanding (2018: USD 179 million).

Analysis by credit quality of debt trading securities, repurchase receivables relating to trading securities and other financial instruments at FVTPL was as follows at 31 December 2019:

In millions of US Dollars	**Corporate Eurobonds**	**Corporate bonds**	**Eurobonds and bonds of other states**	**Russian Federation bonds and Eurobonds**	**Other financial instruments at FVTPL**	**Total**
First class	343	-	51	3	-	397
Good and standard	156	107	3	-	197	463
Acceptable	92	48	-	-	-	140
Total debt financial assets at FVTPL	**591**	**155**	**54**	**3**	**197**	**1 000**

Analysis by credit quality of debt trading securities and repurchase receivables was as follows as at 31 December 2018:

In millions of US Dollars	**Corporate Eurobonds**	**Corporate bonds**	**Eurobonds and bonds of other states**	**Russian Federation bonds and Eurobonds**	**Other financial instruments at FVTPL**	**Total**
First class	248	5	30	9	-	292
Good and standard	139	94	-	-	228	461
Acceptable	62	21	-	-	-	83
Total debt financial assets at FVTPL	**449**	**120**	**30**	**9**	**228**	**836**

Refer to Note 31 for the description of credit quality ratings.

Trading securities and repurchase receivables are carried at fair value, which also reflects any credit risk related write-downs and best represents Group's maximum exposure to credit risk.

Currency, maturity and interest rates analyses of financial assets at FVTPL and repurchase receivables are disclosed in Note 31.

9 Due from Other Banks

In millions of US Dollars	2019	2018
Reverse sale and repurchase agreements with other banks	2 334	2 490
Term placements with other banks	1 208	1 703
Total due from other banks	**3 542**	**4 193**

As at 31 December 2019 reverse sale and repurchase agreements with other banks were effectively collateralised by securities with estimated fair value of USD 2 406 million (2018: USD 2 781 million), all of which the Group had the right to sell or repledge. The Group did not recognise ECL for short-term over-collateralised reverse sale and repurchase agreements.

As at 31 December 2019 the three largest aggregate balances due from other banks amounted to USD 2 597 million (2018: USD 2 879 million) or 73% (2018: 69%) of total due from other banks, the five largest aggregate balances due from other banks amounted to USD 2 851 million (2018: USD 3 368 million) or 80% (2018: 80%) of total due from other banks.

Analysis by credit quality of amounts due from other banks outstanding was as follows as at 31 December 2019:

In millions of US Dollars	Reverse sale and repurchase agreements with other banks	Term placements with other banks	Total
First class	2 080	1 062	3 142
Good and standard	146	82	228
Acceptable	108	64	172
Total due from other banks	**2 334**	**1 208**	**3 542**

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognise any credit loss allowance for due from other banks. Refer to Note 31 for the ECL measurement approach.

Analysis by credit quality of amounts due from other banks outstanding was as follows as at 31 December 2018:

In millions of US Dollars	Reverse sale and repurchase agreements with other banks	Term placements with other banks	Total
First class	1 876	1 588	3 464
Good and standard	559	26	585
Acceptable	55	89	144
Total due from other banks	**2 490**	**1 703**	**4 193**

Refer to Note 31 for the description of credit quality ratings.

As at 31 December 2019 included within term placements with other banks are margin call deposits in the amount of USD 310 million (2018: USD 114 million) placed as collateral under transactions with derivatives and securities. Refer to Note 34.

Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 31. The estimated fair value of due from other banks is disclosed in Note 38. The information on related party balances is disclosed in Note 39.

10 Loans and Advances to Customers

In millions of US Dollars	31 December 2019 Gross carrying amount	31 December 2019 Credit loss allowance	31 December 2019 Carrying amount	31 December 2018 Gross carrying amount	31 December 2018 Credit loss allowance	31 December 2018 Carrying amount
Corporate customers						
Corporate borrowers	26 638	(681)	25 957	22 350	(570)	21 780
Finance lease receivables	1 498	(15)	1 483	1 218	(9)	1 209
Reverse sale and repurchase receivables	1 213	-	1 213	911	-	911
Advances on lease operations	49	(1)	48	20	-	20
Total loans and advances to corporate customers	**29 398**	**(697)**	**28 701**	**24 499**	**(579)**	**23 920**
Individuals						
Personal instalment loans	5 602	(275)	5 327	3 216	(156)	3 060
Credit cards	2 923	(212)	2 711	2 176	(138)	2 038
Mortgage loans	1 810	(10)	1 800	519	(6)	513
Consumer (POS) loans	49	(3)	46	127	(9)	118
Reverse sale and repurchase receivables	58	-	58	35	-	35
Total loans and advances to individuals	**10 442**	**(500)**	**9 942**	**6 073**	**(309)**	**5 764**
Total loans and advances to customers	**39 840**	**(1 197)**	**38 643**	**30 572**	**(888)**	**29 684**

10 Loans and Advances to Customers (Continued)

Movements in the credit loss allowance during 2019 were as follows:

	Corporate customers		Individuals				Total
In millions of US Dollars	Corporate borrowers	Finance lease receivables	Personal instalment loans	Credit cards	Mortgage loans	Consumer (POS) loans	
Credit loss allowance as at 1 January 2019	**570**	**9**	**156**	**138**	**6**	**9**	**888**
Credit loss allowance during the year	393	9	164	136	4	4	710
Amounts written off as uncollectible	(311)	(2)	(58)	(74)	-	(11)	(456)
Unwinding of discount	12	-	-	-	-	-	12
Effect of translation to functional currency	(41)	-	-	-	-	-	(41)
Effect of translation to presentation currency	58	-	13	12	-	1	84
Credit loss allowance as at 31 December 2019	**681**	**16**	**275**	**212**	**10**	**3**	**1 197**

Movements in the credit loss allowance during 2018 were as follows:

	Corporate customers		Individuals				Total
In millions of US Dollars	Corporate borrowers	Finance lease receivables	Personal instalment loans	Credit cards	Mortgage loans	Consumer (POS) loans	
Credit loss allowance as at 1 January 2018	**580**	**14**	**149**	**156**	**3**	**42**	**944**
Credit loss allowance during the year	134	(3)	92	82	3	-	308
Amounts written off as uncollectible	(123)	-	(62)	(80)	-	(27)	(292)
Unwinding of discount	8	-	-	-	-	-	8
Effect of translation to functional currency	27	-	-	-	-	-	27
Effect of translation to presentation currency	(56)	(2)	(23)	(20)	-	(6)	(107)
Credit loss allowance as at 31 December 2018	**570**	**9**	**156**	**138**	**6**	**9**	**888**

The credit loss allowance for loan impairment during 2019 differs from the amount presented in profit or loss for the year due to USD 58 million (including USD 47 million relating to loans and advances to individuals) recovery of amounts previously written off as uncollectible (2018: USD 47 million (including USD 26 million relating to loans and advances to individuals)). This amount was credited directly to the credit loss allowance line in profit or loss for the year.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

10 Loans and Advances to Customers (Continued)

Corporate borrowers.

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
In millions of US Dollars	**(12-months ECL)**	**(lifetime ECL)**	**(lifetime ECL)**		**(12-months ECL)**	**(lifetime ECL)**	**(lifetime ECL)**	
As at 1 January 2019	**(85)**	**(67)**	**(418)**	**(570)**	**19 879**	**1 574**	**897**	**22 350**
Movements with impact on credit loss allowance charge:								
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	26	(29)	3	-	(3 457)	3 475	(18)	-
- to credit-impaired (from Stage 2 to Stage 3)	-	270	(270)	-	-	(707)	707	-
- to 12-months ECL (from Stage 2 to Stage 1)	(30)	30	-	-	1 134	(1 134)	-	-
New originated	(117)	-	-	(117)	11 040	-	-	11 040
Derecognised	87	55	-	142	(7 759)	(1 787)	(135)	(9 681)
Other movements	19	(285)	(152)	(418)	1 641	(70)	-	1 571
Total movements with impact on credit loss allowance charge	**(15)**	**41**	**(419)**	**(393)**	**2 599**	**(223)**	**554**	**2 930**
Movements without impact on credit loss allowance charge:								
Amounts written off as uncollectible	-	-	311	311	-	-	(311)	(311)
Unwinding of discount	-	-	(12)	(12)	-	-	-	-
Effect of translation to functional currency	2	-	39	41	(761)	(186)	(39)	(986)
Effect of translation to presentation currency	(5)	(1)	(52)	(58)	2 322	224	109	2 655
As at 31 December 2019	**(103)**	**(27)**	**(551)**	**(681)**	**24 039**	**1 389**	**1 210**	**26 638**

10 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
In millions of US Dollars	(12-months ECL)	(lifetime ECL)	(lifetime ECL)		(12-months ECL)	(lifetime ECL)	(lifetime ECL)	
As at 1 January 2018	**(69)**	**(74)**	**(437)**	**(580)**	**18 896**	**2 089**	**1 676**	**22 661**
Movements with impact on credit loss allowance charge:								
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	19	(80)	61	-	(1 745)	2 463	(718)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	17	(17)	-	(31)	(219)	250	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(27)	27	-	-	1 603	(1 603)	-	-
New originated	(107)	-	-	(107)	11 220	-	-	11 220
Derecognised	29	32	8	69	(8 210)	(945)	(44)	(9 199)
Other movements	65	1	(162)	(96)	102	(56)	(25)	21
Total movements with impact on credit loss allowance charge	**(21)**	**(3)**	**(110)**	**(134)**	**2 939**	**(360)**	**(537)**	**2 042**
Movements without impact on credit loss allowance charge:								
Amounts written off as uncollectible	-	-	123	123	-	-	(123)	(123)
Unwinding of discount	-	-	(8)	(8)	-	-	-	-
Effect of translation to functional currency	(1)	(12)	(14)	(27)	1 036	195	151	1 382
Effect of translation to presentation currency	6	22	28	56	(2 992)	(350)	(270)	(3 612)
As at 31 December 2018	**(85)**	**(67)**	**(418)**	**(570)**	**19 879**	**1 574**	**897**	**22 350**

10 Loans and Advances to Customers (Continued)

Personal instalment loans.

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
In millions of US Dollars	**(12-months ECL)**	**(lifetime ECL)**	**(lifetime ECL)**		**(12-months ECL)**	**(lifetime ECL)**	**(lifetime ECL)**	
As at 1 January 2019	**(39)**	**(77)**	**(40)**	**(156)**	**2 727**	**445**	**44**	**3 216**
Movements with impact on credit loss allowance charge:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	37	(37)	-	-	(1 198)	1 198	-	-
- to credit-impaired (from Stage 2 to Stage 3)	-	108	(108)	-	-	(162)	162	-
- to 12-months ECL (from Stage 2 to Stage 1)	(88)	88	-	-	988	(988)	-	-
New originated	(62)	-	-	(62)	4 098	-	-	4 098
Derecognised	11	30	9	50	(762)	(81)	(9)	(852)
Other movements	63	(160)	(55)	(152)	(1 193)	(135)	140	(1 188)
Total movements with impact on credit loss allowance charge	**(39)**	**29**	**(154)**	**(164)**	**1 933**	**(168)**	**293**	**2 058**
Movements without impact on credit loss allowance charge:								
Amounts written off as uncollectible	-	-	58	58	-	-	(58)	(58)
Effect of translation to presentation currency	(2)	(3)	(8)	(13)	338	35	13	386
As at 31 December 2019	**(80)**	**(51)**	**(144)**	**(275)**	**4 998**	**312**	**292**	**5 602**

10 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In millions of US Dollars	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL)**	**Total**
As at 1 January 2018	**(34)**	**(48)**	**(67)**	**(149)**	**1 738**	**278**	**71**	**2 087**
Movements with impact on credit loss allowance charge:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	50	(50)	-	-	(750)	750	-	-
- to credit-impaired (from Stage 2 to Stage 3)	-	48	(48)	-	-	(58)	58	-
- to 12-months ECL (from Stage 2 to Stage 1)	(62)	62	-	-	412	(412)	-	-
Origination, repayments and movements other than transfers between stages	3	(93)	(2)	(92)	1 624	(67)	(10)	1 547
Total movements with impact on credit loss allowance charge	**(9)**	**(33)**	**(50)**	**(92)**	**1 286**	**213**	**48**	**1 547**
Movements without impact on credit loss allowance charge:								
Amounts written off as uncollectible	-	-	62	62	-	-	(62)	(62)
Effect of translation to presentation currency	4	4	15	23	(297)	(46)	(13)	(356)
As at 31 December 2018	**(39)**	**(77)**	**(40)**	**(156)**	**2 727**	**445**	**44**	**3 216**

10 Loans and Advances to Customers (Continued)

Credit cards.

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
In millions of US Dollars	(12-months ECL)	(lifetime ECL)	(lifetime ECL)		(12-months ECL)	(lifetime ECL)	(lifetime ECL)	
As at 1 January 2019	**(50)**	**(31)**	**(57)**	**(138)**	**1 959**	**147**	**70**	**2 176**
Movements with impact on credit loss allowance charge:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	48	(48)	-	-	(1 012)	1 012	-	-
- to credit-impaired (from Stage 2 to Stage 3)	-	107	(107)	-	-	(193)	193	-
- to 12-months ECL (from Stage 2 to Stage 1)	(62)	62	-	-	970	(970)	-	-
New originated	(13)	-	-	(13)	863	-	-	863
Derecognised	42	40	10	92	(1 312)	(141)	(10)	(1 463)
Other movements	(23)	(183)	(9)	(215)	809	427	(69)	1 167
Total movements with impact on credit loss allowance charge	**(8)**	**(22)**	**(106)**	**(136)**	**318**	**135**	**114**	**567**
Movements without impact on credit loss allowance charge:								
Amounts written off as uncollectible	-	-	74	74	-	-	(74)	(74)
Effect of translation to presentation currency	(2)	(1)	(9)	(12)	221	22	11	254
As at 31 December 2019	**(60)**	**(54)**	**(98)**	**(212)**	**2 498**	**304**	**121**	**2 923**

10 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In millions of US Dollars	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	Total
As at 1 January 2018	**(46)**	**(23)**	**(87)**	**(156)**	**1 256**	**81**	**91**	**1 428**
Movements with impact on credit loss allowance charge:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	39	(39)	-	-	(397)	397	-	-
- to credit-impaired (from Stage 2 to Stage 3)	-	62	(62)	-	-	(88)	88	-
- to 12-months ECL (from Stage 2 to Stage 1)	(45)	45	-	-	231	(231)	-	-
Origination, repayments movements other than transfers between stages	(4)	(79)	1	(82)	1 084	-	(13)	1 071
Total movements with impact on credit loss allowance charge	**(10)**	**(11)**	**(61)**	**(82)**	**918**	**78**	**75**	**1 071**
Movements without impact on credit loss allowance charge:								
Amounts written off as uncollectible	-	-	80	80	-	-	(80)	(80)
Effect of translation to presentation currency	6	3	11	20	(215)	(12)	(16)	(243)
As at 31 December 2018	**(50)**	**(31)**	**(57)**	**(138)**	**1 959**	**147**	**70**	**2 176**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 31. Below main movements in the table are described:

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

10 Loans and Advances to Customers (Continued)

The following table contains an analysis of the credit risk exposure of loans and advances to customers.

In millions of US Dollars	Corporate borrowers	Finance lease receivables	Reverse sale and repurchase receivables	Advances on lease operations	Total
Stage 1 (12-months ECL):					
- first class borrowers	12 692	153	-	23	12 868
- good and standard borrowers	8 069	1 248	1 213	26	10 556
- acceptable borrowers	2 728	34	-	-	2 762
- weak borrowers	550	1	-	-	551
Stage 2 (lifetime ECL):					
- not past due					
- first class borrowers	224	2	-	-	226
- good and standard borrowers	985	40	-	-	1 025
- acceptable borrowers	114	-	-	-	114
- weak borrowers	54	3	-	-	57
- less than 30 days overdue	2	2	-	-	4
- 30 to 90 days overdue	10	12	-	-	22
Stage 3 (lifetime ECL):					
- not past due	904	1	-	-	905
- less than 30 days overdue	9	-	-	-	9
- 30 to 90 days overdue	3	-	-	-	3
- over 90 days overdue	294	2	-	-	296
Total gross loans and advances to corporate customers	**26 638**	**1 498**	**1 213**	**49**	**29 398**
Credit loss allowance	(681)	(15)	-	(1)	(697)
Total loans and advances to corporate customers	**25 957**	**1 483**	**1 213**	**48**	**28 701**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2018 was as follows:

In millions of US Dollars	**Corporate borrowers**	**Finance lease receivables**	**Reverse sale and repurchase receivables**	**Advances on lease operations**	**Total**
Stage 1 (12-months ECL):					
- first class borrowers	10 928	300	-	9	11 237
- good and standard borrowers	7 025	668	911	8	8 612
- acceptable borrowers	1 478	199	-	3	1 680
- weak borrowers	448	-	-	-	448
Stage 2 (lifetime ECL):					
- not past due					
- first class borrowers	95	-	-	-	95
- good and standard borrowers	498	7	-	-	505
- acceptable borrowers	193	20	-	-	213
- weak borrowers	788	23	-	-	811
Stage 3 (lifetime ECL):					
- not past due	294	-	-	-	294
- less than 30 days overdue	77	-	-	-	77
- 30 to 90 days overdue	210	-	-	-	210
- over 90 days overdue	316	1	-	-	317
Total gross loans and advances to corporate customers	**22 350**	**1 218**	**911**	**20**	**24 499**
Credit loss allowance	(570)	(9)	-	-	(579)
Total loans and advances to corporate customers	**21 780**	**1 209**	**911**	**20**	**23 920**

Refer to Note 31 for the description of credit quality ratings.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to individuals outstanding as at 31 December 2019 was as follows:

In millions of US Dollars	**Personal instalment loans**	**Credit cards**	**Mortgage loans**	**Consumer (POS) loans**	**Reverse sale and repurchase agreements**	**Total**
Stage 1 (12-months ECL):						
- first class borrowers	194	59	327	2	-	582
- good and standard borrowers	3 259	1 322	1 215	28	58	5 882
- acceptable borrowers	1 377	863	251	12	-	2 503
- weak borrowers	168	254	5	2	-	429
Stage 2 (lifetime ECL):						
- not past due						
- good and standard borrowers	2	-	1	-	-	3
- acceptable borrowers	80	14	3	1	-	98
- weak borrowers	169	228	1	2	-	400
- less than 30 days overdue	23	28	-	-	-	51
- 30 to 90 days overdue	32	34	1	-	-	67
- over 90 days overdue	6	-	-	-	-	6
Stage 3 (lifetime ECL):						
- not past due	125	2	1	-	-	128
- less than 30 days overdue	20	1	-	-	-	21
- 30 to 90 days overdue	15	3	-	-	-	18
- over 90 days overdue	132	115	5	2	-	254
Total gross loans and advances to individuals	**5 602**	**2 923**	**1 810**	**49**	**58**	**10 442**
Credit loss allowance	(275)	(212)	(10)	(3)	-	(500)
Total loans and advances to individuals	**5 327**	**2 711**	**1 800**	**46**	**58**	**9 942**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to individuals outstanding as at 31 December 2018 was as follows:

In millions of US Dollars	**Personal instalment loans**	**Credit cards**	**Mortgage loans**	**Consumer (POS) loans**	**Reverse sale and repurchase agreements**	**Total**
Stage 1 (12-months ECL):						
- first class borrowers	53	66	12	26	-	157
- good and standard borrowers	1 933	1 005	436	63	35	3 472
- acceptable borrowers	666	665	55	19	-	1 405
- weak borrowers	75	223	6	5	-	309
Stage 2 (lifetime ECL):						
- not past due						
- good and standard borrowers	2	-	1	-	-	3
- acceptable borrowers	66	14	3	1	-	84
- weak borrowers	338	98	-	6	-	442
- less than 30 days overdue	23	14	-	-	-	37
- 30 to 90 days overdue	16	21	-	-	-	37
Stage 3 (lifetime ECL):						
- not past due	3	9	6	-	-	18
- over 90 days overdue	41	61	-	7	-	109
Total gross loans and advances to individuals	**3 216**	**2 176**	**519**	**127**	**35**	**6 073**
Credit loss allowance	(156)	(138)	(6)	(9)	-	(309)
Total loans and advances to individuals	**3 060**	**2 038**	**513**	**118**	**35**	**5 764**

The above ratings for neither past due nor impaired represent aggregated results of the scoring system used by the Group. Good credit standing category represents excellent quality loans with the best score, average credit standing category – medium quality with average score and below average credit standing category – loans potentially under surveillance.

The primary factors that the Group considers in determining whether a loan has become impaired are ability of borrowers to service their debt, loans and interest overdue status and realisability of related collateral, if any.

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the loans and advances to customers were as follows:

	31 December 2019		31 December 2018	
In millions of US Dollars	**Amount**	**%**	**Amount**	**%**
Individuals	10 442	26	6 073	20
Oil industry	4 975	12	3 999	13
Food industry and agriculture	3 500	9	2 494	8
Finance and investment companies	2 839	7	2 391	8
Trade and commerce	2 810	7	2 133	7
Real estate and construction	2 861	7	2 757	9
Mass media and telecommunications	1 851	5	903	3
Chemistry and petrochemistry	1 847	5	1 546	5
Ferrous metallurgy	1 823	5	1 176	4
Non-ferrous metallurgy	1 317	3	1 409	5
Railway transport	939	2	1 062	4
Power generation	696	2	356	1
Coal Industry	686	2	736	2
Miscellaneous machinery and metal working	526	1	545	2
Water transport	485	1	380	1
Nuclear industry	463	1	481	2
Timber industry	452	1	953	3
Aviation transport	445	1	414	1
Diamond extraction and processing	233	-	4	-
Other	650	2	760	2
Total gross loans and advances to customers	**39 840**	**100**	**30 572**	**100**

As at 31 December 2019 aggregate loans and advances to the ten largest borrowers (or groups of related borrowers) amounted to USD 7 318 million (2018: USD 6 629 million) or 18% (2018: 22%) of the gross loans and advances to customers, while aggregate loans and advances to the twenty largest borrowers (or groups of related borrowers) amounted to USD 11 487 million (2018: USD 10 436 million) or 29% (2018: 34%) of the gross loans and advances to customers.

As at 31 December 2019 loans and advances to customers in the total amount of USD 145 million (2018: USD 116 million) were pledged as collateral for the financing received from the CBRF (Note 15).

The outstanding contractual amount of loans and advances to customers written off that are still subject to enforcement activity was as follows:

In millions of US Dollars	**31 December 2019**	**31 December 2018**
Corporate customers	9	51
Individuals	96	142
Total loans and advances to customers	**105**	**193**

The Group's policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

10 Loans and Advances to Customers (Continued)

Maturities of gross and net investments in finance lease are analysed as follows:

In millions of US Dollars	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Gross finance lease receivable as at 31 December 2019	**593**	**1 132**	**304**	**2 029**
Less future finance income on finance leases	(195)	(298)	(38)	(531)
Net investment in finance leases as at 31 December 2019	**398**	**834**	**266**	**1 498**
Gross finance lease receivable as at 31 December 2018	**456**	**860**	**404**	**1 720**
Less future finance income on finance leases	(149)	(280)	(73)	(502)
Net investment in finance leases as at 31 December 2018	**307**	**580**	**331**	**1 218**

The financial effect of collateral is presented by disclosing impact of collateral and other credit enhancements on credit loss allowance recognised at the end of the reporting period. Without holding collateral and other credit enhancements, the credit loss allowance would be higher by the following amounts:

In millions of US Dollars	2019	2018
Corporate borrowers	426	256
Finance lease receivables	56	30
Advances on lease operations	-	-
Loans to individuals - Personal instalment loans	-	-
Loans to individuals - Credit cards	-	-
Loans to individuals - Consumer (POS) loans	-	-
Total difference on credit loss allowance	**482**	**286**

Reverse sale and repurchase receivables and mortgage loans are not included in the above table since the Group would not originate these instruments without collateral.

In the normal course of business the Group obtains collateral and/or guarantees and sureties for loans to legal entities. Acceptable collateral includes real estate, property, equipment, inventories, securities, contractual rights and certain other assets. Guarantees and sureties can be provided by controlling shareholders, government entities, banks and other solvent legal entities.

As at 31 December 2019 corporate loans in the amount of USD 8 844 million (2018: USD 6 410 million) were not secured (or were secured by low quality collateral which does not allow to classify the loan as secured using criteria of the Group) and loans in the amount of USD 7 038 million (2018: USD 7 495 million) were secured only by third party guarantees where guarantors are considered to be related to the borrower itself.

As at 31 December 2019 and 2018 most of the loans to small and medium size enterprises were secured by collateral or sureties. Finance lease receivables are secured by the leased equipment the title to which is normally retained by the Group for the duration of the lease.

Reverse sale and repurchase agreements are effectively collateralised by securities purchased under those agreements. As at 31 December 2019 reverse sale and repurchase agreements were collateralised by securities purchased with estimated fair value of USD 1 407 million (2018: USD 1 261 million) all of which the Group had the right to sell or repledge.

Credit cards, personal instalment and consumer (POS) loans to individuals are not secured. Mortgage loans to individuals are collateralised by respective property acquired.

For the purposes of measurement the Group classified all balances included in loans and advances to customers as financial assets at AC. Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 31. The estimated fair value of loans and advances to customers is disclosed in Note 38. The information on related party balances is disclosed in Note 39.

11 Investments and Repurchase Receivables

In millions of US Dollars	2019	2018
Investments		
Investments at AC	2 334	2 426
Debt investments at FVOCI	4 840	3 388
Equity investments at FVOCI	-	10
Other investments	1	1
Credit loss allowance for investments at AC	(4)	(3)
Total investments	**7 171**	**5 822**
Repurchase receivables relating to investments		
Debt investments at FVOCI	74	45
Investments at AC	58	33
Total repurchase receivables relating to investments	**132**	**78**
Total investments and repurchase receivables relating to investments	**7 303**	**5 900**

Investments at AC and repurchase receivables relating to investments at AC

In millions of US Dollars	2019	2018
Investments at AC		
Corporate Eurobonds	1 368	1 401
Corporate bonds	965	936
Bonds of other states	1	89
Credit loss allowance	(4)	(3)
Total investments at AC	**2 330**	**2 423**
Repurchase receivables relating to investments at AC		
Bonds of other states	58	30
Corporate Eurobonds	-	3
Total repurchase receivables relating to investments at AC	**58**	**33**
Total investments and repurchase receivables relating to investments at AC	**2 388**	**2 456**

Corporate Eurobonds are interest-bearing securities issued mainly by large Russian, European companies and freely tradable internationally. Corporate bonds are interest-bearing securities issued by large Russian companies and freely tradable in the Russian Federation.

	31 December 2019			31 December 2018		
	Maturity	**Coupon rates**	**Yields to maturity**	**Maturity**	**Coupon rates**	**Yields to maturity**
Corporate Eurobonds	Apr. 2020 - Nov. 2024	3.4% - 8.3%	0.1% - 27.0%	Apr. 2019 - May 2024	0.3% - 8.3%	1.6% - 38.3%
Corporate bonds	Apr. 2020 - Nov. 2024	7.7% -13.1%	0.4% - 12.7%	Apr. 2019 - Aug. 2023	0.5% - 13.1%	0.3% - 11.8%

11 Investments and Repurchase Receivables (Continued)

The following table contains an analysis of investments at AC by credit quality as at 31 December 2019 based on credit quality. Refer to Note 31 for the description of ratings system used by the Group and the approach to ECL measurement. The carrying amount of investments at AC also represents the Group's maximum exposure to credit risk on these assets.

In millions of US Dollars	**Corporate Eurobonds**	**Corporate bonds**	**Bonds of other states**	**Total**
First class	633	100	59	792
Good and standard	735	551	-	1 286
Acceptable	-	303	-	303
Weak	-	11	-	11
Credit loss allowance	(3)	(1)	-	(4)
Total investments at AC and repurchase receivables relating to investments at AC	**1 365**	**964**	**59**	**2 388**

For the purpose of ECL measurement investments at AC balances are included in Stage 1. Refer to Note 31 for the ECL measurement approach.

Analysis by credit quality of investments at AC outstanding as at 31 December 2018 was as follows:

In millions of US Dollars	**Corporate Eurobonds**	**Corporate bonds**	**Bonds of other states**	**Total**
First class	576	204	119	899
Good and standard	828	498	-	1 326
Acceptable	-	219	-	219
Weak	-	15	-	15
Credit loss allowance	(1)	(2)	-	(3)
Total investments at AC and repurchase receivables relating to investments at AC	**1 403**	**934**	**119**	**2 456**

Currency, maturity and interest rate analyses of investments at AC and repurchase receivables relating to investments at AC are disclosed in Note 31. The estimated fair value of investments at AC and repurchase receivables relating to investments at AC is disclosed in Note 38.

11 Investments and Repurchase Receivables (Continued)

Debt investments at FVOCI

In millions of US Dollars	2019	2018
Debt investments at FVOCI		
Russian Federation bonds and Eurobonds	4 280	2 963
Bonds of other states	560	425
Total debt investments at FVOCI	**4 840**	**3 388**
Repurchase receivables relating to investments at FVOCI		
Bonds of other states	74	-
Russian Federation bonds and Eurobonds	-	45
Total repurchase receivables relating to investments at FVOCI	**74**	**45**
Total debt investments at FVOCI and repurchase receivables relating to investments at FVOCI	**4 914**	**3 433**

Russian Federation bonds and Eurobonds are interest-bearing securities and are freely tradable in the Russian Federation and internationally. Bonds of other states are interest-bearing securities issued by government of the United State, Italy, Portugal and freely tradable internationally.

	31 December 2019			31 December 2018		
	Maturity	Coupon rates	Yields to maturity	Maturity	Coupon rates	Yields to maturity
Russian Federation bonds and Eurobonds	Jan. 2020 – Sep. 2023	3.6% - 7.0%	0.3% - 7.0%	Jan. 2019 - Sep. 2023	3.6% - 8.0%	0.4% - 7.1%
Bonds of other states	Jan. 2020 – Nov. 2020	1.6% - 2.6%	0.3% - 2.6%	Jan. 2020 - Oct. 2022	0.1% - 4.4%	0.3% - 2.6%

Analysis by credit quality of debt investments at FVOCI was as follows as at 31 December 2019:

In millions of US Dollars	Russian Federation bonds and Eurobonds	Bonds of other states	Total
First class	4 280	634	4 914
Total debt investments at FVOCI and repurchase receivables relating to investments at FVOCI	**4 280**	**634**	**4 914**

For the purpose of ECL measurement debt investments at FVOCI balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognise any credit loss allowance for debt investments at FVOCI. Refer to Note 31 for the ECL measurement approach.

Analysis by credit quality of debt investments at FVOCI was as follows as at 31 December 2018:

In millions of US Dollars	Russian Federation bonds and Eurobonds	Bonds of other states	Total
First class	3 008	425	3 433
Total debt investments at FVOCI and repurchase receivables relating to investments at FVOCI	**3 008**	**425**	**3 433**

Refer to Note 31 for the description of credit quality ratings.

Currency, maturity and interest rate analyses of debt investments at FVOCI and repurchase receivables relating to debt investments at FVOCI are disclosed in Note 31.

12 Other Financial Assets

In millions of US Dollars	Note	2019	2018
Other financial assets at AC			
Plastic card debtors		59	2
Receivables on operations with securities and derivatives		42	52
Receivables on conversion operations		35	45
Other		98	88
Credit loss allowance		-	(7)
Total other financial assets at AC		**234**	**180**
Other financial assets mandatorily measured at FVTPL			
Derivative financial instruments	37	490	800
Total other financial assets at FVTPL		**490**	**800**
Total other financial assets		**724**	**980**

As at 31 December 2019 and 2018 the Group held margin call deposits pledged by its counterparties as collateral under transactions with derivative financial instruments and operations with securities. Refer to Notes 15 and 16.

As at 31 December 2019 derivative financial instruments included USD 475 million (2018: USD 787 million) related to instruments contracted with large international banks with investment grades.

Analysis by credit quality of other financial assets at AC outstanding as at 31 December 2019 was as follows:

In millions of US Dollars	Plastic card debtors	Receivables on operations with securities and derivatives	Receivables on conversion operations	Other	Total
Neither past due nor impaired with credit history	59	42	35	79	215
Neither past due nor impaired without credit history	-	-	-	19	19
Total other financial assets	**59**	**42**	**35**	**98**	**234**

Analysis by credit quality of other financial assets at AC outstanding as at 31 December 2018 was as follows:

In millions of US Dollars	Plastic card debtors	Receivables on operations with securities and derivatives	Receivables on conversion operations	Other	Total
Neither past due nor impaired with credit history	2	52	45	76	175
Neither past due nor impaired without credit history	-	-	-	4	4
Past due and impaired	-	-	-	8	8
Total gross other financial assets	**2**	**52**	**45**	**88**	**187**
Credit loss allowance	-	-	-	(7)	(7)
Total other financial assets	**2**	**52**	**45**	**81**	**180**

“Entities with credit history” are those entities of which the Group is aware of their credit history over more than one year.

Currency and maturity analyses of other financial assets are disclosed in Note 31. The estimated fair value of other financial assets is disclosed in Note 38. The information on related party balances is disclosed in Note 39.

13 Other Assets

In millions of US Dollars	**2019**	**2018**
Computer software	170	122
Prepayments	130	88
Prepayment of taxes, other than on income	56	83
Investment properties	46	87
Repossessed collateral	28	6
Goodwill	21	28
Prepayment of current income tax	2	9
Loss allowance	(10)	(1)
Total other assets	**443**	**422**

Movements in intangible assets during 2019 were as follows:

In millions of US Dollars	**Goodwill**	**Computer software**	**Total**
Carrying amount as at 1 January 2019	**28**	**122**	**150**
Cost			
Opening balance	28	245	273
Additions	-	92	92
Amounts written-off	(10)	(30)	(40)
Translation movement	3	30	33
Closing balance	**21**	**337**	**358**
Accumulated depreciation			
Opening balance	-	123	123
Amortisation (Note 28)	-	57	57
Amounts written-off	-	(30)	(30)
Translation movement	-	17	17
Closing balance	**-**	**167**	**167**
Carrying amount as at 31 December 2019	**21**	**170**	**191**

13 Other Assets (Continued)

Movements in intangible assets during 2018 were as follows:

In millions of US Dollars	Goodwill	Computer software	Other intangibles	Total
Carrying amount as at 1 January 2018	**34**	**115**	**11**	**160**
Cost				
Opening balance	34	240	37	311
Additions	-	73	-	73
Amounts written-off	-	(25)	(32)	(57)
Translation movement	(6)	(43)	(5)	(54)
Closing balance	**28**	**245**	**-**	**273**
Accumulated depreciation				
Opening balance	-	125	26	151
Amortisation (Note 28)	-	50	11	61
Amounts written-off	-	(25)	(32)	(57)
Translation movement	-	(27)	(5)	(32)
Closing balance	**-**	**123**	**-**	**123**
Carrying amount as at 31 December 2018	**28**	**122**	**-**	**150**

The recoverable amount of goodwill for the purposes of impairment testing was estimated based on value in use calculation.

14 Premises and Equipment and Right-of-use Assets

In millions of US Dollars	Premises	Office and computer equipment	Construction in progress	Right-of-use assets (offices)	Total
Carrying amount as at 1 January 2019	**279**	**171**	**30**	**136**	**616**
Cost / revaluation					
Opening balance	341	387	30	136	894
Revaluation	(3)	-	-	-	(3)
Transfer	(2)	-	-	-	(2)
Additions	65	33	75	73	246
Disposals	(2)	(20)	-	(7)	(29)
Translation movement	41	50	4	17	112
Closing balance	**440**	**450**	**109**	**219**	**1 218**
Accumulated depreciation					
Opening balance	62	216	-	-	278
Depreciation (Note 28)	9	49	-	37	95
Disposals	(1)	(12)	-	-	(13)
Translation movement	8	32	-	2	42
Closing balance	**78**	**285**	**-**	**39**	**402**
Carrying amount as at 31 December 2019	**362**	**165**	**109**	**180**	**816**

Included in the above carrying amount is USD 56 million (2018: USD 61 million) representing revaluation surplus relating to premises of the Group. As at 31 December 2019 the carrying amount of premises would have been USD 306 million (2018: USD 216 million) had the assets been carried at cost less depreciation.

In millions of US Dollars	Premises	Office and computer equipment	Construction in progress	Total
Carrying amount as at 1 January 2018	**337**	**184**	**20**	**541**
Cost / revaluation				
Opening balance	412	418	20	850
Revaluation	(8)	-	-	(8)
Impairment	(4)	-	-	(4)
Additions	15	63	13	91
Disposals	(5)	(21)	-	(26)
Translation movement	(69)	(73)	(3)	(145)
Closing balance	**341**	**387**	**30**	**758**
Accumulated depreciation				
Opening balance	75	234	-	309
Revaluation	(1)	-	-	(1)
Impairment	(2)	-	-	(2)
Depreciation (Note 28)	8	47	-	55
Disposals	(5)	(21)	-	(26)
Translation movement	(13)	(44)	-	(57)
Closing balance	**62**	**216**	**-**	**278**
Carrying amount as at 31 December 2018	**279**	**171**	**30**	**480**

15 Due to Other Banks

In millions of US Dollars	2019	2018
Correspondent accounts and overnight placements of other banks		
- Russian Federation	458	364
- Other countries	62	72
Term placements of other banks	1 647	1 161
Sale and repurchase agreements with other banks	138	159
Placements with the CBRF		
- Loans received under a secured lending programme	139	110
- Term deposits	4	6
Total due to other banks	**2 448**	**1 872**

As at 31 December 2019 the ten largest aggregate balances due to other banks amounted to USD 1 775 million (2018: USD 1 160 million) or 73% (2018: 62%) of total due to other banks.

Loans received from the CBRF under a secured lending programme were secured by a pledge of loans and advances to customers in the carrying amount of USD 145 million (2018: USD 116 million) (Note 10).

As at 31 December 2019 sale and repurchase agreements with other banks were effectively secured by trading securities and investments at AC and at FVTOCI in the amount of USD 135 million (2018: USD 86 million) (Notes 8 and 11) and securities purchased under reverse sale and repurchase agreements with a fair value of USD 10 million (2018: USD 83 million).

As at 31 December 2019 included within term placements of other banks are margin call deposits in the amount of USD 1 million (2018: USD 78 million) received by the Group as collateral under transactions with derivatives and operations with securities with other banks.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31. The estimated fair value of due to other banks is disclosed in Note 38. The information on related party balances is disclosed in Note 39.

16 Customer Accounts

In millions of US Dollars	2019	2018
Commercial organisations		
- Current/settlement accounts	8 530	6 041
- Term deposits	8 722	5 974
Individuals		
- Current/demand accounts	13 058	9 989
- Term deposits	7 563	6 459
State and public organisations		
- Current/settlement accounts	255	146
- Term deposits	3 294	3 497
Total customer accounts	**41 422**	**32 106**

16 Customer Accounts (Continued)

Economic sector concentrations within customer accounts were as follows:

	2019		2018	
In millions of US Dollars	**Amount**	**%**	**Amount**	**%**
Individuals	20 621	50	16 448	51
Trade and commerce	7 621	18	4 560	14
State and public organisations	3 549	9	3 643	11
Finance and investment companies	2 145	5	1 564	5
Energy and oil and gas	1 863	4	1 955	6
Construction	1 354	3	780	2
Transport	940	2	646	2
Non-ferrous metallurgy	861	2	-	-
Manufacturing	604	1	878	3
Mass media and telecommunications	237	1	175	1
Other	1 627	5	1 457	5
Total customer accounts	**41 422**	**100**	**32 106**	**100**

As at 31 December 2019 the aggregate balances of ten largest customers (or groups of related customers) amounted to USD 5 639 million (2018: USD 5 048 million) or 14% (2018: 16%) of the total customer accounts.

Included in customer accounts are balances in the amount of USD 247 million (2018: USD 86 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 33.

As at 31 December 2019 included within customer accounts are margin call deposits in the amount of USD 83 million (2018: USD 113 million) received by the Group as collateral under transactions with derivatives and operations with securities with customers.

As at 31 December 2019 sale and repurchase agreements in the amount of USD 32 million (2018: USD 68 million) were effectively secured by securities purchased under reverse sale and repurchase agreements with a fair value of USD 40 million (2018: USD 73 million).

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. The estimated fair value of customer accounts is disclosed in Note 38. The information on related party balances is disclosed in Note 39.

17 Debt Securities Issued

In millions of US Dollars	**2019**	**2018**
Notes	1 809	1 633
Rouble denominated bonds	1 550	1 119
Promissory notes	369	367
Euro Commercial Paper Notes	126	120
Euro denominated bonds	12	12
US Dollars denominated bonds	10	8
Total debt securities issued	**3 876**	**3 259**

17 Debt Securities Issued (Continued)

Notes.

The details of Notes outstanding as at 31 December 2019 are disclosed below:

Issue date	Maturity date	Interest rate	Effective interest rate	Currency	Nominal in millions of currency	in millions of US Dollars			
						Nominal	Issue proceeds net of costs	Amortised cost	Repurchased amount
28 April 2011	28 April 2021	7.75%	7.94%	USD	1 000	1 000	997	719	(288)
28 March 2017	28 April 2020	2.63%	2.72%	EUR	400	435	434	456	-
9 November 2017	9 November 2022	2.88%	2.99%	CHF	165	165	164	170	-
6 February 2019	6 August 2022	9.35%	9.68%	RUR	10 000	153	152	159	(8)
20 July 2017	20 July 2021	8.90%	9.16%	RUR	10 000	169	168	151	(17)
16 February 2017	16 February 2022	9.25%	9.49%	RUR	10 000	176	176	154	(13)
Total Notes								**1 809**	**(326)**

The details of Notes outstanding as at 31 December 2018 are disclosed below:

Issue date	Maturity date	Interest rate	Effective interest rate	Currency	Nominal in millions of currency	in millions of US Dollars			
						Nominal	Issue proceeds net of costs	Amortised cost	Repurchased amount
28 April 2011	28 April 2021	7.75%	7.94%	USD	1 000	1 000	997	727	(273)
28 March 2017	28 April 2020	2.63%	2.72%	EUR	400	435	434	465	-
9 November 2017	9 November 2022	2.88%	2.99%	CHF	165	165	164	168	-
20 July 2017	20 July 2021	8.90%	9.16%	RUR	10 000	169	168	144	(5)
16 February 2017	16 February 2022	9.25%	9.49%	RUR	10 000	176	176	129	(20)
Total Notes								**1 633**	**(298)**

Rouble denominated bonds. The details of Rouble denominated bonds outstanding as at 31 December 2019 are disclosed below:

Issue date	Maturity date	Offer date	Interest rate	Effective interest rate	in millions of US Dollars	
					Amortised cost	Repurchased amount
31 July 2018	2 August 2021	-	7.90%	8.06%	168	-
21 February 2018	4 March 2033	26 February 2021	7.35%	7.50%	166	-
6 March 2018	17 March 2033	9 September 2021	7.35%	7.49%	165	-
30 October 2018	1 November 2021	-	8.95%	9.16%	164	-
12 April 2019	13 April 2021	-	8.55%	8.75%	165	-
9 August 2019	11 August 2022	-	7.90%	8.07%	133	-
23 January 2017	5 January 2032	22 January 2020	9.45%	9.70%	84	-
4 October 2016	16 September 2031	30 September 2021	9.50%	9.73%	83	-
2 October 2017	13 October 2032	7 October 2020	8.35%	8.54%	82	-
23 November 2017	4 December 2032	27 November 2020	8.10%	8.28%	81	-
30 May 2017	11 May 2032	28 May 2020	8.70%	8.90%	81	-
21 December 2018	24 June 2022	-	9.20%	9.42%	81	-
18 September 2014	30 August 2029	14 September 2020	7.25%	7.54%	37	-
2 December 2014	13 November 2029	27 May 2021	7.35%	7.48%	51	-
12 May 2017	8 May 2020	-	5.00%	8.90%	7	-
18 September 2014	30 August 2029	13 September 2021	8.25%	8.46%	1	-
11 August 2016	24 July 2031	7 February 2022	7.80%	8.35%	1	-
Total Rouble denominated bonds					**1 550**	

17 Debt Securities Issued (Continued)

The details of Rouble denominated bonds outstanding as at 31 December 2018 are disclosed below:

Issue date	Maturity date	Offer date	Interest rate	Effective interest rate	in millions of US Dollars	
					Amortised cost	Repurchased amount
31 July 2018	2 August 2021	-	7.90%	8.06%	149	-
21 February 2018	4 March 2033	26 February 2021	7.35%	7.50%	148	-
6 March 2018	17 March 2033	9 September 2021	7.35%	7.49%	147	-
30 October 2018	1 November 2021	-	8.95%	9.16%	146	-
23 January 2017	5 January 2032	22 January 2020	9.45%	9.70%	75	-
4 October 2016	16 September 2031	30 September 2021	9.50%	9.73%	74	-
2 October 2017	13 October 2032	7 October 2020	8.35%	8.54%	73	-
23 November 2017	4 December 2032	27 November 2020	8.10%	8.28%	73	-
30 May 2017	11 May 2032	28 May 2020	8.70%	8.90%	73	-
21 December 2018	24 June 2022	-	9.20%	9.42%	72	-
2 December 2014	13 November 2029	27 May 2021	7.35%	7.48%	45	-
18 September 2014	30 August 2029	16 September 2019	9.35%	9.57%	35	-
12 May 2017	8 May 2020	-	5.00%	8.90%	6	(25)
12 April 2016	12 April 2019	-	6.75%	6.83%	1	-
18 September 2014	30 August 2029	13 September 2021	8.25%	8.46%	1	-
11 August 2016	24 July 2031	7 February 2022	7.80%	8.35%	1	-
Total Rouble denominated bonds					**1 119**	**(25)**

Promissory notes. Promissory notes comprise of securities in Russian Roubles, US Dollars and Euros issued by the Group with a discount to face value or with interest accrual.

USD denominated Euro Commercial Paper Programme. On 2 February 2012 the Group established Euro Commercial Paper Programme (the "ECP Programme") with a limit of the aggregate principal amount of outstanding notes issued under the ECP Programme of USD 1 400 million.

The details of Notes outstanding are disclosed below:

Issue date	Maturity date	Effective interest rate	Amortised cost in millions of US Dollars	
			31 December 2019	31 December 2018
17 July 2019	15 July 2020	3.83%	71	-
16 May 2019	14 May 2020	3.84%	55	-
10 July 2018	9 July 2019	3.58%	-	66
4 May 2018	3 May 2019	3.33%	-	54
Total Euro Commercial Paper Notes			**126**	**120**

Currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 31. The estimated fair value of debt securities issued is disclosed in Note 38.

18 Loan from the SDIA

In September 2014 the SDIA provided Baltiyskiy Bank (a subsidiary of Alfa-Bank) with a RR 57 400 million (equivalent of USD 1 537 million) loan carrying an interest rate of 0.51% p.a. and repayable on 3 September 2024 (except that earlier partial repayments are required in case of recovery of certain problem assets of Baltiyskiy Bank). The loan was recorded by the Group at the date of acquisition of Baltiyskiy Bank at its fair value of RR 15 564 million (equivalent of USD 285 million) determined by discounting future cash flows at interest rate of 15.65% p.a.

Currency, maturity and interest rate analyses of loan from SDIA are disclosed in Note 31. The estimated fair value of loan from the SDIA is disclosed in Note 38.

19 Subordinated Debt

In millions of US Dollars	2019	2018
Subordinated notes maturing in 2025	847	-
Subordinated loan from VEB maturing in 2020	462	405
Subordinated notes maturing in 2020	217	229
Subordinated loan maturing in 2023	40	40
Subordinated notes maturing in 2019	-	373
Subordinated loan from VEB maturing in 2019	-	148
Total subordinated debt	**1 566**	**1 195**

The details of subordinated debt outstanding as at 31 December 2019 and 31 December 2018 are disclosed below:

	Receive/ issue date	Maturity/ offer date	Interest rate	Effective interest rate	Curren-cy	Nominal in millions of currency	Repurchased amount in millions of US Dollars	
							31.12.2019	31.12.2018
Subordinated notes maturing in 2025	27 November 2019	15 April 2025	5.95%	5.86%	USD	450	-	-
Subordinated notes maturing in 2025	15 October 2019	15 April 2025	5.95%	6.09%	USD	400	12	-
Subordinated loan from VEB maturing in 2020	1 October 2009	25 December 2020	7.50%	7.75%	RUR	29 181	-	-
Subordinated notes maturing in 2020	18 November 2014	18 February 2020	9.50%	9.90%	USD	250	42	29
Subordinated loan maturing in 2023	28 April 2016	28 April 2023	EURIBOR + 4.50%	EURIBOR + 4.50%	EUR	35	-	-
Subordinated notes maturing in 2019	26 September 2012	26 September 2019	7.50%	7.71%	USD	750	-	387
Subordinated loan from VEB maturing in 2019	29 January 2009	25 December 2019	6.50%	6.70%	RUR	10 201	-	-
Subordinated loan from VEB maturing in 2019	19 October 2009	25 December 2019	6.50%	6.70%	RUR	231	-	-

The Group has an option to repay subordinated loans from VEB at any time subject to approvals from the CBRF and VEB.

Currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 31. The estimated fair value of subordinated debt is disclosed in Note 38.

20 Reconciliation of Liabilities Arising from Financing Activities

The table below sets out 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 activities in the statement of cash flows.

	Liabilities from financing activities				
In millions of US Dollars	**Debt securities issued (Note 17)**	**Loan from the SDIA (Note 18)**	**Subordinated debt (Note 19)**	**Lease liability (Note 21)**	**Total**
Net debt as at 1 January 2018	**3 624**	**388**	**1 357**	**-**	**5 369**
Cash flows	(249)	(7)	(162)	-	(418)
Foreign exchange adjustments	(362)	(67)	(104)	-	(533)
Other non-cash movements	246	53	104	-	403
Net debt as at 31 December 2018	**3 259**	**367**	**1 195**	**-**	**4 821**
Transition to IFRS 16	-	-	-	136	136
Cash flows	126	(5)	193	(44)	270
Foreign exchange adjustments	232	44	64	17	357
Other non-cash movements	259	64	114	85	522
Net debt as at 31 December 2019	**3 876**	**470**	**1 566**	**194**	**6 106**

Other non-cash movements mainly include accrual of interest for the year and the effects of time value of money.

21 Other Financial Liabilities

In millions of US Dollars	**Note**	**2019**	**2018**
Other financial liabilities at AC			
Lease liabilities		194	-
Trade creditors		58	28
Provision on credit related and other commitments	33	39	27
Loyalty programs liability and commissions deferral		39	13
Deferred commissions from guarantees		23	5
Payables on operations with securities		11	12
Plastic card and other settlements		5	10
Other		96	59
Total other financial liabilities at AC		**465**	**154**
Other financial liabilities mandatorily measured at FVTPL			
Derivative financial instruments	37	661	494
Total other financial liabilities at FVTPL		**661**	**494**
Total other financial liabilities		**1 126**	**648**

Currency and maturity analyses of other financial liabilities are disclosed in Note 31. The estimated fair value of other financial liabilities is disclosed in Note 38.

22 Other Liabilities

In millions of US Dollars	2019	2018
Accrued staff costs	246	200
Taxation payable, other than on income	52	23
Current income tax payable	11	22
Government grant	9	18
Other	40	76
Total other liabilities	**358**	**339**

23 Share Capital

As at 31 December 2019 and 2018 authorised, issued and fully paid share capital of ABH Financial Limited comprised 6 324 000 preference shares and 1 258 476 000 ordinary shares. All shares had a nominal value of USD 1 per share and rank equally except that the preference shares are entitled to distributions (1) in priority to ordinary shares and (2) on the basis of distributable profits determined by the Board of Directors of the Company. Each share carries one vote.

In April 2019 the Company declared and paid dividends on preference shares in the amount of USD 28 million (approximately USD 4.43 per preference share).

24 Perpetual Loan Participation Notes

In January 2019 the CBRF has registered Alfa-Bank programme for the issuance of perpetual subordinated bonds. The size of a single issue may vary, while the total amount of outstanding obligations under the programme should not exceed RR 50 000 million or its equivalent. The bonds can be offered to qualified investors only. Alfa-Bank may use this instrument depending on its capital needs and market situation.

On 19 June 2019 the Group issued RR 5 000 million (equivalent of USD 80 million) Perpetual subordinated loan participation notes with no stated maturity and a right to repay the notes at its discretion quarterly starting from 19 September 2024. The issue proceeds net of transaction cost were equal to USD 79 million. The notes bear a fixed interest rate of 11.75% p.a. payable quarterly starting from 26 September 2019. Interest payments may be cancelled by the Group any time and not accumulated. If the Group does not execute its right to repay the notes on 19 September 2024 then the notes will bear fixed interest rate of 4.46% p.a. plus zero-coupon yield curve variance for the Russia government bond market for the five years period and it will be refixed every 5 years thereafter.

On 30 January 2018 the Group issued Perpetual subordinated loan participation notes in the amount of USD 500 million with no stated maturity and a right to repay the notes at its discretion quarterly starting from 30 April 2023. The issue proceeds net of transaction cost were equal to USD 499 million. The notes bear a fixed interest rate of 6.95% p.a. payable quarterly starting from 30 April 2018. Interest payments may be cancelled by the Group any time. If the Group does not execute its right to repay the notes on 30 April 2023 then the interest rate is re-set at the relevant US Treasury Rate plus 4.572% p.a. and it will be refixed every 5 years thereafter.

On 3 November 2016 the Group issued Perpetual subordinated loan participation notes in the amount of USD 400 million. The issue proceeds net of transaction cost were equal to USD 400 million. On 23 December 2016 the Group issued further Perpetual subordinated loan participation notes in the amount of USD 300 million. The issue proceeds net of transaction cost were equal to USD 301 million. These two Perpetual subordinated loan participation notes issues formed a single issue in the total nominal amount of USD 700 million. The notes have no stated maturity and the Group has a right to repay the notes at its discretion quarterly starting from 3 February 2022. The notes bear a fixed interest rate of 8.0% p.a. payable quarterly starting from 3 February 2017. Interest payments may be cancelled by the Group any time. If the Group does not execute its right to repay the notes on 3 February 2022 then the interest rate is re-set at the relevant US Treasury Rate plus 6.659% p.a. and it will be refixed every 5 years thereafter.

Since the notes have no stated maturity and the Group has no contractual obligation to repay the principal and it can cancel any interest payment, the Group has classified the notes as an equity instrument. Interest payments made are treated as a distribution and recorded directly in equity at the date of distribution.

25 Net Margin

In millions of US Dollars	**2019**	**2018**
Interest income calculated using the effective interest method		
Loans and advances to corporate customers	1 942	1 823
Loans and advances to individuals	1 210	853
Debt investments at FVOCI and repurchase receivables	206	193
Due from other banks	171	236
Investments at AC and repurchase receivables	166	161
Total interest income calculated using the effective interest method	**3 695**	**3 266**
Other similar income	**273**	**205**
Interest expense calculated using the effective interest method		
Term deposits of legal entities	550	528
Term deposits of individuals	327	257
Current/settlement accounts	284	175
Debt securities issued	248	232
Due to other banks	130	105
Subordinated debt	103	105
Loan from the SDIA	62	58
Total interest expense calculated using the effective interest method	**1 704**	**1 460**
Other similar expense	**14**	**-**
Deposit insurance expense	**133**	**91**
Net margin	**2 117**	**1 920**

Deposit insurance expense includes regular contributions to the SDIA.

Refer to Note 39 for details of related party transactions.

26 Fee and Commission Income and Expense

In millions of US Dollars	**2019**	**2018**
Fee and commission income		
Commission on operations with plastic cards	692	697
Commission on settlement transactions	539	467
Agency commission on insurance operations	166	139
Commission on cash and foreign currency exchange transactions	94	93
Commission on guarantees issued	28	24
Other	50	38
Total fee and commission income	**1 569**	**1 458**
Fee and commission expense		
Commission on operations with plastic cards	390	381
Commission for consulting services	29	27
Commission on settlement transactions	21	20
Commission on cash and foreign currency exchange transactions	6	4
Commission on transactions with securities	4	4
Other	75	44
Total fee and commission expense	**525**	**480**
Net fee and commission income	**1 044**	**978**

Refer to Note 39 for details of related party transactions.

27 Gains Less Losses Arising from Foreign Currencies

In millions of US Dollars	**2019**	**2018**
Gains less losses arising from trading in foreign currencies	227	(395)
Foreign exchange translation gains less losses	(452)	646
Total gains less losses arising from foreign currencies	**(225)**	**251**

Gains less losses arising from trading in foreign currencies include result from hedge of net investment in foreign operations (Note 37).

Refer to Note 37 for the information on the total amount of the effective portion of the foreign currency exchange gains or losses recorded on hedging instruments the Group used to hedge net investment in foreign operations.

28 Operating Expenses

In millions of US Dollars	Note	2019	2018
Staff costs		743	719
Computer and telecommunications expenses		92	80
Advertising and marketing		79	73
Expenses related to premises and equipment		64	59
Consulting and professional services		64	54
Depreciation of premises and equipment	14	58	55
Amortisation of intangible assets	13	57	61
Depreciation of right-of-use assets	14	37	-
Maintenance		19	21
Short-term and variable payments leases (2018: Rent)		18	58
Administrative expenses		15	16
Taxes other than income tax		7	5
Travel expenses		5	6
Other		60	29
Total operating expenses		**1 318**	**1 236**

Staff costs include contributions to the Russian state pension plan made by the Group for its personnel employed in Russia in the amount of USD 102 million (2018: USD 100 million). The state pension plan is classified as a defined contribution plan because the Group does not have any legal or constructive obligation to make further contributions if the state pension plan would not hold sufficient assets to pay all employee benefits relating to employees' past service.

Refer to Note 39 for details of related party transactions.

29 Income Taxes

Income tax expense comprises the following:

In millions of US Dollars	2019	2018
Current tax	385	189
Deferred tax	(114)	124
Income tax expense for the year	**271**	**313**

The statutory income tax rate applicable to the majority of Alfa-Bank's income is 20% (2018: 20%).

In millions of US Dollars	2019	2018
IFRS profit before tax	**975**	**1 634**
Theoretical tax charge at the statutory rate (2019: 20%; 2018: 20%)	195	327
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	35	30
- Net result on activities taxed at different rates	3	(11)
- Perpetual loan participation notes	37	(44)
- Other	1	11
Income tax expense for the year	**271**	**313**

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movement of these temporary differences is detailed below and recorded mainly at the rate of 20% (2018: 20%), except for income on state securities that is taxed at 15% and dividend income that is taxed at 13%.

29 Income Taxes (Continued)

The Group has not recorded a deferred tax liability in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

In millions of US Dollars	31 December 2018	Translation movement recorded in other comprehen-sive income	Recorded in profit or loss	Recorded in other comprehen-sive income	31 December 2019
Tax effect of deductible temporary differences					
Accruals	161	21	(15)	-	167
Financial assets at FVTPL and Investments	-	-	23	-	23
Tax loss carry forwards	15	2	(3)	-	14
Other impairment provisions	7	1	5	-	13
Derivative financial instruments	-	-	(39)	63	24
Gross deferred tax asset	**183**	**24**	**(29)**	**63**	**241**
Deferred tax netted off within individual entities	(183)	(24)	29	(63)	(241)
Deferred tax asset	**-**	**-**	**-**	**-**	**-**
Tax effect of taxable temporary differences					
Loan from the SDIA	(87)	(11)	12	-	(86)
Premises and equipment	(61)	(8)	4	-	(65)
Financial assets at FVTPL and Investments	(25)	(3)	28	-	-
Credit loss allowance	(133)	(15)	48	-	(100)
Derivative financial instruments	(62)	(8)	70	-	-
Receivables on financial leasing	(30)	(4)	(14)	-	(48)
Gross deferred tax liability	**(398)**	**(49)**	**148**	**-**	**(299)**
Deferred tax netted off within individual entities	183	24	(29)	63	241
Deferred tax liability	**(215)**	**(25)**	**119**	**63**	**(58)**
Effect of translation of deferred taxation at average rates	-	5	(5)	-	-
Total net deferred tax liability	**(215)**	**(20)**	**114**	**63**	**(58)**

29 Income Taxes (Continued)

In millions of US Dollars	31 December 2017	Impact of adopting of IFRS 9 as at 1 January 2018	Translation movement recorded in other comprehen-sive income	Recorded in profit or loss	Recorded in other comprehen-sive income	31 December 2018
Tax effect of deductible temporary differences						
Accruals	186	(6)	(31)	12	-	161
Financial assets at FVTPL and Investments	114	-	(20)	(94)	-	-
Tax loss carry forwards	28	-	(5)	(8)	-	15
Other impairment provisions	10	1	(2)	(2)	-	7
Derivative financial instruments	54	-	(9)	(45)	-	-
Gross deferred tax asset	**392**	**(5)**	**(67)**	**(137)**	**-**	**183**
Deferred tax netted off within individual entities	(392)	5	67	137	-	(183)
Deferred tax asset	**-**	**-**	**-**	**-**	**-**	**-**
Tax effect of taxable temporary differences						
Loan from the SDIA	(116)	-	20	9	-	(87)
Premises and equipment	(57)	-	10	(15)	1	(61)
Financial assets at FVTPL and Investments	-	-	-	(28)	3	(25)
Credit loss allowance	(187)	27	28	(1)	-	(133)
Derivative financial instruments	-	-	-	58	(120)	(62)
Receivables on financial leasing	(38)	-	6	2	-	(30)
Gross deferred tax liability	**(398)**	**27**	**64**	**25**	**(116)**	**(398)**
Deferred tax netted off within individual entities	392	(5)	(67)	(137)	-	183
Deferred tax liability	**(6)**	**22**	**(3)**	**(112)**	**(116)**	**(215)**
Effect of translation of deferred taxation at average rates	-	-	12	(12)	-	-
Total net deferred tax liability	**(6)**	**22**	**9**	**(124)**	**(116)**	**(215)**

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

30 Segment Analysis

The Group's reportable segments are strategic business units that offer different products and services:

- Corporate and investment banking - comprises corporate lending, leasing, corporate deposit services, trade finance operations and structured corporate lending, securities trading, debt and equity capital markets services, derivative products, corporate finance advisory services and merger and acquisition advice.
- Medium, small and micro banking - comprises customer current accounts, savings, deposits, settlements, cash services and providing loans to individual entrepreneurs, small and medium businesses.
- Retail banking - comprises retail demand and term deposit services, credit and debit card services, retail lending (including consumer (POS) loans and personal instalment loans, car loans and mortgages), money transfers and private banking services.
- Treasury - comprises the Group's wholesale funding, internal funding reallocation, liquidity and risk management activities.

These segments are managed separately because each of them requires formulating a different strategy and uses different operational platforms. The Group evaluates segment performance on the basis of profit or loss before tax. Segment performance is regularly reviewed by the Group's Chief Operating Decision Maker ("CODM"). The CODM has been identified as the members of the Executive Board of Alfa-Bank.

As at 31 December 2019 a new reportable segment "Medium, small and micro banking" met the definition for the separate disclosure. The segment financial information is reviewed by the CODM on regular basis and its reported revenue and profit before tax were greater than 10 per cent of the combined reported revenue and profit before tax of all operating segments. The comparative segment information as at 31 December 2018 was adjusted by the extract of the new segment to provide the fair and relevant view.

The accounting policies of the operating segments are materially the same as those described in the summary of significant accounting policies except for: (i) use of a transfer pricing system, (ii) different classification of certain lines of income and expenses including other comprehensive income items and (iii) some balances and operations are excluded from segment analysis since they are monitored separately and on a less regular basis (including situations when balance is not allocated and related income or expense are allocated for the segment analysis and vice versa). In accordance with the transfer pricing system used by the Group funds are generally reallocated at internal interest rates set by the Treasury Department of the Group, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances.

30 Segment Analysis (Continued)

Segment information for the reportable segments of the Group for the year ended 31 December 2019 is set out below:

In millions of US Dollars	Corporate and Investment banking	Medium, small and micro banking	Retail banking	Treasury	Total
External revenues					
Interest income calculated using the effective interest method	1 738	414	1 185	311	3 648
Other similar income	273	-	-	-	273
Fee and commission income	221	568	789	9	1 587
Other operating income	1	-	2	-	3
Total external revenues	**2 233**	**982**	**1 976**	**320**	**5 511**
Interest income from other segments	469	526	956	3 622	5 573
Fee and commission income from other segments	-	-	-	24	24
Total segment revenues	**2 702**	**1 508**	**2 932**	**3 966**	**11 108**
Interest expense to other segments	(1 579)	(273)	(677)	(3 067)	(5 596)
Interest expense calculated using the effective interest method	(359)	(246)	(635)	(632)	(1 872)
Net credit loss allowance charge	(275)	(44)	(243)	(37)	(599)
Fee and commission expense	(87)	(61)	(330)	(4)	(482)
Fee and commission expense to other segments	(8)	(16)	-	-	(24)
Gains less losses from investments	53	-	-	(3)	50
Gains less losses from foreign currencies	80	6	71	(216)	(59)
Other provisions	(2)	-	(22)	-	(24)
Operating expenses	(101)	(221)	(409)	(9)	(740)
Allocated operating expenses	(99)	(128)	(193)	(6)	(426)
Segment result	**325**	**525**	**494**	**(8)**	**1 336**
31 December 2019					
Segment assets	**30 287**	**4 040**	**9 971**	**10 661**	**54 959**
Segment liabilities	**9 508**	**9 911**	**19 798**	**10 687**	**49 904**

30 Segment Analysis (Continued)

Segment information for the reportable segments of the Group for the year ended 31 December 2018 is set out below:

In millions of US Dollars	**Corporate and Investment banking**	**Medium, small and micro banking**	**Retail banking**	**Treasury**	**Total**
Segment revenues					
External revenues					
Interest income calculated using the effective interest method	1 727	272	827	358	3 184
Other similar income	205	-	-	-	205
Fee and commission income	209	455	780	9	1 453
Other operating income	8	2	3	1	14
Total external revenues	**2 149**	**729**	**1 610**	**368**	**4 856**
Interest income from other segments	554	391	809	3 190	4 944
Fee and commission income from other segments	-	-	-	19	19
Total segment revenues	**2 703**	**1 120**	**2 419**	**3 577**	**9 819**
Interest expense to other segments	(1 490)	(189)	(471)	(2 818)	(4 968)
Interest expense calculated using the effective interest method	(443)	(133)	(463)	(516)	(1 555)
Net credit loss allowance charge	(145)	(36)	(151)	-	(332)
Fee and commission expense	(95)	(36)	(319)	(3)	(453)
Fee and commission expense to other segments	(8)	(15)	(10)	-	(33)
Gains less losses from investments	(6)	-	-	(10)	(16)
Gains less losses from foreign currencies	76	5	52	(293)	(160)
Other provisions	1	(13)	(15)	-	(27)
Operating expenses	(105)	(173)	(430)	(9)	(717)
Allocated operating expenses	(110)	(132)	(169)	(7)	(418)
Segment result	**378**	**398**	**443**	**(79)**	**1 140**
31 December 2018					
Segment assets	**26 615**	**2 675**	**5 775**	**8 201**	**43 266**
Segment liabilities	**7 177**	**6 860**	**15 481**	**9 071**	**38 589**

30 Segment Analysis (Continued)

A reconciliation of the revenue for reportable segments to the Group's total revenue for the year is as follows:

In millions of US Dollars	**2019**	**2018**
Segment revenues	**11 108**	**9 819**
Interest income from other segments	(5 573)	(4 944)
Fee and commission income from other segments	(24)	(19)
Unallocated subsidiary banks' external revenues	61	59
Other non-reportable segments' unallocated amounts	(6)	12
Differences in translation to presentation currency	(16)	7
Total Group's revenues	**5 550**	**4 934**
Interest income calculated using the effective interest method	3 695	3 266
Other similar income	273	205
Fee and commission income	1 569	1 458
Other operating income	13	5
Total Group's revenues	**5 550**	**4 934**

A reconciliation of the segments' result to the Group's total profit before tax for the year is as follows:

In millions of US Dollars	**2019**	**2018**
Segments' result	**1 336**	**1 140**
Credit loss allowance unallocated to segments (except related to subsidiary bank)	(55)	55
Subsidiary banks' profit before tax	(21)	(11)
Discretionary interest payments on perpetual loan participation notes	77	82
Effect of translation of the financial statements of foreign operations and related hedge	(172)	383
Other non-reportable segments' unallocated results	(95)	52
Interest expense on loan from the SDIA unallocated to segments	(62)	(58)
Gains less losses on investments FVOCI	(1)	8
Other	(32)	(17)
Profit before tax	**975**	**1 634**

Reportable segments' assets are reconciled to total assets as follows:

In millions of US Dollars	**2019**	**2018**
Segments' assets	**54 959**	**43 266**
Items unallocated to segments:		
Unallocated assets of subsidiary bank	1 490	1 488
Cash on hand	1 140	909
Mandatory cash balances with central banks	422	336
Loans and advances to customers unallocated to segments	96	118
Other financial assets	100	180
Other assets	443	422
Premises and equipment	816	480
Total Group's assets	**59 466**	**47 199**

30 Segment Analysis (Continued)

Reportable segments' liabilities are reconciled to total liabilities as follows:

In millions of US Dollars	**2019**	**2018**
Segments' liabilities	**49 904**	**38 589**
Items unallocated to segments:		
Unallocated liabilities of subsidiary bank	1 778	1 689
Other financial liabilities	192	112
Other liabilities	358	339
Deferred tax liability	58	215
Perpetual loan participation notes	(966)	(943)
Total Group's liabilities	**51 324**	**40 001**

Reportable segments' interest income is reconciled to total interest income as follows:

In millions of US Dollars	**2019**	**2018**
Segments' interest income	**3 648**	**3 184**
Unallocated interest income related to subsidiary bank	59	52
Other non-reportable segments' interest income	6	29
Differences in translation to presentation currency	(15)	1
Other	(3)	-
Total Group's interest income	**3 695**	**3 266**

Reportable segments' interest expense is reconciled to total interest expense as follows:

In millions of US Dollars	**2019**	**2018**
Segments' interest expense	**(1 872)**	**(1 555)**
Unallocated interest expense related to subsidiary bank	(92)	(71)
Deposit insurance expense	133	91
Other non-reportable segments' interest expense	4	4
Discretionary interest payments on perpetual loan participation notes	77	82
Reclassification of interest to fee expenses	30	-
Differences in translation to presentation currency	7	(11)
Other	9	-
Total Group's interest expense	**(1 704)**	**(1 460)**

Reportable segments' credit loss allowance is reconciled to total credit loss allowance as follows:

In millions of US Dollars	**2019**	**2018**
Segments' credit loss allowance	**(599)**	**(332)**
Unallocated credit loss allowance related to subsidiary bank	2	16
Credit loss allowance unallocated to segments	(55)	55
Total Group's credit loss allowance	**(652)**	**(261)**

30 Segment Analysis (Continued)

Reportable segments' operating expenses and allocated operating expenses are reconciled to total Group's operating expenses as follows:

In millions of US Dollars	2019	2018
Segments' operating expenses and allocated operating expenses	**(1 166)**	**(1 135)**
Unallocated operating expense related to subsidiary bank	(56)	(55)
Other non-reportable segments' operating expense	(106)	(35)
Differences in translation to presentation currency	10	(11)
Total Group's operating expense	**(1 318)**	**(1 236)**

The Group's revenues from external customers are analysed by products and services in Notes 25 and 26.

The vast majority of the Group's revenues from external customers are attributed to customers domiciled in the Russian Federation. Revenues from external customers domiciled in other countries are below the threshold for separate disclosure in these consolidated financial statements. The vast majority of non-financial assets are also located in the Russian Federation.

31 Financial Risk Management

The Group systematically exploits the opportunities available to it to achieve its growth targets without losing sight of the related risks. The Group applies across all product lines a unified risk management practice comprising credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk management. The primary objective of the Group's risk management is to achieve an optimal level of risk-return for its operations. The Group continues to enhance its risk management.

The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise the Group's exposure to internal and external risk factors.

The Group's approach to managing risks is composed of following elements: (i) risk governance, (ii) risk identification, (iii) risk assessment, management and control, and (iv) risk reporting.

Subsidiaries of the Group have own unified risk management bodies depending on their size and risk profiles aimed at effective and efficient governance and decision making.

The Board of Directors has overall responsibility for the implementation of the risk management framework, including, but not limited to review and approval of the Risk and capital management strategy, procedure of significant risks management, risk-appetite, internal ratings-based ("IRB") models and validation reports. The Board of Directors also approves significant exposures, affiliated and related party transactions, which exceed the specific limits.

The Audit Committee is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.

The Remuneration Committee is responsible for reviewing and developing the remuneration framework, including recommendations to the Board of Directors.

The Risk Committee is responsible for preliminary consideration, analysis and proposals to the Board of Directors of the following key subjects: oversight the risk and capital management strategy, establishing risk appetite, monitoring the effectiveness of the risk management system, improvement of risk-culture and "Three lines of defence" model, IRB models and validation.

31 Financial Risk Management (Continued)

The Executive Board is responsible for implementation and monitoring of risk mitigation measures. The Executive Board monitors that the Group operates within the established risk parameters. The Executive Board approves risks which exceed the individual authority of the relevant committees. The Executive Board is responsible for approval of procedures for risk and capital management and stress-testing based on the Risk and capital management strategy approved by the Board of Directors. It ensures internal capital adequacy assessment procedures ("ICAAP") procedures and maintains capital adequacy higher than minimum regulatory requirements, as well as considers ICAAP reporting.

Risks are managed and controlled through a system of relevant committee (in order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure): a) non-retail credit risk through the Non-Retail Credit Committees, b) retail credit risk through the Retail and Mass Risk Committee, c) Market, Liquidity and Interest rate risk through the Asset and Liability Management Committee ("ALCO"), d) operational risk through the Operational Risk Steering Committee.

The Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting risks. The Risk Management Department deals with non-retail credit risk, counterparty credit risk, retail credit risks along with market risk, operational risk, liquidity risk and interest rate risk (together with the Treasury Department). The department structure is geared to bring focus on proactive portfolio management and to perform an extensive program of risk management processes and models improvements with ultimate goal to satisfy Basel II and III standards for risk management.

Corporate bad debts are managed through the Problem Loans Department that is independent from the Risk Management Department. Corporate problem loans are approved by the Main Credit Committee. The Non-Retail Default Committee is responsible for approval defaults and recovery period of borrowers (group of borrowers).

In relation to retail business, the Bad Debt Management Department executes the bad debt management strategy developed by the Retail Credit Risk Management Division and the Bad Debt Management Department. Default process is mainly automated, methodology is approved by the Chairman of the Executive Board.

Amsterdam Trade Bank N.V. has its own Risk Management and Treasury departments, operating in a way similar to Alfa-Bank.

Risk identification. Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. An overview of the key risks is regularly reported to the CRO, members of the risk management commitees, the Executive Board and the Board of Directors.

Risk assessment, management and control. The Group's risk assessment, reporting and control procedures vary by type of risk, but share a common methodology developed and updated by the Risk Management Department. Compliance with the Group's standards is supported by periodic reviews undertaken by the Internal Audit Department. The results of Internal Audit reviews are discussed with the management of the business units to which they relate and presented to the Audit Committee and the senior management of the Group.

Risk Reporting. Risk reporting represents a comprehensive reporting system that provides the senior management with the summary information about significant risks, risk-appetite and consequences of changes of the operating environment. Regular risk reporting includes results on risk identification and analysis of significant risks through the set of indicators, analysis of the available capital and capital adequacy estimation, stress-testing results.

Risk-appetite and significant risks. The Group indicates significant risks and defines risk-appetite for each significant risk disclosed below:

- Non-retail credit risk
- Counterparty credit risk
- Retail credit risk
- Market risk
- Interest rate risk
- Operational risk
- Liquidity risk
- Concentration risk

31 Financial Risk Management (Continued)

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.

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

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 credit conversion factors.

Limits. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Group established a number of credit committees that are responsible for approving credit limits for individual borrowers. Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or the Small Credit Committee. These committees convene weekly. In certain circumstances (for example, based on tenor or size) loans are approved by the Executive Board or the Board of Directors. Authority to approve deals with insignificant credit limits are delegated by the Executive Board to the special groups within Corporate and Investment Bank and the Risk Management Department under the "4 eyes" principle.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Executive Board or the Board of Directors.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies two approaches – an Internal Rating-Based (IRB) system or risk grades estimated by external international rating agencies (S&P, Fitch, Moody's).

In accordance with the internal rating loans and advances to customers and investments at AC assigned in one of the following rating categories:

- *First class* – strong credit quality with low expected credit risk
- *Good and standard* – adequate credit quality with a moderate credit risk
- *Acceptable* – moderate credit quality with a satisfactory credit risk
- *Weak* – facilities that require closer monitoring and remedial management
- *Impaired* – facilities in which a default has occurred.

The IRB system is designed internally and ratings are estimated by the Group itself. Various credit-risk estimating techniques are used by the Group depending on the class of the asset. There are three commonly used types of such systems:

- *Model-based* – In this system, credit risk ratings are assigned by internally developed statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.

31 Financial Risk Management (Continued)

- *Expert judgement-based* – In this system, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated statistical models.
- *Hybrid* – This rating system is a combination of the two systems above. It is developed by using historical data combined with expert input.

The Group applies IRB systems for measurement of credit risk for the following financial assets: interbank loans with Russian counterparties, corporate and retail loans, corporate bonds.

The rating models are regularly reviewed by the Risk Management Department, backtested on actual default data and updated if necessary. Despite the method used, the Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

Assessment of the credit quality of cash and cash equivalents, debt trading securities, due from other banks and debt investments at FVOCI are based on the counterparties' long-term credit ratings assigned by international rating agencies such as Standard & Poor's, Moody's Investors Services and Fitch Ratings and in accordance with the internal rating methodology:

- *First class* - banks and companies with minimal probability of default and with ratings above BB+ by Standard & Poor's and FitchRaings, Ba1 by Moody's Investors Services and BB+ in accordance with the internal rating methodology.
- *Good and standard* - banks and companies with long-term credit rating from BB- to BB by Standard & Poor's and FitchRaings, Ba3 to Ba2 by Moody's Investors Services and from BB- to BB in accordance with the internal rating methodology.
- *Acceptable* - banks and companies with long-term credit rating from B- to B+ by Standard & Poor's and FitchRaings, B3 to B1 by Moody's Investors Services and from B- to B+ in accordance with the internal rating methodology.
- *Weak* - banks and companies with long-term credit rating from CCC+ to C by Standard & Poor's and FitchRaings, Caa1 and Ca by Moody's Investors Services and CCC in accordance with the internal rating methodology.
- *Impaired* - banks and companies with long-term credit rating below C by Standard & Poor's and FitchRaings, Ca by Moody's Investors Services and below CCC in accordance with the internal rating methodology.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of PDs are applied for the following financial instruments if these instruments are not covered by IRB rating systems: interbank placements to foreign counterparties, loans to sovereigns, and investments in debt securities (government, corporate and municipal bonds, and Eurobonds and promissory notes purchased).

Alfa-Bank submitted an application to the CBRF for transition on IRB models for corporate loans in December 2018 and for retail loans in December 2019.

Expected credit loss (ECL) measurement – definitions

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 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.

Exposure at Default (EAD) – an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Probability of Default (PD) – an estimate of the likelihood of default to occur over a given time period.

31 Financial Risk Management (Continued)

Loss Given Default (LGD) – an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is expressed as a percentage of the EAD.

Discount Rate – a tool to discount an expected loss to the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Lifetime period – the maximum period over which ECL should be measured. For loans with fixed maturity, the lifetime period is equal to the remaining contractual period. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit. For credit cards issued to individuals, it is the period that is based on internal statistics, and it is equal to 3 years.

Lifetime ECL – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL – the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument. For those instruments without contractual life - 12 months are used.

Forward looking information – the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. Among other factors the Group analyses:

- oil prices and volumes;
- Russian CDSs;
- CPI and GDP changes.

Credit Conversion Factor (CCF) – a coefficient that shows the probability of conversion of an off-balance sheet amounts to exposure on the balance within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Group considers that 12-month and lifetime CCFs are the same.

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

Low credit risk financial assets – assets that have an investment grade defined by external rating agencies or corresponding internal rating, debt instruments issued by Russian Federation and denominated in RUR, loans to companies owned by the Russian Federation and denominated in RUR. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

Default and credit-impaired asset – a loan is in default, meaning fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the Group consider to sell the borrower's debt with significant losses (more than 5% of the debt principal balance and accrued interest);
- the Default Committee recognized restructured debt as default;
- the loan was originated to consolidate all the borrower's current debts to the Group into one (refinanced retail loans)
- the Group has classified the borrower in the default rating class according to the master scale together with the fact that the Main Credit Committee recognised the borrower as credit-impaired one. The Main Credit Committee decides on recognition of the borrower as credit-impaired one based on the unlikeliness-to-pay criteria listed below:
  - the borrower is insolvent;
  - it is becoming likely that the borrower will enter bankruptcy;
  - other criteria reflecting difficulties with successful fulfilling of obligations by the borrower.

31 Financial Risk Management (Continued)

An instrument is considered no longer to be in default (i.e. have cured), when it does not meet any more a default criteria into the consecutive period of six months, except for a default refinanced retail loan, for which cure period is twelve months.

Significant increase in credit risk (SICR) – the SICR assessment is performed on an individual basis and on a portfolio basis. For loans issued to legal entities and individuals, interbank loans and debt securities accounted for at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Group's Risk Management Department.

The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For loans issued to legal entities and bonds issued by the legal entities, interbank operations and bonds issued by the banks:

- 30 days past due;
- increase of PD by 2,7 times (that is close to decrease of rating by 3 notches) compared to PD on the date of initial recognition (the relative threshold);
- loan for which internal rating cannot be calculated (excluding loans rated by international rating agencies);
- inclusion of loan into a watch list zone "Red" according to the internal credit risk monitoring process.

For loans to Individuals:

- 30 days past due;
- increase of odds PD by 4 times compared to odds PD on the date of initial recognition (the relative threshold);
- fraud lists.

If there is evidence that the SICR criteria are no longer met, the instrument will be transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed.

ECL measurement – description of estimation techniques

General principle

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the credit risk of the borrower has increased significantly since initial recognition. This approach can be summarised in a three-stage model for ECL measurement:

- Stage 1: a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition, loss allowance is based on 12-month ECL.
- Stage 2: if a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but not yet deemed to be credit-impaired, loss allowance is based on lifetime ECL.
- Stage 3: if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3 and loss allowance is based on lifetime ECL.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Group only recognises the cumulative changes in lifetime expected credit losses.

The Group can carry out three separate approaches for ECL measurement:

- assessment on an individual basis;
- assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio;
- assessment based on external ratings.

31 Financial Risk Management (Continued)

The Group performs an assessment on an individual basis for the following types of loans issued to legal entities: loans with unique credit risk characteristics, individually significant loans and credit-impaired loans.

The Group performs an assessment on a portfolio basis for the following types of assets: loans and credit-related commitments issued to legal entities (standard lending, specialised lending, loans to leasing companies, etc.), interbank loans, retail loans and loans issued to SMEs. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information.

The Group performs assessments on external ratings for the following types of loans: interbank loans, debt securities issued by the banks and legal entities, and loans issued to sovereigns.

Principles of assessment on individual basis – ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines at least two possible outcomes for each loan, one of which leads to credit loss in spite of the probability of such a scenario. Individual assessment is mainly based on the expert judgement of the Problem Loans Collection Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

Principles of assessment on portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a group are homogeneous.

Examples of shared characteristics include: type of customer (such as income producing real estate or leasing companies), product type (such as credit cards or cash loans), credit risk rating and date of initial recognition.

The different segments reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the multiplication of the following credit risk parameters: EAD, PD and LGD (definitions of the parameters are provided above). The general approach used for ECL calculation is stated below. It could be applied for products assessed on a portfolio basis and for products for which the bank has credit risk ratings assessment based on borrower-specific information.

$$ECL = \sum_{i=0}^{N-1} (PD_{t_i,t_{i+1}} \frac{EAD_{t_i}}{(1+EIR)^{t_i}} LGD_{t_i})$$

where:
LGD_{t_i} – loss given default in moment t_i
EAD_{t_i} – exposure at default in moment t_i
$PD_{t_i,t_{i+1}}$ – probability of default between t_i and t_{i+1} (cannot be higher than 100%)
t_i – number of months in the loan's lifetime
EIR – effective interest rate
N – remaining amount of payments.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The brief principles of calculating the credit risk parameters are as following.

The EADs are determined based on the expected payment profile, which varies by product type:

- for amortising products and bullet repayment loans, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- for revolving products, the EAD is predicted by taking the current drawn balance and adding a credit conversion factor that accounts for the expected drawdown of the remaining limit by the time of default.

31 Financial Risk Management (Continued)

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for forward-looking information when appropriate.
- Lifetime PDs – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs for Stage 2 exposures. An assessment of a Lifetime PD is based on the latest available historic default data and adjusted for forward looking information when appropriate.

To calculate Lifetime PD, the Group uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes and developing lifetime PD curves based on the historical default data. For lifetime PD calculations, the Group uses historical default data and the extrapolation of trends for longer periods during which default data was not available.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the product, stage and the availability of collateral or other credit support.

The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event.

The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics;
- individually defined LGD depending on different factors and scenarios.

For loans secured by real estate the Group calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors.

For particular segments of the corporate, retail, interbank loan portfolio and corporate bonds LGD is calculated on a collective basis based on the latest available recovery statistics.

ECL measurement for off-balance sheet financial instruments (financial guarantees, loan commitments)

The ECL measurement of off-balance sheet accounts consists of the same steps described above for the balance sheet exposures and differs with respect to EAD calculation. EAD with respect to off-balance sheet exposures should be calculated in the following way:

$$EAD = ExOff * CCF$$

where:
CCF – credit conversion factor
$ExOff$ – amount of credit-related commitments
CCF for undrawn credit lines of legal entities, credit cards issued to individuals and financial guarantees is defined based on statistical analysis of exposure at default
CCF for overdrafts is defined as 100% since the limits can be used by the clients at any time.

Principles of assessment based on external ratings – the principles of ECL calculations based on external ratings are the same as for their assessment on a portfolio basis. Since the clients have defined the external credit rating, credit risk parameters (PD) could be taken from the default and recovery statistics published by international rating agencies.

Forward-looking information incorporated in the ECL models. The assessment of the SICR and the calculation of ECLs both incorporate forward-looking information. The Group has performed historical analyses and identified the key economic variables impacting credit risk and ECLs for each portfolio.

31 Financial Risk Management (Continued)

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. These economic variables, such as consumer price index, natural gas price, Russian CDS, have been determined by performing statistical regression analysis to understand the impact of changes in these variables has historically had on default rates.

Based on them the Group's Risk Management Department makes the forecast of future macroeconomic conditions, which is considered by the management of the Group to define the next coming stage of economic cycle using not only statistical approach but also expert judgement of the management.

The assessment of SICR is performed using the Lifetime PD for retail borrowers and 12-month PD for other financial assets, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running the relevant ECL model.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Validation – the Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such validation is performed at least once a year. The results of validation the ECL measurement methodology are communicated to the Group management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

The Group manages its market risk through notional-based and risk-based limits for the Group’s sub-positions. Overall Group's position is split between (i) Corporate and Retail Banking positions, (ii) Investment Banking position and (iii) Treasury position. Corporate and Retail Banking exposures to market risks are managed through the system of limits monitored by the Treasury Department. Investment Banking exposures to market risk are managed through open position limits, value at risk (“VaR”) limits and extreme loss limits which are set for both aggregated position in equities, fixed income, foreign currency and derivative instruments (treated as separate “trading desks”) and for individual trading desks. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities positions are approved by ALCO. An issuer limits on debt securities are approved separately by a relevant Credit Committee. The major part of the Group’s proprietary and flow trading portfolios consists of liquid securities quoted on active market (Note 8). The Group’s derivative operations are driven by two major factors: (i) the necessity to hedge own risks by foreign currency, securities and interest rate derivatives and (ii) customer’s demand for foreign currency, securities, commodities and other derivatives.

Risk-based limits are monitored on a daily basis by the Risk Management Department with respect to individual (foreign currency, equity, fixed income, derivatives) trading desks. The overall VaR of Investment Banking is monitored on a weekly basis.

The limit for the overall 1-day, 99% confidence level VaR of trading position is USD 40 million.

Certain structured credit positions either with or without a component of financing from third parties were controlled according to their notional amount under the credit risk policy of the Group.

31 Financial Risk Management (Continued)

The daily VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of the Group were to be held unchanged for one business day. Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- One business day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR;
- As VaR is only calculated on the end-of-day basis, it does not necessarily reflect exposures that may arise on positions during the trading day; and
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The effectiveness of the VaR model is subject to back-test assessment. Back-testing compares the frequency of bigger-than-VaR loss occurrence and compares it to the set confidence level.

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of the Group’s position have to be assessed by putting a stress on the number of standard deviations of market returns. Historical stress scenario can be also used. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. The Group uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Equity price risk. As noted above, for the purpose of quantifying the Group’s equity price risks which is attributed to Investment Banking trading position only, the Group uses a VaR model.

As at 31 December 2019 the Group’s equity price risk VaR was limited at USD 8 million (2018: USD 8 million) (limit set by ALCO).

Currency risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in the foreign exchange rates. The Treasury Department is responsible for the centralised management of the foreign exchange risk of the banking book (strategic position). The Corporate and Investment Bank is responsible for the currency risk management of trading position. ALCO sets separate limits on the open currency position. The Risk Management Department controls limits of trading position. The Treasury Department of the Group ensures compliance limits on open foreign exchange position of the banking book and general limits on the open currency position.

The Group uses derivatives to manage current and forecast exposures resulting from foreign currencies.

31 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as monitored by management as at 31 December 2019:

In millions of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	1 919	3 265	1 010	256	-	6 450
Mandatory cash balances with central banks	-	412	10	-	-	422
Financial assets at FVTPL	823	169	2	-	126	1 120
Repurchase receivables relating to financial assets at FVTPL	3	-	-	-	-	3
Due from other banks	2 377	805	359	1	-	3 542
Loans and advances to customers	7 396	28 723	2 524	-	-	38 643
Investments	1 931	4 904	336	-	-	7 171
Repurchase receivables relating to investments	-	-	132	-	-	132
Other financial assets	119	555	16	34	-	724
Other assets	16	161	-	1	265	443
Premises and equipment	-	-	-	-	816	816
Total assets	**14 584**	**38 994**	**4 389**	**292**	**1 207**	**59 466**
Liabilities						
Due to other banks	406	1 768	263	11	-	2 448
Customer accounts	7 332	30 294	3 582	214	-	41 422
Debt securities issued	977	2 263	468	168	-	3 876
Loan from the SDIA	-	470	-	-	-	470
Subordinated debt	1 064	462	40	-	-	1 566
Other financial liabilities	52	1 042	21	11	-	1 126
Other liabilities	149	198	11	-	-	358
Deferred tax liability	-	-	-	-	58	58
Total liabilities	**9 980**	**36 497**	**4 385**	**404**	**58**	**51 324**
Net balance sheet position	**4 604**	**2 497**	**4**	**(112)**	**1 149**	**8 142**
Net balance sheet position less fair value of foreign exchange derivatives	**4 609**	**2 658**	**8**	**(117)**	**1 150**	**8 308**
Foreign exchange derivatives (fair value of currencies receivable or payable) (Note 37)	**3 719**	**(3 900)**	**(123)**	**138**	**-**	**(166)**
Net balance sheet and derivatives position	**8 328**	**(1 242)**	**(115)**	**21**	**1 150**	**8 142**

Almost all non-monetary items are attributable to the Russian Federation.

31 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as monitored by management as at 31 December 2018:

In millions of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	1 008	2 089	1 054	182	-	4 333
Mandatory cash balances with central banks	-	326	10	-	-	336
Financial assets at FVTPL	665	124	37	3	34	863
Repurchase receivables relating to financial assets at FVTPL	8	-	-	-	-	8
Due from other banks	2 543	1 441	208	1	-	4 193
Loans and advances to customers	7 225	20 651	1 804	4	-	29 684
Investments	1 596	3 718	498	-	10	5 822
Repurchase receivables relating to investments	3	45	30	-	-	78
Other financial assets	836	88	2	54	-	980
Other assets	6	159	13	1	243	422
Premises and equipment	-	-	-	-	480	480
Total assets	**13 890**	**28 641**	**3 656**	**245**	**767**	**47 199**
Liabilities						
Due to other banks	699	862	297	14	-	1 872
Customer accounts	6 373	21 974	3 602	157	-	32 106
Debt securities issued	957	1 657	477	168	-	3 259
Loan from the SDIA	-	367	-	-	-	367
Subordinated debt	602	553	40	-	-	1 195
Other financial liabilities	481	140	12	15	-	648
Other liabilities	98	211	30	-	-	339
Deferred tax liability	-	-	-	-	215	215
Total liabilities	**9 210**	**25 764**	**4 458**	**354**	**215**	**40 001**
Net balance sheet position	**4 680**	**2 877**	**(802)**	**(109)**	**552**	**7 198**
Net balance sheet position less fair value of foreign exchange derivatives	**4 344**	**2 888**	**(806)**	**(113)**	**552**	**6 865**
Foreign exchange derivatives (fair value of currencies receivable or payable) (Note 37)	**3 033**	**(3 440)**	**623**	**117**	**-**	**333**
Net balance sheet and derivatives position	**7 377**	**(552)**	**(183)**	**4**	**552**	**7 198**

Derivatives represent the fair value, as at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 37.

31 Financial Risk Management (Continued)

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations (Note 4). For the purpose of currency risk sensitivity analysis the Group splits its assets, liabilities and notional amounts of foreign currency receivable and payable at the reporting dates into three currency zones depending on the functional currencies of the entities included in the zone:

- Russian Rouble zone (includes all Russian Federation subsidiaries);
- Euro zone (includes Amsterdam Trade Bank N.V.);
- US Dollar zone (includes all other foreign subsidiaries operating internationally).

Sensitivity analysis presented below indicates the potential effect of the change in foreign exchange market conditions on the profit or loss for the year and risk arising out of translation of the financial statements of subsidiaries into the presentation currency of the Group.

As the Group exposure to currencies other than US Dollar, Euro and Russian Rouble is not considerable in comparison to other exposures, in performing sensitivity analysis the Group includes its net position in other currencies into the net position in US Dollars. As at 31 December 2019 the Group's net currency position including foreign currency derivatives was as follows:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	8 321	-	151
Euro zone	-	14	(1)
US Dollar zone	35	451	-
Exposure with effect on profit or loss	8 356	465	150
Exposure with effect on other comprehensive income	(8 277)	-	-
Net exposure	**79**	**465**	**150**

As at 31 December 2019 if either of USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would have affected profit or loss for the year (pre-tax) of the Group and equity in the following way:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+ 10% change in all foreign exchange rates	8	47	15
- 10% change in all foreign exchange rates	(8)	(47)	(15)

As at 31 December 2018 the Group's net currency position including foreign currency derivatives was as follows:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	6 842	-	237
Euro zone	-	139	(14)
US Dollar zone	12	488	-
Exposure with effect on profit or loss	6 854	627	223
Exposure with effect on other comprehensive income	(5 821)	-	-
Net exposure	**1 033**	**627**	**223**

At 31 December 2018 if USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would have affected profit or loss for the year (pre-tax) of the Group and equity in the following way:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+ 10% change in all foreign exchange rates	103	63	22
- 10% change in all foreign exchange rates	(103)	(63)	(22)

31 Financial Risk Management (Continued)

Interest rate risk. Interest rate risk of the banking book (IRRBB) is the current or prospective risk to both the earnings and economic value arising from adverse movements in interest rates that affect interest rate sensitive instruments. IRRBB is assessed in two perspectives: sensitivity of net interest margin (NIM perspective), sensitivity of economic value of equity (EVE perspective). Thus, there are two classes of IRRBB metrics employed. Shocks of interest rates for IRRBB metrics calculations are: 1) standardised by Basel committee and 2) developed by the Treasury and the Risk Management Department.

While IRRBB arises from interest rates fluctuations, there are risks, reflecting in both mentioned perspectives of IRRBB, that come from movements in market rates (referring as “market risk”) and from Group’s credit spreads oscillations (referring as “spread risk”). Both market and spread IRRBB are measured in terms of NIM’s and EVE's sensitivities.

To control for IRRBB volume ALCO sets limits for all interest rate risk metrics. Limits for IRRBB metrics are set for significant currencies (these are currencies for each those total outstanding volume is not less than 5% of the total banking book balance). These are Russian Rouble, US Dollar and Euro. The Group’s IRRBB is managed by the Treasury Department within the limits set by ALCO. Such limits are monitored on a weekly basis by the Assets Liabilities Management Unit of the Treasury Department.

To remain within the limits set by ALCO, the Treasury Department has a mandate to hedge IRRBB. Hedge is achieved both 1) with derivatives and 2) by altering balance sheet structure.

In addition, risks of changes in prices of individual debt instruments related to trading positions of investment business (i.e. interest rate risk of the trading book) are covered by the limit on the size of the open position and the limit for VaR.

The table below summarises the Group’s exposure to interest rate risks as monitored by management. 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.

In millions of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
31 December 2019						
Total financial assets	17 118	12 256	3 322	25 508	3	58 207
Total financial liabilities	(13 284)	(8 845)	(3 859)	(24 920)	-	(50 908)
Effect of interest-based derivatives	(1 000)	15	(15)	1 000	-	-
Net interest sensitivity gap as at 31 December 2019	**2 834**	**3 426**	**(552)**	**1 588**	**3**	**7 299**
31 December 2018						
Total financial assets	13 008	10 382	2 728	20 135	44	46 297
Total financial liabilities	(10 345)	(6 527)	(4 326)	(18 249)	-	(39 447)
Effect of interest-based derivatives	(14)	(8)	-	-	-	(22)
Net interest sensitivity gap as at 31 December 2018	**2 649**	**3 847**	**(1 598)**	**1 886**	**44**	**6 828**

Refer to Note 37 for the information on interest rate derivatives used to manage the Group’s interest rate exposure.

For the year ended 31 December 2019 and 2018, if interest rates at that date had been 100 basis points higher/lower, with all other variables held constant, pre-tax profit would have been USD 230 million higher/lower (2018: USD 181 million higher/lower), mainly as a result of higher interest income on loans and advances to customers. Other components of equity (also pre-tax) would have been USD 47 million lower/higher (2018: USD 32 million lower/higher), as a result of change in the fair value of fixed interest rate debt investments classified as FVOCI.

31 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2019				2018			
In % per annum	**USD**	**RR**	**EUR**	**Other**	**USD**	**RR**	**EUR**	**Other**
Assets								
Cash balances with central banks	-	0.0	0.0	-	-	0.0	0.0	-
Correspondent accounts and overnight placements with other banks	0.0	5.8	0.0	0.2	0.0	7.5	0.0	0.0
Mandatory cash balances with central banks	-	0.0	0.0	-	-	0.0	0.0	-
Financial assets at FVTPL	5.2	8.7	3.6	-	5.3	9.2	3.0	-
Repurchase receivables relating to financial assets at FVTPL	0.3	-	-	-	3.9	-	-	-
Due from other banks	1.8	6.0	2.1	7.1	3.0	7.9	2.0	0.0
Loans and advances to customers								
- corporate borrowers	4.5	8.8	3.0	5.7	5.6	9.5	3.7	6.1
- individuals	18.2	19.0	24.3	-	17.7	20.1	24.3	-
Debt investments at FVOCI	3.5	6.3	3.6	-	3.1	7.5	1.5	-
Repurchase receivables relating to investments at FVOCI	-	-	0.4	-	-	-	-	-
Investments at AC	5.4	9.2	3.0	-	5.6	9.5	3.0	-
Repurchase receivables relating to investments at AC	-	-	0.4	-	4.1	-	-	-
Liabilities								
Due to other banks	2.3	5.1	0.0	1.0	3.1	6.1	0.2	1.1
Customer accounts								
Individuals								
- current and settlement accounts	0.2	3.2	0.0	0.0	0.3	3.9	0.1	0.0
- term deposits	1.9	6.5	0.9	0.0	2.4	6.5	0.1	0.0
Legal entities								
- current and settlement accounts	0.3	0.9	0.0	0.0	0.1	0.9	0.0	0.0
- term deposits	1.1	5.7	8.3	0.0	2.3	7.0	0.0	0.0
Debt securities issued	6.8	7.7	2.7	3.0	7.4	8.4	2.7	3.0
Loan from the SDIA	-	15.7	-	-	-	15.7	-	-
Subordinated debt	6.8	7.8	4.5	-	8.5	7.5	4.5	-

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

Geographical risk concentrations.

As at 31 December 2019 and 2018 majority of assets, liabilities and credit related commitments of the Group are concentrated in the Russian Federation. Also, the Group has certain balances (mainly cash and cash equivalents, loans and advances to customers and debt securities) in Europe, USA and CIS. CIS represents the countries of the Commonwealth of Independent States, of which the Group's primary exposure is to the Ukraine, Kazakhstan and Belarus.

The majority of the Group's revenues are generated from counterparties domiciled in the Russian Federation as well as substantially all of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

31 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is a risk of incapacity of the credit institution to finance its activities, i.e., support the growth of assets and fulfil the obligations at maturity without incurring losses in amounts endangering the financial stability of the credit institution. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and from margin and other calls on derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Treasury Department and is monitored by ALCO.

The Group seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customer deposits, debt securities in issue and due to other banks and maintain an adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans, monitoring liquidity ratios and liquidity factors against regulatory or Group risk-appetite requirements. Alfa-Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios are:

(i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;

(ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;

(iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year;

(iv) liquidity coverage ratio (PKL, N26), which is calculated as the ratio of highly liquid assets that will be received during the next calendar day without substantial loss in value to the amount of net expected outflow of funds on the operations of the bank for the next 30 calendar days;

(v) net stable funding ratio (NSFR, N29) in accordance with the internal and the CBRF requirements, different ratios of concentration of liabilities by groups of clients, covenants, deposits with rights of cancellation, etc.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks (including the CBRF and Federal Treasury for Russian Roubles and central banks for other currencies) and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

For regular stress-test purposes, the Treasury Department runs liquidity forecast models for different financial instruments on a daily basis. Different scenarios are tracked: including or disregarding projected new lending. Information on the level of delinquencies that result in late payments is regularly updated for the liquidity forecast. These liquidity forecast models are aggregated into liquidity position under the Crisis Scenario. The Crisis Scenario's liquidity position is calculated on a daily basis and additionally covers severe market conditions: crisis customer's outflows, defaults of loans, the CBRF facilities, etc. ALCO sets the limits as Survival Horizon (continuous number of days of positive liquidity under the Crisis Scenario) separately for local currency, foreign currency and total.

Liquidity risk-appetite ratios are reported on regular basis to the Management, ALCO and the Board of Directors.

The tables below show liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position because the amounts in the consolidated statement of financial position are based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amounts are determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

31 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities as at 31 December 2019 was as follows:

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	1 187	939	204	144	2 474
Customer accounts - individuals	14 944	3 166	2 489	1 350	21 949
Customer accounts - other	17 119	3 577	232	165	21 093
Debt securities issued	7	643	253	3 890	4 793
Loan from the SDIA	-	1	1	898	900
Subordinated debt	-	246	522	1 103	1 871
Other non-derivative financial liabilities	191	38	26	241	496
Gross settled swaps and forwards:					
- inflows	(639)	(626)	(2 622)	(1 050)	(4 937)
- outflows	647	630	2 642	1 047	4 966
Net settled derivatives	87	254	238	3	582
Unused credit cards limits	6 523	-	-	-	6 523
Import letters of credit	551	-	-	-	551
Corporate overdrafts	1 063	-	-	-	1 063
Financial guarantees	157	-	-	-	157
Total potential future payments for financial obligations	**41 837**	**8 868**	**3 985**	**7 791**	**62 481**

Payments in respect of gross settled forwards will be accompanied by related cash inflows as disclosed above. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The maturity analysis of undiscounted financial liabilities as at 31 December 2018 was as follows:

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	858	506	214	310	1 888
Customer accounts - individuals	10 922	2 176	2 363	1 274	16 735
Customer accounts - other	12 462	2 969	199	165	15 795
Debt securities issued	115	206	286	3 244	3 851
Loan from the SDIA	-	2	2	830	834
Subordinated debt	-	35	576	723	1 334
Other non-derivative financial liabilities	131	2	10	12	155
Gross settled swaps and forwards:					
- inflows	(1 433)	(1 579)	(224)	(1 456)	(4 692)
- outflows	1 408	1 470	234	1 422	4 534
Net settled derivatives	90	202	89	15	396
Unused credit cards limits	3 840	-	-	-	3 840
Import letters of credit	503	-	-	-	503
Corporate overdrafts	395	-	-	-	395
Financial guarantees	198	-	-	-	198
Total potential future payments for financial obligations	**29 489**	**5 989**	**3 749**	**6 539**	**45 766**

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Treasury Department monitors expected maturities.

31 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2019 by their expected maturities as determined by the management. This analysis was prepared on the basis of contractual maturities except for adjustments in relation to (i) trading securities and (ii) part of customer accounts. The entire portfolio of trading securities was classified within "demand and less than 1 month" based on the Management's assessment of the portfolio's realisability. Part of current/settlement/demand accounts was reallocated from "demand and less than 1 month" category to baskets with later maturities. On the basis of past experience Management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least part of these current/demand/settlement accounts would provide a long-term and stable source of funding for the Group.

In millions of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	6 450	-	-	-	-	6 450
Mandatory cash balances with central banks	422	-	-	-	-	422
Financial assets at FVTPL	932	-	-	185	3	1 120
Repurchase receivables relating to financial assets at FVTPL	3	-	-	-	-	3
Due from other banks	3 100	13	81	348	-	3 542
Loans and advances to customers	2 927	7 265	2 628	25 823	-	38 643
Investments	1 169	3 425	510	2 067	-	7 171
Repurchase receivables relating to investments	11	-	59	62	-	132
Other financial assets	307	226	166	25	-	724
Other assets	137	36	2	3	265	443
Premises and equipment	-	-	-	-	816	816
Total assets	**15 458**	**10 965**	**3 446**	**28 513**	**1 084**	**59 466**
Liabilities						
Due to other banks	1 186	930	199	133	-	2 448
Customer accounts	11 711	6 768	2 695	20 248	-	41 422
Debt securities issued	9	643	149	3 075	-	3 876
Loan from the SDIA	-	-	-	470	-	470
Subordinated debt	-	224	462	880	-	1 566
Other financial liabilities	296	280	273	277	-	1 126
Other liabilities	87	34	30	207	-	358
Deferred tax liability	-	-	-	-	58	58
Total liabilities	**13 289**	**8 879**	**3 808**	**25 290**	**58**	**51 324**
Net expected liquidity gap	**2 169**	**2 086**	**(362)**	**3 223**	**1 026**	**8 142**
Cumulative expected liquidity gap	**2 169**	**4 255**	**3 893**	**7 116**	**8 142**	

31 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2018 by their expected maturities as determined by the Group.

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	4 333	-	-	-	-	4 333
Mandatory cash balances with central banks	336	-	-	-	-	336
Financial assets at FVTPL	634	19	-	210	-	863
Repurchase receivables relating to financial assets at FVTPL	8	-	-	-	-	8
Due from other banks	3 684	386	-	123	-	4 193
Loans and advances to customers	2 053	5 120	2 517	19 994	-	29 684
Investments	60	2 883	109	2 759	11	5 822
Repurchase receivables relating to investments	48	-	30	-	-	78
Other financial assets	279	391	164	146	-	980
Other assets	84	5	82	8	243	422
Premises and equipment	-	-	-	-	480	480
Total assets	**11 519**	**8 804**	**2 902**	**23 240**	**734**	**47 199**
Liabilities						
Due to other banks	857	503	209	303	-	1 872
Customer accounts	9 129	5 604	3 317	14 056	-	32 106
Debt securities issued	114	175	194	2 776	-	3 259
Loan from the SDIA	-	-	-	367	-	367
Subordinated debt	-	15	514	666	-	1 195
Other financial liabilities	245	230	92	81	-	648
Other liabilities	43	204	13	79	-	339
Deferred tax liability	-	-	-	-	215	215
Total liabilities	**10 388**	**6 731**	**4 339**	**18 328**	**215**	**40 001**
Net expected liquidity gap	**1 131**	**2 073**	**(1 437)**	**4 912**	**519**	**7 198**
Cumulative expected liquidity gap	**1 131**	**3 204**	**1 767**	**6 679**	**7 198**	

Assets and liabilities disclosed as “no stated maturity” are expected to be recovered or settled after twelve months after the reporting period.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitments because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

31 Financial Risk Management (Continued)

Operational risk. Operational risk is defined as risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. The events that are included under this definition of operational risk are, mainly, losses from fraud, computer system failures, settlement errors, model errors or natural disasters.

The Group monitors its operational risk profile and material exposures to operational losses on a regular basis. The Group's system of regular reporting of information to senior management supports the proactive management of operational risk.

Activities of the Group's operational risk management includes: identification, assessment, monitoring and reporting, control and/or minimization of the Group's exposure to operational risk as well as the distribution of responsibilities and authorities to manage operational risk. Information on realised operational risks and losses are collected in the Group's own loss database system.

In order to identify and assess operational risks, the Group uses the following operational risk management tools:

- analysis of processes;
- internal loss data collection and analysis;
- external loss data collection and analysis;
- risk and control self-assessment (RCSA);
- key risk indicators (KRI);
- scenario analysis (stress-testing).

The main principles and instruments of operational risk minimisation are defined by the Group's Operational Risk Management Policy.

The Group regards active participation of its business divisions as a cornerstone for effective risk management. Each business division is primarily responsible for the identification and assessment of operational risk arising from its business operations. In circumstances where a business division considers it appropriate, operational risk is insured.

The Operational Risk Steering Committee ("ORSC"), which meets monthly, monitors the level of operational risk, coordinates the operational risk management across the departments and approves procedures for operational risk identification. ORSC takes part in carrying out operational risk analysis of new products and complex transactions, approval of internal documents regarding operational risk.

Each year, the Group obtains an international comprehensive banking risk insurance policy, also known as a "banker's blanket bond", which covers its professional activities world-wide and insures it against, among other things, forgery, electronic and computer crimes and employees' unlawful actions.

32 Management of Capital

The Group's main objectives when managing capital are: (i) to comply with the capital requirements set by the respective central banks and debt covenants, (ii) to safeguard the companies' ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of the Group based on Basel (International Convergence of Capital Management and Capital Standards dated July 1988 (as subsequently amended and updated)) of at least 8%.

The Group's policy of capital management is designated to maintain the capital base sufficient to comply with the regulatory requirements and to keep the confidence of investors, creditors, other market participants and to secure the future development of the Group. The CBRF establishes and monitors capital adequacy limits for Alfa-Bank. Capital adequacy limits for Amsterdam Trade Bank N.V. are established and monitored by the Dutch National Bank. Capital adequacy limits of Alfa Capital Holdings (Cyprus) Limited are monitored by the Cyprus Securities and Exchange Commission.

32 Management of Capital (Continued)

The Group plans its capital needs to be able to comply with both the regulators' requirements and Basel with a one-year horizon. The Group performs medium- and long-term planning of growth in the asset side considering sufficiency of capital. When necessary, the Group develops and implements measures to increase its capital base.

The amount of the Group's total capital calculated in accordance with Basel III as at 31 December 2019 was USD 8 910 million (2018: USD 7 363 million), the amount of Tier 1 capital as at 31 December 2019 was USD 7 939 million (2018: USD 7 031 million). According to information provided internally to key management personnel, total capital adequacy ratio and Tier 1 capital adequacy ratio were 18.3% and 16.3%, respectively (2018: 18.2% and 17.3%) and the relevant Group entities complied with external capital adequacy requirements during 2019 and 2018.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses exceeding provision of USD 2 million (2018: USD 2 million) recorded in these consolidated financial statements as at 31 December 2019 will be incurred in respect of claims against the Group.

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

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis.

The Russian legislation contains special rules for adjustment of transaction prices for tax purposes which includes transfer pricing rules as well as rules for securities and derivatives. The Group believes that no transactions performed in 2019 required tax adjustments, except for certain transactions (mainly related to securities and derivatives). It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may impact the financial position and/or some operations of the Group.

The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). CFC income is subject to a 20% tax rate if the CFC is controlled by a legal entity and a rate of 13% if it is controlled by an individual. As a result, management reassessed the Group's tax positions and concluded that this legislation does not result in additional material deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to.

As the Russian tax legislation does not provide definitive guidance in certain areas, the tax authorities may challenge the Group's interpretations of some uncertain areas. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

33 Contingencies and Commitments (Continued)

In addition to the aforementioned risks, the Group estimates that as at 31 December 2019 and 2018 it had no other material probable or possible tax exposures. Management will vigorously defend the Group's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

Regulatory compliance. The Group provides financial services through financial institutions registered in the Russian Federation, the Netherlands, Cyprus and other jurisdictions. Financial services are subject to regulation by authorities in connection with obtaining and renewing various licences and permits, as well as with ongoing compliance with existing laws and regulations and with the terms and conditions of the respective licences and permits. The failure to comply with the regulatory requirements may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of licences and permits or in requirements to limit certain business activities.

In the normal course of business, the Group must interpret and apply existing regulatory requirements to its activities. From time to time matters of actual or potential non-compliance with existing regulatory requirements may be identified. The Management is focused on the rectification of such matters as a matter of priority and believes that such matters will not result in significant operating restrictions or material financial losses.

Capital commitments. As at 31 December 2019 the Group had capital commitments of USD 95 million (2018: USD 43 million), of which USD 88 million (2018: USD 9 million) related to construction expenditure and modernisation of premises and USD 7 million (2018: USD 34 million) related to purchase and installation of new computer systems. Management has already allocated the necessary resources in respect of these commitments. Management believes that future income and funding will be sufficient to cover these and any similar commitments.

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

In addition to credit related commitments, the Group issues performance guarantees. Performance guarantees are insurance contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

Outstanding credit related commitments and performance guarantees were as follows:

In millions of US Dollars	**2019**	**2018**
Unused credit cards limits	6 523	3 840
Corporate overdrafts	1 063	395
Import letters of credit	551	503
Financial guarantees	157	198
Export letters of credit	17	14
Total credit related commitments	**8 311**	**4 950**
Performance guarantees	1 636	1 450
Total credit related commitments and performance guarantees	**9 947**	**6 400**
Credit loss allowance	**(36)**	**(24)**

As at 31 December 2019 the Group had USD 6 957 million (2018: USD 5 320 million) commitments to provide financial and performance guarantees.

33 Contingencies and Commitments (Continued)

The total outstanding contractual amount of credit related commitments and performance guarantees does not necessarily represent future cash requirements, as these instruments may expire or terminate without being funded. The fair value of credit related commitments and performance guarantees was USD 35 million as at 31 December 2019 (2018: USD 24 million).

Movements in the credit loss allowance on credit related commitments and performance guarantees were as follows:

In millions of US Dollars	2019	2018
Credit loss allowance as at 1 January	**24**	**11**
Credit loss allowance	12	10
Effect of translation to presentation currency	(1)	3
Credit loss allowance as at 31 December	**35**	**24**

Compliance with covenants. In accordance with agreements for attracting financing the Group should comply with financial and non-financial covenants. The most significant covenants are:

- to comply with the ratios and requirements of the CBRF;
- to maintain a minimum ratio of capital to risk-weighted assets calculated in accordance with Basel;
- to maintain a minimum level of net assets; and
- to ensure that all related party transactions are on an arm's length basis.

The Group was in compliance with these covenants during 2019 and 2018.

Assets pledged and restricted. The Group had the following assets pledged as collateral:

In millions of US Dollars	Notes	2019 Asset pledged	2019 Related liability	2018 Asset pledged	2018 Related liability
Trading securities classified as repurchase receivables	8, 15	3	3	8	8
Loans and advances to customers pledged to the CBRF	10, 15	145	139	116	110
Margin call deposits	9, 33	310	629	114	511
Investments at FVOCI classified as repurchase receivables	11, 15	74	74	45	43
Investments at AC classified as repurchase receivables	11, 15	58	58	33	31
Total		**590**	**903**	**316**	**703**

As at 31 December 2019 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Notes 9 and 10), which the Group has the right to sell or re-pledge in the absence of default of the counterparty was USD 3 813 million (2018: USD 4 042 million). As at 31 December 2019 the fair value of such securities sold under sale and repurchase agreements with other banks and customers amounted to USD 42 million (2018: USD 156 million) (Notes 15 and 16).

Mandatory cash balances with central banks represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

34 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements include (1) amounts receivable under reverse repurchase agreements effectively collateralised by securities which are not recognized in the consolidated statement of financial position, (2) amounts payable under repurchase agreements which are collateralised by repurchase receivables relating to trading securities and investments, (3) derivative financial instruments which are collateralised by margin deposits, and (4) customer accounts, debt securities issued and other financial liabilities which are netted against loans and advances to customers and other financial assets with companies constituting a group .

The table below summarises assets and liabilities subject to offsetting as at 31 December 2019:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru-ments	Cash collateral received	
In millions of US Dollars	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
Assets						
Trading securities classified as repurchase receivables	3	-	3	3	-	-
Due from other banks						
- Reverse sale and repurchase agreements with other banks	2 334	-	2 334	2 334	-	-
- Term placements	310	-	310	162	-	148
Loans and advances to customers						
- Corporate loans	145	-	145	139	-	6
- Reverse sale and repurchase agreements	1 271	-	1 271	1 271	-	-
Investments at AC classified as repurchase receivables	58	-	58	58	-	-
Repurchase receivables relating to investments	74	-	74	74	-	-
Other financial assets						
- Derivative financial instruments	455	-	455	454	1	-
Total assets subject to offsetting, master netting and similar arrangement	**4 650**	**-**	**4 650**	**4 495**	**1**	**154**
Liabilities						
Due to other banks						
- Term placements	1	-	1	1	-	-
- Sale and repurchase agreements	138	-	138	135	-	3
- Loans received under a secured lending programme	139	-	139	139	-	-
Customer accounts	83	-	83	83	-	-
Other financial liabilities						
- Derivative financial instruments	629	-	629	454	162	13
Total liabilities subject to offsetting, master netting and similar arrangement	**990**	**-**	**990**	**812**	**162**	**16**

34 Offsetting Financial Assets and Financial Liabilities (Continued)

The table below summarises assets and liabilities subject to offsetting as at 31 December 2018:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru-ments	Cash collateral received	
In millions of US Dollars	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
Assets						
Trading securities classified as repurchase receivables	8	-	8	8	-	-
Due from other banks						
- Reverse sale and repurchase agreements with other banks	2 490	-	2 490	2 490	-	-
- Term placements	114	-	114	4	-	110
Loans and advances to customers						
- Corporate loans	125	9	116	110	-	6
- Reverse sale and repurchase agreements	946	-	946	946	-	-
Repurchase receivables relating to investments	78	-	78	74	-	4
Other financial assets						
- Derivative financial instruments	630	-	630	502	105	23
Total assets subject to offsetting, master netting and similar arrangement	**4 391**	**9**	**4 382**	**4 134**	**105**	**143**
Liabilities						
Due to other banks						
- Term placements	78	-	78	78	-	-
- Sale and repurchase agreements	159	-	159	159	-	-
- Loans received under a secured lending programme	110	-	110	110	-	-
Customer accounts	122	9	113	27	-	86
Other financial liabilities						
- Derivative financial instruments	511	-	511	502	4	5
Total liabilities subject to offsetting, master netting and similar arrangement	**980**	**9**	**971**	**876**	**4**	**91**

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

As at 31 December 2019 the Group placed margin call deposits in the amount of USD 310 million (2018: USD 114 million) and held margin call deposits in the amount of USD 84 million (2018: USD 191 million) as collateral under transactions with derivatives and operations with securities. Refer to Notes 9, 15 and 16. Margin call deposits are subject to potential offsetting.

35 Transfers of Financial Assets

Investment in JSC SB Alfa-Bank Kazakhstan. Alfa Bank legally owns 100% interest in JSC SB Alfa-Bank Kazakhstan. On 29 June 2009 the Group signed a call option agreement (with amendments) with ABHH (Note 1), whereby in exchange for an option premium of USD 63 million ABHH received a right to acquire for a fixed consideration, and at any time until 31 December 2024, shares representing a 100% interest in JSC SB Alfa-Bank Kazakhstan. This agreement effectively transferred to ABHH all potential voting rights and economic benefits relating to JSC SB Alfa-Bank Kazakhstan. The Group recorded disposal of its interest in JSC SB Alfa-Bank Kazakhstan on 29 June 2009. In 2009 ABHH transferred its rights relating to the call option agreement to its subsidiary.

The Group transferred financial assets in transactions that did not qualify for derecognition in the current and prior periods:

Sale and repurchase transactions. At 31 December 2019 the Group had trading securities and investments in the amount of USD 135 million (2018: USD 86 million) (Notes 8 and 11) that are subject to obligation to repurchase the securities for a fixed pre-determined price. As at 31 December 2019 the carrying value of the liabilities associated with these sale and repurchase transactions was USD 135 million (2018: USD 82 million) (Note 15). The estimated fair value of associated liabilities is approximately equal to their carrying value.

36 Interests in Structured Entities

The Group issued bonds through consolidated structured entities incorporated in European countries. These entities were consolidated as they were specifically set up for the purposes of the Group, and the Group has exposure to substantially all of their risks and rewards. These entities have debt securities issued with a nominal value of USD 3 181 million outstanding as at 31 December 2019 (2018: USD 2 913 million).

37 Derivative Financial Instruments

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The principal or agreed amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate contractual or principal amount of derivative financial instruments held and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments other than foreign exchange forward and swap contracts are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to respective reporting period.

37 Derivative Financial Instruments (Continued)

	2019			2018		
In millions of US Dollars	Principal or agreed amount	Assets Positive fair value	Liabilities Negative fair value	Principal or agreed amount	Assets Positive fair value	Liabilities Negative fair value
Deliverable forwards						
Securities						
- sale of securities	13	-	(1)	41	2	-
- purchase of securities	4	-	-	2	-	-
Non-deliverable forwards						
Securities						
- sale of securities	177	2	(8)	-	-	-
- purchase of securities	33	2	-	-	-	-
Precious metals						
- sale of precious metals	11	-	-	17	-	-
- purchase of precious metals	11	-	-	17	1	-
Futures						
Other base assets						
- sale of other base assets	-	-	-	11	1	-
- purchase of other base assets	-	-	-	11	-	(1)
Call options						
Foreign currency						
- written call options	83	-	-	62	-	(1)
- purchased call options	130	1	-	39	4	-
Interest rate (CAP)						
- written call options	-	-	-	18	-	-
- purchased call options	-	-	-	18	-	-
Index						
- written call options	59	-	-	90	-	(2)
- purchased call options	91	2	-	158	2	-
Put options						
Foreign currency						
- written put options	233	-	(5)	4	-	(3)
- purchased put options	106	4	-	297	1	-
Swaps						
Interest rate swaps - pay fixed interest, receive floating interest	9	-	-	407	1	(3)
Interest rate swaps - receive fixed interest, pay floating interest	1 016	1	(1)	1 214	-	(20)
Total return swaps on securities - pay fixed interest, receive total return on securities	417	3	(3)	367	-	(10)
Credit default swaps	190	-	(2)	45	1	-
Total		**15**	**(20)**		**13**	**(40)**

37 Derivative Financial Instruments (Continued)

The table below sets out fair values, as at the end of the reporting period, of currencies receivable or payable under foreign exchange contracts and precious metals based contracts (excluding options) entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting dates.

	2019		2018	
In millions of US Dollars	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Deliverable forwards				
- USD receivable on settlement	56	494	1 950	114
- USD payable on settlement	(528)	(304)	(405)	(649)
- EUR receivable on settlement	334	237	359	247
- EUR payable on settlement	(37)	(14)	(13)	(69)
- RR receivable on settlement	158	68	3	377
- RR payable on settlement	(23)	(460)	(1 823)	-
- Other currencies receivable on settlement	76	-	50	11
- Other currencies payable on settlement	(20)	(56)	(27)	(54)
Non-deliverable forwards				
- USD receivable on settlement	1 149	14 671	8 896	2 635
- USD payable on settlement	(10 396)	(1 431)	(2 363)	(7 362)
- EUR receivable on settlement	2 183	904	1 844	233
- EUR payable on settlement	(834)	(2 896)	(245)	(1 733)
- RR receivable on settlement	8 494	1 276	136	7 037
- RR payable on settlement	(1 304)	(11 918)	(8 590)	(274)
- Other currencies receivable on settlement	1 296	147	1 092	197
- Other currencies payable on settlement	(157)	(1 337)	(237)	(1 106)
Deliverable swaps				
- USD receivable on settlement	297	251	727	15
- USD payable on settlement	(534)	(6)	(188)	(337)
- RR receivable on settlement	367	-	2	279
- RR payable on settlement	(291)	(267)	(572)	(15)
- Other currencies receivable on settlement	189	-	191	-
Net fair value of foreign exchange derivatives	**475**	**(641)**	**787**	**(454)**

As at 31 December 2019 derivative financial instruments included currency forwards with a contractual amount of USD 8 277 million (2018: USD 5 821 million) which were designated and qualified as a hedge of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency. The total amount of the effective portion of the foreign currency exchange gains or losses recorded during 2019 on these hedging instruments amounted to loss of USD 773 million (2018: gain of USD 1 106 million). No ineffectiveness was recorded in the profit or loss for 2019 and 2018 in respect of the hedge. As at 31 December 2019 the negative fair value of these hedging instruments amounted to USD 337 million (2018: negative USD 600 million). No amounts were reclassified from other comprehensive income during 2019 and 2018, as there were no disposals of hedge subsidiaries, which the hedge relate to.

37 Derivative Financial Instruments (Continued)

Forward positions in securities are summarised below. As at 31 December 2019 and 2018 the respective securities' long balance sheet positions, partially reduced risks related to the securities' short forward positions. Refer to Note 8.

	2019		2018	
	Principal or agreed amount		Principal or agreed amount	
In millions of US Dollars	Sale	Purchase	Sale	Purchase
Corporate Eurobonds	36	1	24	1
ADRs and GDRs	99	-	8	-
Corporate shares	50	36	5	1
Eurobonds and bonds of other states	4	-	2	-
Corporate bonds	2	-	1	-
Russian Federation Eurobonds	-	-	1	
Total	**191**	**37**	**41**	**2**

38 Fair Value Disclosures

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

Recurring fair value measurements

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

38 Fair Value Disclosures (Continued)

	2019			2018		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
In millions of US Dollars						
Assets at fair value						
Financial assets						
Trading securities	***790***	***133***	***-***	***194***	***421***	***-***
- Corporate Eurobonds	564	27	-	52	390	-
- Corporate bonds	145	10	-	120	-	-
- Eurobonds and bonds of other states	53	1	-	3	26	-
- Russian Federation bonds and Eurobonds	1	2	-	4	5	-
- Corporate shares	15	5	-	7	-	-
- ADRs and GDRs	12	88	-	8	-	-
Repurchase receivables relating to trading securities	***3***	***-***	***-***	***1***	***7***	***-***
- Corporate shares	3	-	-	-	-	-
- Corporate Eurobonds	-	-	-	-	7	-
- Eurobonds and bonds of other states	-	-	-	1	-	-
Other financial instruments mandatorily measured at FVTPL	***-***	***-***	***197***	***-***	***-***	***248***
Debt investments at FVOCI	***4 840***	***-***	***-***	***3 388***	***-***	***-***
- Russian Federation bonds and Eurobonds	4 280	-	-	2 963	-	-
- Bonds of other states	560	-	-	425	-	-
Repurchase receivables relating to investments at FVOCI	***74***	***-***	***-***	***45***	***-***	***-***
- Bonds of other states	74	-	-	-	-	-
- Russian Federation bonds and Eurobonds	-	-	-	45	-	-
Equity investments at FVOCI	***-***	***-***	***-***	***-***	***-***	***10***
Other financial assets	***-***	***567***	***-***	***1***	***896***	***-***
- Foreign exchange derivatives	-	475	-	-	787	-
- Receivables on operation with securities and derivatives	-	77	-	-	97	-
- Other financial derivatives	-	15	-	1	12	-
Non-financial assets	**-**	**-**	**408**	**-**	**-**	**366**
- Premises	-	-	362	-	-	279
- Investment properties	-	-	46	-	-	87
Total assets recurring fair value measurements	**5 707**	**700**	**605**	**3 629**	**1 324**	**624**
Liabilities at fair value						
Financial liabilities						
Other financial liabilities	**5**	**667**	**-**	**-**	**506**	**-**
- Foreign exchange derivatives	-	641	-	-	454	-
- Other derivative financial instruments	5	15	-	-	40	-
- Payables on operations with securities	-	11	-	-	12	-
Total liabilities recurring fair value measurements	**5**	**667**	**-**	**-**	**506**	**-**

38 Fair Value Disclosures (Continued)

Methods and assumptions for valuation of financial assets included in Level 2 and Level 3 of the fair valuation hierarchy

Level 2. The fair value of financial derivatives allocated to Level 2 was determined based on the discounted cash flows (DCF) models with all significant inputs observable in the market (LIBOR, EURIBOR, Mosprime, the CBRF rates for foreign currencies). The fair value of securities with insignificant trading volumes was based on quotes provided by reputable brokerage houses.

Level 3. Equity investments at FVOCI allocated to Level 3 represent investments in funds and have been valued using the fair value of net assets reported to the Group. The fair value of financial instruments mandatorily measured at FVTPL was based on the discounted cash flows (DCF) models and credit value adjustment which reflects the probability of default of counterparty and debit value adjustment which reflects the possibility of the Group's default.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2019 was as follows:

In millions of US Dollars	**Equity investments FVOCI**	**Financial instruments mandatorily measured at FVTPL**
Fair value at 1 January 2019	**10**	**248**
Disposals	(10)	(39)
Effect of translation to presentation currency	-	(12)
Fair value at 31 December 2019	**-**	**197**
Revaluation gains less losses recognised in profit or loss for the year for assets held at 31 December 2019	-	**-**
Revaluation gains less losses recognised in other comprehensive income for the year for assets held at 31 December 2019	**-**	**-**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2018 was as follows:

In millions of US Dollars	**Equity investments FVOCI**	**Equity investments at FVTPL**	**Financial instruments mandatorily measured at FVTPL**
Fair value at 1 January 2018	**7**	**15**	**-**
Gains or losses recognised in profit or loss	-	-	(5)
Gains or losses recognised in other comprehensive income	5	-	-
Acquisition	-	-	253
Disposals	-	(15)	-
Effect of translation to presentation currency	(2)	-	-
Fair value at 31 December 2018	**10**	**-**	**248**
Revaluation gains less losses recognised in profit or loss for the year for assets held at 31 December 2018	-	**-**	**(5)**
Revaluation gains less losses recognised in other comprehensive income for the year for assets held at 31 December 2018	**5**	**-**	**-**

38 Fair Value Disclosures (Continued)

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

	2019				2018			
In millions of US Dollars	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
Assets								
Cash and cash equivalents	***1 140***	***5 310***	***-***	***6 450***	***906***	***3 427***	***-***	***4 333***
- Cash on hand	1 140	-	-	1 140	906	-	-	906
- Cash balances with central banks (other than mandatory cash balances)	-	2 147	-	2 147	-	1 237	-	1 237
- Correspondent and settlement accounts with banks and financial institutions	-	2 586	-	2 586	-	1 360	-	1 360
- Overnight placements with other banks	-	577	-	577	-	830	-	830
Mandatory cash balances with central banks	**-**	**422**	**-**	**422**	**-**	**336**	**-**	**336**
Due from other banks	***-***	***3 542***	***-***	***3 542***	***-***	***4 193***	***-***	***4 193***
- Reverse sale and repurchase agreements with other banks	-	2 334	-	2 334	-	2 490	-	2 490
- Term placements with other banks	-	1 208	-	1 208	-	1 703	-	1 703
Loans and advances to customers	***-***	***-***	***39 276***	***38 643***	***-***	***-***	***29 645***	***29 684***
- Corporate borrowers	-	-	26 500	25 957	-	-	21 771	21 780
- Finance lease receivables	-	-	1 452	1 483	-	-	1 169	1 209
- Reverse sale and repurchase receivables	-	-	1 213	1 213	-	-	911	911
- Advances on lease operations	-	-	48	48	-	-	19	20
- Personal instalment loans	-	-	5 351	5 327	-	-	3 060	3 060
- Credit cards	-	-	2 817	2 711	-	-	2 038	2 038
- Mortgage loans	-	-	1 792	1 800	-	-	524	513
- Consumer (POS) loans	-	-	45	46	-	-	118	118
- Reverse sale and repurchase receivables (individuals)	-	-	58	58	-	-	35	35
Investment securities at AC	***1 719***	***642***	***-***	***2 330***	***1 882***	***523***	***-***	***2 423***
- Corporate Eurobonds	1 236	160	-	1 368	848	523	-	1 400
- Corporate bonds	482	482	-	961	917	-	-	934
- Bonds of other states	1	-	-	1	117	-	-	89
Repurchase receivables relating to investments at AC	***58***	***-***	***-***	***58***	***33***	***-***	***-***	***33***
- Bonds of other states	58	-	-	58	30	-	-	30
- Corporate Eurobonds	-	-	-	-	3	-	-	3
Other financial assets	***-***	***-***	***157***	***157***	***-***	***-***	***83***	***83***
- Plastic card debtors	-	-	59	59	-	-	2	2
- Other	-	-	98	98	-	-	81	81
Total	**2 917**	**9 916**	**39 433**	**51 602**	**2 821**	**8 479**	**29 728**	**41 085**

38 Fair Value Disclosures (Continued)

	2019				2018			
In millions of US Dollars	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
Liabilities								
Due to other banks	***-***	***2 448***	***-***	***2 448***	***-***	***1 872***	***-***	***1 872***
- Correspondent accounts and overnight placements of other banks	-	520	-	520	-	436	-	436
- Term placements of other banks	-	1 647	-	1 647	-	1 161	-	1 161
- Sale and repurchase agreements with other banks	-	138	-	138	-	159	-	159
- Loans received under a secured lending programme	-	139	-	139	-	110	-	110
- Term deposits with the CBRF	-	4	-	4	-	6	-	6
Customer accounts	***-***	***41 574***	***-***	***41 422***	***-***	***32 212***	***-***	***32 106***
Commercial organisations								
- Current/settlement accounts	-	8 530	-	8 530	-	6 041	-	6 041
- Term deposits	-	8 735	-	8 722	-	5 981	-	5 974
Individuals								
- Current/demand accounts	-	13 058	-	13 058	-	9 989	-	9 989
- Term deposits	-	7 689	-	7 563	-	6 551	-	6 459
State and public organisations								
- Current/settlement accounts	-	255	-	255	-	146	-	146
- Term deposits	-	3 307	-	3 294	-	3 504	-	3 497
Debt securities issued	**3 409**	**355**	**138**	**3 876**	**2 802**	**342**	**120**	**3 259**
- Notes	1 836	-	-	1 809	1 664	-	-	1 633
- Rouble denominated bonds	1 563	-	-	1 550	1 115	-	-	1 119
- Promissory notes	-	355	-	369	-	342	-	367
- Euro Commercial Paper Notes	-	-	126	126	-	-	120	120
- Euro denominated bonds	-	-	12	12	13	-	-	12
- US Dollars denominated bonds	10	-	-	10	10	-	-	8
Loan from the SDIA	***-***	**568**	***-***	**470**	***-***	**429**	***-***	**367**
Subordinated debt	**1 063**	**462**	**40**	**1 566**	**610**	**553**	**40**	**1 195**
- Subordinated notes maturing in 2025	857	-	-	847	-	-	-	-
- Subordinated loan from VEB maturing in 2020	-	462	-	462	-	405	-	405
- Subordinated notes maturing in 2020	206	-	-	217	229	-	-	229
- Subordinated loan maturing in 2023	-	-	40	40	-	-	40	40
- Subordinated notes maturing in 2019	-	-	-	-	381	-	-	373
- Subordinated loan from VEB maturing in 2019	-	-	-	-	-	148	-	148
Other financial liabilities	***-***	***-***	***454***	***454***	***-***	***-***	***142***	***142***
- Lease liabilities	-	-	194	194	-	-	-	-
- Trade creditors	-	-	58	58	-	-	28	28
- Provision on credit related and other commitments	-	-	39	39	-	-	27	27
- Loyalty programs liability and commissions deferral	-	-	39	39	-	-	13	13
- Deferred commissions from guarantees	-	-	23	23	-	-	5	5
- Plastic card and other settlements	-	-	5	5	-	-	10	10
- Other	-	-	96	96	-	-	59	59
Total	**4 472**	**45 407**	**632**	**50 236**	**3 412**	**35 408**	**302**	**38 941**

38 Fair Value Disclosures (Continued)

Cash and cash equivalents are carried at AC which approximates current fair value.

Loans and receivables carried at AC. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new similar instruments with similar credit risk and remaining maturity.

Investments at AC. The fair value of investments at AC has been determined by reference to published price quotations.

Due to banks and customer accounts carried at AC. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used were consistent with the credit risk of the individual entities depending on currency and maturity of the instrument.

Debt securities issued. The fair value of traded securities has been determined by reference to published price quotations. The fair value of the rest of the debt was estimated on the basis of discounted cash flows using interest rates for similar instruments.

Subordinated debt. The fair value of traded subordinated debt has been determined by reference to published price quotations. The fair value of the rest of the debt was estimated on the basis of discounted cash flows using interest rates for similar instruments.

39 Related Party Transactions

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions.

In the tables below amounts related to the caption “other related parties” are represented by associates and joint ventures of the Group.

39 Related Party Transactions (Continued)

As at 31 December 2019 the outstanding balances with related parties were as follows:

	31 December 2019				
In millions of US Dollars	**The Shareholders**	**ABHH**	**Subsidiaries of ABHH**	**Key management**	**Other related parties**
Correspondent accounts with other banks	**-**	**-**	**9**	**-**	**-**
Loans and advances to customers (gross)	**50**	**-**	**7**	**5**	**-**
RUR, effective contractual rate of 8.4% - 9.0%	-	-	-	3	-
USD, effective contractual rate of 2.8% - 6.7%	50	-	7	1	-
EUR, effective contractual rate of 2.8% - 5.0%	-	-	-	1	-
Receivables	**-**	**-**	**12**	**-**	**-**
Correspondent accounts of other banks	**-**	**-**	**12**	**-**	**-**
Customer accounts	**106**	**18**	**180**	**13**	**5**
Current/settlement accounts	**63**	**18**	**16**	**5**	**1**
RUR, effective contractual rate of 0.0% - 5.5%	5	-	15	1	1
USD, effective contractual rate of 0.0% - 0.2%	42	18	1	2	-
EUR, effective contractual rate of 0.0%	16	-	-	2	-
Term deposits	**43**	**-**	**164**	**8**	**4**
RUR, effective contractual rate of 3.9% - 8.5%	-	-	164	2	4
USD, effective contractual rate of 0.4% - 3.2%	16	-	-	6	-
EUR, effective contractual rate of 0.1% - 5.5%	27	-	-	-	-
Subordinated loan	**-**	**40**	**-**	**-**	**-**
Payables	**-**	**-**	**1**	**36**	**-**
Guarantees issued	**-**	**-**	**8**	**-**	**-**

For the year ended 31 December 2019 income and expense items with related parties were as follows:

	Year ended 31 December 2019				
In millions of US Dollars	**The Shareholders**	**ABHH**	**Subsidiaries of ABHH**	**Key management**	**Other related parties**
Interest income	3	-	2	-	-
Interest expense	(2)	(2)	(9)	-	-
Fee and commission income	-	-	167	-	-
Fee and commission expense	-	-	(4)	-	-
Other expenses	-	-	(1)	(37)	(8)

39 Related Party Transactions (Continued)

As at 31 December 2018 the outstanding balances with related parties were as follows:

	31 December 2018				
In millions of US Dollars	**The Shareholders**	**ABHH**	**Subsidiaries of ABHH**	**Key management**	**Other related parties**
Correspondent accounts with other banks	**-**	**-**	**2**	**-**	**-**
Loans and advances to customers (gross)	**50**	**-**	**17**	**12**	**-**
USD, effective contractual rate of 6.0% - 8.9%	50	-	17	2	-
EUR, effective contractual rate of 2.8% - 6.0%	-	-	-	10	-
Receivables	**-**	**-**	**33**	**-**	**-**
Correspondent accounts of other banks	**-**	**-**	**13**	**-**	**-**
Customer accounts	**103**	**-**	**121**	**20**	**16**
Current/settlement accounts	**72**	**-**	**15**	**18**	**2**
RUR, effective contractual rate of 0.0% - 2.0%	4	-	14	2	2
USD, effective contractual rate of 0.0% - 0.8%	20	-	1	12	-
EUR, effective contractual rate of 0.0% - 5.5%	48	-	-	4	-
Term deposits	**31**	**-**	**106**	**2**	**14**
RUR, effective contractual rate of 6.5% - 8.2%	1	-	106	1	9
USD, effective contractual rate of 1.7% - 3.9%	19	-	-	1	5
EUR, effective contractual rate of 0.4%	11	-	-	-	-
Subordinated loan	**-**	**40**	**-**	**-**	**-**
Payables	**-**	**-**	**8**	**17**	**-**
Guarantees issued	**-**	**-**	**27**	**-**	**-**

For the year ended 31 December 2018 income and expense items with related parties were as follows:

	Year ended 31 December 2018				
In millions of US Dollars	**The Shareholders**	**ABHH**	**Subsidiaries of ABHH**	**Key management**	**Other related parties**
Interest income	4	-	-	-	-
Interest expense	(1)	(2)	(8)	-	(1)
Fee and commission income	-	-	135	-	-
Fee and commission expense	-	-	(2)	-	-
Other expenses	-	-	-	(18)	(12)

39 Related Party Transactions (Continued)

Key management of the Group represents members of the Board of Directors and the Executive Board of Alfa-Bank and the Board of Directors the Company. Key management compensation is presented below:

In millions of US Dollars	**2019**	**2018**
Key management compensation accrued as at the reporting date	**36**	**17**
- short-term bonuses	8	6
- long-term bonuses	28	11
Key management compensation expense for the year	**37**	**18**
- salaries	9	7
- short-term bonuses	10	5
- long-term bonuses	18	6

The long-term bonuses are settled within three years period following date of granting. Refer to Note 23 for the information on distributions made by the Company.

40 Subsequent Events

In January 2020 the Group issued RR 15 000 million (equivalent of USD 240 million) Rouble denominated eurobonds with maturity in January 2025 and coupon rate of 6.75% p.a.

ABH FINANCIAL LIMITED

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

31 December 2018

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Independent auditor's report

To the Shareholders and the Board of Directors of ABH Financial Limited

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of ABH Financial Limited (the "Company") and its subsidiaries (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 consolidated financial statements of the Group 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.

Our audit approach

Overview



Overall Group materiality: USD 58 million, which represents 5% of average profit before tax for past three years.

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

Credit loss allowance for loans and advances to customers.

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. 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	USD 58 million.
How we determined it	5% of average profit before tax of the past three years.
Rationale for the materiality benchmark applied	We chose average profit before tax of the past three years to mitigate the volatile nature of profit before tax in recent years. We chose 5%, which, in our experience, is within the range of acceptable quantitative materiality thresholds commonly used for this benchmark for public interest entities.

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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. The below matter was 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 this matter.

Key audit matter	How our audit addressed the key audit matter
Credit loss allowance for loans and advances to customers We focused on this matter due to the significance of loans and advances to customers balance and in particular the significance of judgements and estimates required for calculation of the related credit loss allowance. Furthermore, in 2018 the Group implemented IFRS 9. This standard requires recognition of expected credit losses ("ECL") rather than losses already incurred. It triggered changes in the models used for the measurement of loan impairment. The new models increased the impairment provisions in order to recognise also part of the expected credit losses that will arise in the future. Collective assessment of ECL is based on models, which use internally developed risk metrics assigned to the balances. Individual assessment of ECL is based on models which use expected future cash flows related to individual balances under different scenarios. The design of and inputs to the models are subject to management judgement. Note 4 "Critical Accounting Estimates and Judgments in Applying Accounting Policies", Note 10 "Loans and Advances to Customers" and Note 32 "Financial Risk Management" to the consolidated financial statements provide detailed information on the credit loss allowance for loans and advances to customers.	Considering the changes caused by implementation of IFRS 9, we assessed the policies that the Group applied for the development of the new ECL models and checked their consistency with the requirements of IFRS 9. We also verified the completeness of the credit risk disclosures newly required by the financial reporting standards. Our current year work looked both at the application of these new models and procedures at 31 December 2018 and 1 January 2018. We checked that the calculation as at 1 January 2018 were also appropriate and were appropriately accounted for in the Consolidated Statement of Changes in Equity as at 1 January 2018 in accordance with IFRS 9. We assessed and tested (on a sample basis) the design and operating effectiveness of the controls over the overdue loans, including identification of the overdue loans and the data transfer from source systems to ECL models. We tested (on a sample basis) significant loans and advances to legal entities, which had not been identified by management as requiring individual assessment of ECL and formed our own judgement as to whether that was appropriate. We tested (on a sample basis) loans and advances to legal entities with individual assessment of ECL. We tested whether the default event had been identified in a timely manner, analysed adequacy of scenarios used and their likelihood, re-performed discounted cash flows calculations, examined the expected future cash flows used by management, challenged the assumptions, including valuation of collateral and timing of cash flows, compared management estimates to external evidence (where available). We assessed the basis and operation of credit loss allowance models for loans and advances to legal entities and formed our own judgement as to whether or not the credit loss allowance was appropriate. We analysed the calculation of credit loss allowance of loans and advances to individuals, confirmed the logic and main assumptions used in the models applied by management. We performed various types of analytical procedures over the adequacy of credit loss allowance for loans and advances to customers. The system of allocation of loans into the three stages defined by IFRS 9 is essential for the measurement of ECL and setting aside credit loss allowances. Hence we assessed the policies applied by the Group in this area and observed that they are adequate.

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How we tailored our group 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.

We performed a full scope audit of JSC "ALFA-BANK" (Russian subsidiary of the Company, representing more than 90% of the Group's total assets). In addition, we performed other limited audit procedures on the remaining components of the Group.

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 ability of the Group 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 financial reporting process of the Group.

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 internal control of the Group.
- 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 ability of the Group 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,

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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 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 Natalia Mileshkina.

АО PricewaterhouseCoopers Аудит

25 February 2019
Moscow, Russian Federation

N.A. Mileshkina, certified auditor (certificate number 01-000197)
AO PricewaterhouseCoopers Audit

Audited entity: ABH Financial Limited

The Republic of Cyprus registration number №284510 from 4 April 2011 under Companies Act, Cap.113

The Company is registered at Themistokli Dervi, 5, Elenion Building, 2nd floor, CY-1066, Nicosia, Cyprus

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

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

In millions of US Dollars	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	7	4 333	5 114
Mandatory cash balances with central banks		336	327
Trading securities	8	-	1 201
Repurchase receivables relating to trading securities	8	-	191
Financial assets at fair value through profit or loss	8	863	-
Repurchase receivables relating to financial assets at fair value through profit or loss	8	8	-
Due from other banks	9	4 193	4 075
Loans and advances to customers	10	29 684	27 742
Investments	11	5 822	4 374
Repurchase receivables relating to investments	11	78	115
Other financial assets	12	980	649
Other assets	13	422	399
Premises and equipment	14	480	541
TOTAL ASSETS		**47 199**	**44 728**
LIABILITIES			
Due to other banks	15	1 872	2 050
Customer accounts	16	32 106	29 552
Debt securities issued	17	3 259	3 624
Loan from the SDIA	18	367	388
Subordinated debt	19	1 195	1 357
Other financial liabilities	21	648	858
Other liabilities	22	339	509
Deferred tax liability	30	215	8
TOTAL LIABILITIES		**40 001**	**38 346**
EQUITY			
Share capital	23	1 265	1 265
Perpetual loan participation notes	24	943	695
Fair value reserve for investments available for sale		-	10
Fair value reserve for investments at fair value through other comprehensive income		5	-
Revaluation reserve for premises		49	55
Cumulative translation reserve		(1 764)	(1 167)
Retained earnings		6 656	5 457
Net assets attributable to the Company's owners		**7 154**	**6 315**
Non-controlling interests		**44**	**67**
TOTAL EQUITY		**7 198**	**6 382**
TOTAL LIABILITIES AND EQUITY		**47 199**	**44 728**

These consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 25 February 2019 and any further changes require approval of this body.

In millions of US Dollars	Note	2018	2017
Interest income calculated using the effective interest method	25	3 415	3 225
Other similar income	25	56	-
Interest expense	25	(1 460)	(1 486)
Expenses directly attributable to deposit insurance		(91)	(62)
Net margin		**1 920**	**1 677**
Net credit loss allowance charge	10	(261)	(10)
Net margin after credit loss allowance		**1 659**	**1 667**
Fee and commission income	26	1 458	1 225
Fee and commission expense	26	(480)	(379)
Gains less losses arising from trading securities		(3)	(19)
Gains less losses arising from interest based derivatives		(4)	(3)
Gains less losses arising from foreign currencies	27	251	(205)
Gains less losses arising from investments		(11)	(9)
Gains less losses arising from acquisition of own debts		1	(1)
Gains less lossess from investment properties		17	28
Loss on disposal of subsidiaries		(20)	(1)
Other provisions	11,12,13,34	(3)	(38)
Other operating income	28	5	49
Operating expenses	29	(1 236)	(1 203)
Profit before tax		**1 634**	**1 111**
Income tax expense	30	(313)	(313)
Profit for the year		**1 321**	**798**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Investments available for sale:			
- Fair value gains less losses	11	-	(4)
- Reclassification adjustments for losses included in profit or loss	11	-	9
Debt investments at fair value through other comprehensive income:			
- Fair value gains less losses during the period	11	(14)	-
- Reclassification adjustments for losses included in profit or loss	11	6	-
Effect of translation of the financial statements of foreign operations		(1 497)	329
Net change in hedge of net investment in foreign operations	38	1 106	(269)
Income tax on items that may be reclassified to profit or loss	30	(219)	53
Items that will not be reclassified to profit or loss:			
Revaluation of premises	14	(7)	(14)
Income tax on items that will not be reclassified to profit or loss	30	1	(4)
Other comprehensive (loss)/income for the year		**(624)**	**100**
Total comprehensive income for the year		**697**	**898**
Profit attributable to:			
The Company's owners		1 325	796
Non-controlling interests		(4)	2
Profit for the year		**1 321**	**798**
Total comprehensive income attributable to:			
The Company's owners		701	896
Non-controlling interests		(4)	2
Total comprehensive income for the year		**697**	**898**

ABH Financial Limited
Consolidated Statement of Changes in Equity

In millions of US Dollars	Attributable to the Company's owners								Non-controlling interests	Total equity
	Share capital (Note 23)	**Perpetual loan participation notes (Note 24)**	**Fair value reserve for investments AFS**	**Fair value reserve for investments at FVOCI**	**Revaluation reserve for premises**	**Cumulative translation reserve**	**Retained earnings**	**Total**		
Balance as at 1 January 2017	**1 265**	**701**	**6**	**-**	**69**	**(1 275)**	**4 948**	**5 714**	**20**	**5 734**
Profit	-	-	-	-	-	-	796	796	2	798
Other comprehensive income	-	-	4	-	(11)	107	-	100	-	100
Total comprehensive income	-	-	4	-	(11)	107	796	896	2	898
Realised revaluation reserve	-	-	-	-	(3)	-	3	-	-	-
Discretionary interest payments and redemptions of perpetual loan participation notes (Note 24)	-	(6)	-	-	-	-	(43)	(49)	-	(49)
Distribution to shareholders (Note 23)	-	-	-	-	-	-	(250)	(250)	-	(250)
Changes of non-controlling interests	-	-	-	-	-	1	3	4	45	49
Balance as at 31 December 2017	**1 265**	**695**	**10**	**-**	**55**	**(1 167)**	**5 457**	**6 315**	**67**	**6 382**
Impact of adopting IFRS 9 at 1 January 2018 (Note 5)	-	-	(10)	11	-	-	(92)	(91)	-	(91)
Restated balance as at 1 January 2018	**1 265**	**695**	**-**	**11**	**55**	**(1 167)**	**5 365**	**6 224**	**67**	**6 291**
Profit	-	-	-	-	-	-	1 325	1 325	(4)	1 321
Other comprehensive income	-	-	-	(6)	(6)	(612)	-	(624)	-	(624)
Total comprehensive income	-	-	-	(6)	(6)	(612)	1 325	701	(4)	697
Contribution from noteholders (Note 24)	-	499	-	-	-	-	-	499	-	499
Discretionary interest payments and redemptions of perpetual loan participation notes (Note 24)	-	(251)	-	-	-	-	(43)	(294)	-	(294)
Disposal of subsidiary	-	-	-	-	-	15	-	15	5	20
Changes of non-controlling interests	-	-	-	-	-	-	9	9	(24)	(15)
Balance as at 31 December 2018	**1 265**	**943**	**-**	**5**	**49**	**(1 764)**	**6 656**	**7 154**	**44**	**7 198**

ABH Financial Limited
Consolidated Statement of Cash Flows

In millions of US Dollars	Note	2018	2017
Cash flows from operating activities			
Interest received		3 479	3 211
Interest paid, other than on debt securities issued, loan from the SDIA and subordinated debt		(1 066)	(1 040)
Expense directly attributable to deposit insurance paid		(91)	(62)
Fees and commissions received		1 458	1 220
Fees and commissions paid		(475)	(378)
Net loss from financial assets at FVTPL		(20)	-
Net income received from trading securities		-	106
Net income received from trading in foreign currencies		180	(195)
Net income received from interest based derivatives		(11)	14
Other operating income received		19	45
Staff costs paid		(707)	(680)
Other operating expenses paid		(406)	(328)
Income tax paid		(355)	(213)
Cash flows from operating activities before changes in operating assets and liabilities		**2 005**	**1 700**
Changes in operating assets and liabilities			
Net change in mandatory cash balances with central banks		(66)	(49)
Net change in financial assets at FVTPL and repurchase receivables		636	-
Net change in trading securities and repurchase receivables		-	397
Net change in due from other banks		(621)	(1 012)
Net change in loans and advances to customers		(6 198)	(4 487)
Net change in other financial assets and other assets		(51)	358
Net change in due to other banks		-	(1 470)
Net change in customer accounts		6 361	6 753
Net change in other financial liabilities and other liabilities		(80)	(498)
Net cash from operating activities		**1 986**	**1 692**
Cash flows from investing activities			
Acquisition of investments at FVOCI		(11 615)	-
Proceeds from disposal and redemption of investments at FVOCI		9 797	-
Acquisition of investments AFS		-	(1 435)
Proceeds from disposal and redemption of investments AFS		-	1 573
Acquisition of investments at FVTPL		(6)	(8)
Disposal of investments at FVTPL		-	8
Acquisition of investments at AC		(658)	-
Proceeds from redemption of investments at AC		629	-
Acquisition of investments HTM		-	(1 200)
Proceeds from redemption of investments HTM		-	658
Acquisition of premises, equipment and intangible assets		(191)	(116)
Proceeds from disposal of premises and equipment		1	2
Net cash used in investing activities		**(2 043)**	**(518)**
Cash flows from financing activities			
Disposal of non-controlling intrest in subsidiaries		-	17
Proceeds from debt securities issued		1 310	1 769
Repayment of debt securities issued		(1 315)	(1 841)
Interest paid on debt securities issued		(244)	(284)
Repayment of loan from the SDIA		(3)	-
Interest paid on loan from the SDIA		(4)	(5)
Repayment of subordinated debt		(59)	(201)
Interest paid on subordinated debt		(103)	(104)
Proceeds from perpetual loan participation notes		499	-
Repayment of perpetual loan participation notes		(235)	-
Interest paid on perpetual loan participation notes		(74)	(59)
Net cash used in financing activities		**(228)**	**(708)**
Net (decrease)/increase in cash and cash equivalents		**(285)**	**466**
Cash and cash equivalents at the beginning of the year	7	5 114	4 344
Effect of exchange rate changes on cash and cash equivalents		(496)	304
Cash and cash equivalents as at the end of the year	**7**	**4 333**	**5 114**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018 for ABH Financial Limited (the "Company") and its subsidiaries (the "Group").

The Company is a limited liability company registered in the Republic of Cyprus. The Company is a wholly owned subsidiary of ABH Holdings S.A. ("ABHH").

ABHH is a Luxembourg company, owned by seven shareholders: Mr. Fridman, Mr. Khan, Mr. Kuzmichev, Mr. Aven, Mr. Kosogov, UniCredit S.p.A., and a non-profit organisation "The Mark Foundation for Cancer Research" (the "Shareholders"). None of the Shareholders individually or jointly controls and/or owns a 50% or more interest in ABHH.

The Company is registered at Themistokli Dervi, 5, Elenion Building, 2nd floor, CY-1066, Nicosia, Cyprus.

The Group comprises three main segments: corporate and investment banking, retail banking and treasury operations (Note 31). The corporate banking, retail banking and treasury operations of the Group are carried out principally by Joint Stock Company "ALFA-BANK" ("Alfa-Bank") and its subsidiaries. The investment banking activities of the Group are carried out mainly by Alfa Capital Holdings (Cyprus) Limited together with Alfa-Bank and certain other subsidiaries. A substantial part of the Group's activities are carried out in the Russian Federation.

As at 31 December 2018 the Group had 752 offices (including branches, regional branches and outlets), most of which were operated by Alfa-Bank (2017: 762 offices).

Alfa-Bank is a wholly owned subsidiary of the Company. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the "CBRF") since 1991. Alfa-Bank operates in all banking sectors of the Russian financial markets, including interbank, corporate and retail loans and deposits, foreign exchange operations and debt and equity trading. In addition, a complete range of banking services is provided in Russian Roubles ("RR") and foreign currencies to its customers. Alfa-Bank participates in the State deposit insurance scheme. The State Deposit Insurance Agency (the "SDIA") guarantees repayment of 100% of individual deposits up to RR 1.4 million per individual in case of the withdrawal of a license of a bank or the CBRF imposed moratorium on payments. Alfa-Bank is licensed by the Federal Commission on Securities Market for trading in securities. Alfa-Bank's major subsidiary is Amsterdam Trade Bank N.V. (the Netherlands). Alfa-Bank's registered office is located at 27 Kalanchevskaya Street, Moscow 107078, the Russian Federation.

Limited Liability Company Alfa Leasing ("Alfa Leasing") is a wholy owned subsidiary of Alfa-Bank. Alfa Leasing operates in the Russian Federation and provides financial and operating lease services to corporate and retail customers. Alfa Leasing is registered at 46 Bolshaya Pereyaslavskaya Street, Building 2, 4nd floor, room I-15, the Russian Federation.

Alfa Capital Holdings (Cyprus) Limited is primarily involved in the investment banking business including proprietary trading and brokerage activities, investment and merchant banking and asset management. Alfa Capital Holdings (Cyprus) Limited is regulated by the Cyprus Securities and Exchange Commission and licensed principally for brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally (with certain restrictions) and outside Cyprus. Alfa Capital Holdings (Cyprus) Limited is registered at Themistokli Dervi, 5, Elenion Building, 2nd floor, CY-1066, Nicosia, Cyprus.

2 Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 34). 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 operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2 Operating Environment of the Group (Continued)

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Alfa-Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with accounting regulations or applicable companies' law in their respective jurisdictions. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

Presentation currency. These consolidated financial statements are presented in millions of US Dollars. The US Dollar has been selected as the presentation currency of the Group as US Dollar is the currency which Management of the Group uses to manage business risks and exposures, and measure the performance of its businesses.

Functional currencies. Different entities within the Group may have different functional currencies, based on the underlying economic conditions of their operations. In particular, Alfa-Bank and Baltiyskiy Bank have Russian Roubles as their functional currency, as their activities are mostly based in the Russian Federation and are dependent on the condition of the Russian economy. Amsterdam Trade Bank N.V. has Euro as its functional currency, as its activities are mostly based in Europe. ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited have US Dollars as their functional currency, as the companies operate internationally on markets mainly influenced by the US Dollar. Management evaluates the appropriateness of the respective functional currencies for the entities of the Group from time to time, so that the functional currency of any entity of the Group may change, once the economic conditions it is reliant on so dictate. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under "Foreign Currency Translation" section of this Note.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

3 Summary of Significant Accounting Policies (Continued)

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("gain on bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

Foreign currency translation. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end exchange rates are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Loans between group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognized in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognized in other comprehensive income.

The results and financial position of each Group entity (none of which is in a hyperinflationary economy) are translated into US Dollar as presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses 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 dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

3 Summary of Significant Accounting Policies (Continued)

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

As at 31 December 2018 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 69.4706 (2017: USD 1 = RR 57.6002), the average exchange rate for 2018 was USD 1 = RR 62.7078 (2017: USD 1 = RR 58.3529).

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price which management considers is the most representative of fair value was used to measure fair value.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

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 39.

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

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

3 Summary of Significant Accounting Policies (Continued)

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 net carrying amount of the financial instrument.

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

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

All purchases and sales of financial 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, how risks are assessed and managed and how the assets' performance is assessed. 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.

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.

3 Summary of Significant Accounting Policies (Continued)

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. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the 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.

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 32 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 33. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 32 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

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 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.

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, 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the CBRF. All short-term placements with other banks, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

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

Mandatory cash balances with central banks. Mandatory cash balances with central banks are carried at AC and represent non interest bearing mandatory reserve deposits with the CBRF and other local central banks, 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 other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. 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.

3 Summary of Significant Accounting Policies (Continued)

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a receivable 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:

1) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI, and that are not voluntary designated at FVTPL, are measured at AC.

2) FVTPL: loans that do not meet the criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on forward-looking ECL model. Note 32 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. These assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these asset categories.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the acquisition method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

Loan commitments. The Group issues commitments to provide loans. 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 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 consolidated statement of financial position as an asset.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee’s beneficiary.

3 Summary of Significant Accounting Policies (Continued)

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities into one of the following measurement categories:

1) AC: debt securities that are held for collection of contractual cash flows and where those cash flows represent SPPI, and that are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch, are measured at AC.

2) FVOCI: debt securities that are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. 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.

3) FVTPL: investments in debt securities that do not meet the criteria for AC or FVOCI are measured at FVTPL (mandatory FVTPL). The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition (designated FVTPL) if applying this option significantly reduces or eliminates an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases (the recognition mismatch or the measurement mismatch).

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 purposes other than 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 reversal, 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.

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

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or 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.

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

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

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an ordinary transaction, without deduction of any transaction costs. Fair value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

3 Summary of Significant Accounting Policies (Continued)

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

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

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

Premises of the Group are subject to revaluation on a regular basis. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Group. The amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated statement of financial position at their estimated fair value at the date of acquisition of the acquired subsidiary, being their cost to the Group.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to profit or loss for the year, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in profit or loss for the year. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises and equipment are determined by comparing their carrying amount with the sale proceeds and are recognised in profit or loss for the year.

Computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Internal development costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year are recorded as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software.

3 Summary of Significant Accounting Policies (Continued)

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of five to ten years.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises	2% per annum;
Office equipment	16% - 20% per annum;
Computer equipment	25% - 33% per annum;
Leasehold improvements	over the term of the underlying lease.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease. Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

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

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the year.

Credit loss allowance is recognised in accordance with the general ECL model. The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

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

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

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.

Debt securities issued. Debt securities issued include promissory notes, bonds, commercial paper and term notes. Promissory notes issued by the Group have a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the purchaser can discount in the over-the-counter secondary market. Debt securities are stated at AC.

If the Group purchases its own debt securities issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss for the year as gains less losses arising from acquisition of own debts.

3 Summary of Significant Accounting Policies (Continued)

Subordinated debt. Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at AC.

Acquired own subordinated notes are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss for the year as gains less losses arising from acquisition of own debts.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the loans provided by the State at rates below market are recorded as deferred income and are credited to interest expense for the year using a method achieving matching with respective expenses or losses. Such government grants are initially measured as the difference between the proceeds and the initial fair value of the loan, net of transaction costs.

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends that are declared after the end of the reporting period are disclosed as subsequent events.

Derivative financial instruments and hedge accounting. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at their fair value.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the year in gains less losses arising from foreign currencies, gains less losses arising from trading securities and other operating income, depending on the related contracts, unless the derivatives qualify as hedging instruments.

The Group applies hedge accounting for its existing hedge by foreign currency exchange forward contracts of part of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency. Also the Group applies hedge accounting for its existing hedge of interest payments on borrowings and loans and advances to customers using interest rate swaps. The Group receives a floating rate and pays a fixed rate on the interest rate swaps for its existing hedge of interest payments on loans and advances to customers. The Group receives a fixed rate and pays a floating rate on the interest rate swaps for its existing hedge of interest payments on borrowings. Credit risk on the loans and advances to customers is not designated as part of the hedge relationship.

The Group made an accounting policy choice to continue to apply the hedge accounting requirement of IAS 39, pending the macro hedging project being finalised.

The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

The hedge effectiveness of part of Russian Rouble net investment in subsidiaries of the Group is measured by reference to changes in RR/USD spot rates. Only the change in the fair value of the foreign currency exchange forward contracts due to changes in spot rates is reported in other comprehensive income and the remaining change in the fair value of those contracts is included in profit or loss. Accumulated hedging gains or losses recorded through other comprehensive income are recycled from other comprehensive income to profit or loss in the period when the hedged item is disposed of.

3 Summary of Significant Accounting Policies (Continued)

For the fair value hedge of interest rates on borrowings and loans and advances to customers the hedged item is adjusted for the changes in its fair value attributable to the risk being hedged and those fair value changes are recognised in profit or loss. The gain or loss relating to the hedging derivative is offset, in profit or loss for the year, with the fair value gains and losses on the hedged item to the extent that the hedge is effective. The ineffective portion of the fair value changes is recognised immediately in the profit or loss for the year. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to profit or loss over the period to maturity and recorded as net interest income.

In order to assess hedge effectiveness the Group regularly performs two kinds of effectiveness tests: prospective effectiveness test (a forward-looking test of whether a hedging relationship is expected to be highly effective in future periods); and retrospective effectiveness test (a backward-looking test of whether a hedging relationship has actually been highly effective in a past period).

A hedge is regarded as highly effective only if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period, for which the hedge is designated – prospective effectiveness test, range of 80%-125% is used; and
- The actual results of the hedge – retrospective effectiveness test; range of 80%-125% is used.

Income taxes. 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. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation rates enacted or substantively enacted at the end of the reporting period which are expected to apply when the temporary differences will reverse or the tax loss carry forwards will be utilised are used to determine deferred income tax balances. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Interest income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within "other similar income" line in profit or loss.

3 Summary of Significant Accounting Policies (Continued)

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. 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.

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. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Expenses directly attributable to deposit insurance. Expenses directly attributable to deposit insurance comprise of contributions paid to the SDIA. Contributions are not linked to particular customer deposits or deposit products.

Fiduciary assets and custody services. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. The amount of the fee received or receivable represents the consideration for the services.

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

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

3 Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in accordance with the existing employee compensation plans in a year in which the associated services are rendered by the employees. Discretionary employee compensations are subject to Management's approval and are disclosed within staff costs. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all segments are reported separately.

Presentation of consolidated statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 32.

Accounting policy for perpetual loan participation notes. Refer to Note 24.

Amendments of the consolidated financial statements after issue. The Board of Directors has the power to amend the consolidated financial statements after issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Refer to Note 32 for details of ECL measurements methodology applied by the Group. The following components of ECL calculation have the major impact on credit loss allowance for ECLs: default definition, 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.

A movement of 10% of total loans and advances to customers from Stage 1 (12-months ECL) to Stage 2 (lifetime ECL) would result in an increase in credit loss allowance of USD 196 million. A movement of 10% of loans and advances to individuals from Stage 2 to Stage 3 would result in an increase in credit loss allowances of USD 40 million. A 10% decrease in discounted cash flows from Stage 3 loans and advances to corporate borrowers would result in an increase in credit loss allowance of USD 37 million.

A 10% increase or decrease in actual credit loss experience compared to the ECL estimates calculated at 31 December 2017 resulted in an increase or decrease in credit loss allowances of USD 82 million.

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 Lifetime PD for retail borrowers and 12-month PD for other financial assets, along with qualitative and backstop indicators, at the reporting date with the risk of default at the date of initial recognition. IFRS 9 requires an assessment of relative increases in credit risk rather than the identification of a specific level of credit risk at the reporting date. In this assessment, the Group considers a range of indicators: including behavioural indicators based on historical information as well as reasonable and supportable forward looking information available without undue cost and effort. The most significant judgments include: identifying behavioural indicators of increases in credit risk prior to delinquency and incorporating appropriate forward looking information into the assessment, either at an individual instrument, or on a portfolio level. Refer to Note 32 for the SICR definition as specified by the Group.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

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 assets 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.

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. The Group applied a threshold of 10% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

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, ie 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 par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Groups' loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Group or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Group. The cash flows are SPPI if such clauses merely reduce the Group's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Group considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

The Group's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

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.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

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

Income taxes. There are many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain (Note 30). The Group records liabilities for completed and anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the current and deferred taxation in the period in which such determination is made.

Functional currencies of different entities of the Group. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities.

In determination of the functional currencies of ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited, the Group based its judgement on the fact that the companies operate internationally on markets mainly influenced by the US Dollar (not Russian Rouble). Moreover, the majority of their operations are denominated in US Dollars. The US Dollar is also the currency in which their business risks and exposures are managed and the performance of their business is measured.

Valuation of premises and investment property. Premises and investment property of the Group are stated at fair value. The valuation was based on the reports of an independent valuation companies, which hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value. The market value of premises was assessed using the sales comparison method and the income capitalisation method.

Accounting for subordinated loans from VEB. Refer to Note 19.

Accounting for perpetual loan participation notes. Refer to Note 24.

Accounting for certain financial instruments relating to subsidiaries of ABHH. Refer to Note 36.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9. The Group has adopted IFRS 9 “Financial Instruments” from 1 January 2018.

The Group elected not to restate comparative figures and recognised adjustments to the carrying amounts of financial assets and liabilities at the date of initial application in the opening retained earnings as of 1 January 2018. Consequently, the revised requirements of the IFRS 7 “Financial Instruments: Disclosures” have only been applied to the current period. The comparative period disclosures repeat the disclosures made in the prior year.

The Group's significant accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 42.

The key changes to the Group's accounting policies resulting from adoption of IFRS 9 are summarized below.

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at FVOCI and those to be measured subsequently at FVTPL.

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

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments are classified as FVOCI if they meet the SPPI requirement and are held both to collect assets' cash flows and sell assets. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition. Classification of financial assets under IFRS 9 is disclosed below in the Note.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income
- IFRS 9 replaces the incurred loss model in IAS 39 with the ECL model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that the Group have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. For an explanation of how the Group applies the impairment requirements of IFRS 9, see further in Note 19.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging. The Group has elected to continue to apply the hedge accounting requirements of IAS 39.

Transition.

- Amounts for the previous periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - the determination of the business model within which a financial asset is held,
  - the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL,
  - the designation of certain investments in equity instruments not held for trading at FVOCI,
  - for financial liabilities designated at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition. The financial instrument has a low risk of default if the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For the purposes of measurement at 31 December 2017, IAS 39 "Financial Instruments: Recognition and Measurement", classified financial assets into the following categories: (a) Loans and Receivables ("L&R"); (b) Available for sale ("AFS") financial assets; (c) financial assets held to maturity ("HTM") and (d) financial assets at FVTPL.

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

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Measurement category		Carrying value per IAS 39 as at 31 December 2017	Effect			Carrying value per IFRS 9 as at 1 January 2018
	IAS 39	IFRS 9		Remeasurement	Reclassification		
In millions of US Dollars				ECL	Mandatory	Voluntary	
Cash and cash equivalents	L&R	AC	5 114	-	-	-	5 114
Mandatory cash balances with central banks	L&R	AC	327	-	-	-	327
Financial assets at FVTPL and repurchase receivables	Trading assets	FVTPL	1 392	-	-	15	1 407
Financial assets at FVTPL and repurchase receivables	L&R	FVTPL	-	-	174	-	174
Financial assets at FVTPL and repurchase receivables	FVTPL	FVTPL	-	-	-	20	20
Total financial assets at FVTPL and repurchase receivables			**1 392**	**-**	**174**	**35**	**1 601**
Due from other banks	L&R	AC	4 075	-	-	-	4 075
Loans and advances to customers	L&R	AC	27 478	(108)	-	-	27 370
Loans and advances to customers	L&R	-	90	-	-	(90)	-
Loans and advances to customers	L&R	-	174	-	(174)	-	-
Total loans and advances to customers			**27 742**	**(108)**	**(174)**	**(90)**	**27 370**
Investments and repurchase receivables	HTM	AC	2 810	(5)	-	(157)	2 648
Investments and repurchase receivables	AFS	FVOCI	1 664	(1)	-	162	1 825
Investments and repurchase receivables	FVTPL	-	15	-	-	(15)	-
Investments and repurchase receivables	L&R	FVOCI	-	-	-	90	90
Total investments and repurchase receivables			**4 489**	**(6)**	**-**	**80**	**4 563**
Derivative financial instruments	FVTPL	FVTPL	485	-	-	-	485
Receivables on operations with securities and derivatives	FVTPL	FVTPL	88	-	-	-	88
Financial instruments at FVTPL	FVTPL	-	20	-	-	(20)	-
Other financial assets	L&R	AC	56	-	-	-	56
Total other financial assets			**649**	**-**	**-**	**(20)**	**629**
Total financial assets			**43 788**	**(114)**	**-**	**5**	**43 679**

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

The above table represents the transition effect to IFRS 9 of financial assets before taxation. Related tax effect amounted to USD 22 million decrease in deferred tax liabilities.

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3. The application of these policies resulted in the reclassifications set out in the table above and explained below:

- Certain loans and advances to customers are classified under IFRS 9 as mandatorily measured at fair value through profit or loss because the contractual cash flows of these assets are not solely payments of principal and interest on the principal amount outstanding.
- Certain debt securities held by the Group originally classified as investments held to maturity were classified as FVOCI under IFRS 9 due to assessment of business model.
- Certain financial assets previously classified as loans and advances to customers were classified as FVOCI due to assessment of business model.

The following table reconciles the closing loss allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017 to the credit loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

In millions of US Dollars	**Provisions per IAS 39 / IAS 37 as at 31 December 2017**	**Reclassifications**	**Remeasurement**	**Credit loss allowance under IFRS 9 as at 1 January 2018**
Loans and advances to customers	(820)	-	(124)	(944)
Investments HTM and repurchase receivables under IAS 39 / financial assets at AC under IFRS 9	(2)	-	(5)	(7)
Investments AFS under IAS 39 / financial assets at FVOCI under IFRS 9	-		(1)	(1)
Total credit loss allowance for financial assets	**(822)**	**-**	**(130)**	**(952)**
Credit related commitments and performance guarantees	(11)	-	(7)	(18)
Total credit loss allowance	**(833)**	**-**	**(137)**	**(970)**

As at 1 January 2018 the amount of remeasurement of the credit loss allowance for financial assets at amortised cost includes USD 16 million related to increase of the gross carrying amount of those assets and related credit loss allowance to reflect all interest contractually receivable at this date.

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

The following tables analyse the impact of transition to IFRS 9 on reserves and retained earnings:

In millions of US Dollars	**Impact of adopting of IFRS 9 as at 1 January 2018**
Fair value reserve for investments AFS under IAS 39 as at 31 December 2017	**10**
Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	1
Fair value reserve for investments at FVOCI under IFRS 9 as at 1 January 2018	**11**

In millions of US Dollars	**Impact of adopting of IFRS 9 as at 1 January 2018**
Retained earnings as at 31 December 2017	**5 457**
Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	(1)
Recognition of ECL for financial assets at AC	(113)
Recognition of ECL for credit related commitments and performance guarantees	(7)
Reclassification of investments HTM to financial assets at FVOCI under IFRS 9	5
Deferred tax	24
Retained earnings as at 1 January 2018	**5 365**

Amendments to IFRS 9 "Prepayment Features with Negative Compensation" (issued in October 2017 and effective at the latest for annual periods beginning on or after 1 January 2019). The amendments were early adopted by the Group with the date of initial application of 1 January 2018. The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. The Group is therefore not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The amendment did not have any material impact on the Group.

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

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 in June 2016 and effective for annual periods beginning on or after 1 January 2018).

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

- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued in 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 in December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 "Transfers of Investment Property" (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018).

6 New Accounting Pronouncements

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

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. 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 using the modified retrospective method, without restatement of comparatives. The transition to IFRS 16 includes complex work and a centralised programme led by the finance and IT functions to assess the existing lease portfolio of the Group and impact on the consolidated financial statements. In the upcoming months the Group will finalise its assessment of the existing lease portfolio and changes required to applicable transition, interim, and annual disclosures. Introduction of IFRS 16 is expected to have no material impact on equity.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued in 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 Group is currently assessing the impact of the interpretation on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 17 "Insurance Contracts" (issued in May 2017 and effective for annual periods beginning on or after 1 January 2022). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its consolidated financial statements.

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

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019).The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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

Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020).The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

7 Cash and Cash Equivalents

In millions of US Dollars	**2018**	**2017**
Cash on hand	906	1 118
Cash balances with central banks (other than mandatory cash balances)	1 237	1 979
Correspondent and settlement accounts with banks and financial institutions		
- Russian Federation	360	470
- Europe and USA	965	642
- Other countries	35	13
Overnight placements with other banks		
- Russian Federation	510	773
- Europe and USA	320	119
Total cash and cash equivalents	**4 333**	**5 114**

The credit quality of balances on correspondent and settlement accounts with banks and financial institutions is managed through a system of qualitative risk management procedures comprising credit risk assessment before acceptance. After establishing a correspondent account, depending on the magnitude of the balance, management carries out regular monitoring of the financial position and performance of the counterparties.

As at 31 December 2018 the three largest aggregate balances on correspondent and settlement accounts and overnight placements amounted to USD 1 014 million (2017: USD 793 million) or 46.3% (2017: 39.3%) of the correspondent and settlement accounts and overnight placements, while the ten largest aggregate balances on correspondent and settlement accounts and overnight placements amounted to USD 1 944 million (2017: USD 1 586 million) or 88.8% (2017: 78.6%) of the correspondent and settlement accounts and overnight placements.

Analysis by credit quality of correspondent and settlement accounts and overnight placements with other banks was as follows as at 31 December 2018:

In millions of US Dollars	**Correspondent and settlement accounts with banks and financial institutions**	**Overnight placements with other banks**	**Total**
First class	1 351	830	2 181
Good and standard	9	-	9
Total correspondent and settlement accounts and overnight placements with other banks	**1 360**	**830**	**2 190**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 32 for the ECL measurement approach.

Analysis by credit quality of correspondent and settlement accounts and overnight placements with other banks was as follows as at 31 December 2017:

In millions of US Dollars	**Correspondent and settlement accounts with banks and financial institutions**	**Overnight placements with other banks**	**Total**
Neither past due nor impaired			
First class	1 103	881	1 984
Good and standard	22	11	33
Total correspondent and settlement accounts and overnight placements with other banks	**1 125**	**892**	**2 017**

7 Cash and Cash Equivalents (Continued)

Refer to Note 32 for the description of credit quality ratings.

For the purposes of measurement the Group classified all balances included in cash and cash equivalents as financial assets at AC (2017: loans and receivables (IAS 39)). Currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 32.

8 Financial Assets at Fair Value through Profit or Loss and Repurchase Receivable

In millions of US Dollars	**2018**	**2017**
Trading securities		
Corporate Eurobonds	442	627
Corporate bonds	120	392
Eurobonds and bonds of other states	29	4
Russian Federation bonds and Eurobonds	9	81
Total debt trading securities	**600**	**1 104**
ADRs and GDRs	8	62
Corporate shares	7	35
Total equity trading securities	**15**	**97**
Total trading securities	**615**	**1 201**
Repurchase receivables relating to trading securities		
Corporate Eurobonds	7	185
Eurobonds and bonds of other states	1	3
Total repurchase receivables relating to debt trading securities	**8**	**188**
Corporate shares	-	3
Total repurchase receivables relating to trading securities	**8**	**191**
Other financial instruments mandatorily measured at FVTPL	**248**	**-**
Total financial assets at FVTPL and repurchase receivables	**871**	**1 392**

Repurchase receivables represent trading securities sold under sale and repurchase agreements with other banks (Note 15). The counterparty financial institutions have a right to resell or pledge these securities.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars and Euro, issued mainly by large Russian, European companies and freely tradable internationally. As at 31 December 2018 these bonds have maturity dates ranging from January 2019 to September 2047 (2017: from January 2018 to April 2044), coupon rates from 2.8% to 9.5% p.a. (2017: from 3.7% to 9.5% p.a.) and yields to maturity from 3.1% to 38.9% p.a. (2017: from 1.1% to 21.7% p.a.).

Corporate bonds are interest-bearing securities issued by large Russian companies, denominated in Russian Roubles and freely tradable in the Russian Federation. As at 31 December 2018 these bonds have maturity dates ranging from May 2020 to May 2033 (2017: June 2019 to January 2032), coupon rates from 7.9% to 14.0% p.a. (2017: from 8.0% to 14.0% p.a.) and yields to maturity from 4.6% to 15.2% p.a. (2017: from 1.0% to 11.6% p.a.).

As at 31 December 2018 other financial instruments at FVTPL includes USD 179 million loans and advances to customers mandatorily measured at FVTPL under IFRS 9 because the contractual cash flows of these assets are not solely payments of principal and interest on the principal amount outstanding.

8 Financial Assets at Fair Value through Profit or Loss and Repurchase Receivable (Continued)

Analysis by credit quality of debt trading securities, repurchase receivables relating to trading securities and other financial instruments at FVTPL was as follows at 31 December 2018:

In millions of US Dollars	Corporate Eurobonds	Corporate bonds	Eurobonds and bonds of other states	Russian Federation bonds and Eurobonds	Other financial instruments at FVTPL	Total
First class	248	5	30	9	-	292
Good and standard	139	94	-	-	228	461
Acceptable	62	21	-	-	-	83
Total debt financial assets at FVTPL	**449**	**120**	**30**	**9**	**228**	**836**

Analysis by credit quality of debt trading securities and repurchase receivables was as follows as at 31 December 2017:

In millions of US Dollars	Corporate Eurobonds	Corporate bonds	Russian Federation bonds and Eurobonds	Eurobonds and bonds of other states	Total
Neither past due nor impaired					
First class	617	18	81	5	721
Good and standard	141	319	-	-	460
Acceptable	54	55	-	2	111
Total debt trading securities and repurchase receivables relating to debt trading securities	**812**	**392**	**81**	**7**	**1 292**

Refer to Note 32 for the description of credit quality ratings.

Trading securities and repurchase receivables are carried at fair value, which also reflects any credit risk related write-downs and best represents Group's maximum exposure to credit risk.

For the purposes of measurement the Group mandatorily classified all balances included in trading securities and repurchase receivables as financial assets at FVTPL (2017: trading securities (IAS 39)). Currency, maturity and interest rates analyses of financial assets at FVTPL and repurchase receivables are disclosed in Note 32.

9 Due from Other Banks

In millions of US Dollars	Note	2018	2017
Reverse sale and repurchase agreements with other banks		2 490	2 153
Term placements with other banks		1 703	1 922
Total due from other banks		**4 193**	**4 075**

As at 31 December 2018 reverse sale and repurchase agreements with other banks were effectively collateralised by securities with estimated fair value of USD 2 781 million (2017: USD 2 495 million), all of which the Group had the right to sell or repledge. The Group did not recognise ECL for short-term over-collateralised reverse sale and repurchase agreements.

As at 31 December 2018 the five largest aggregate balances due from other banks amounted to USD 3 368 million (2017: USD 3 492 million) or 80.3% (2017: 85.7%) of total due from other banks.

9 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks outstanding was as follows as at 31 December 2018:

In millions of US Dollars	Reverse sale and repurchase agreements with other banks	Term placements with other banks	Total
First class	1 876	1 588	3 464
Good and standard	559	26	585
Acceptable	55	89	144
Total due from other banks	**2 490**	**1 703**	**4 193**

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognise any credit loss allowance for due from other banks. Refer to Note 32 for the ECL measurement approach.

Analysis by credit quality of amounts due from other banks outstanding was as follows as at 31 December 2017:

In millions of US Dollars	Reverse sale and repurchase agreements with other banks	Term placements with other banks	Total
Neither past due nor impaired			
First class	1 333	1 736	3 069
Good and standard	587	1	588
Acceptable	233	138	371
Unrated	-	47	47
Total due from other banks	**2 153**	**1 922**	**4 075**

Refer to Note 32 for the description of credit quality ratings.

As at 31 December 2018 included within term placements with other banks are margin call deposits in the amount of USD 114 million (2017: USD 317 million) placed as collateral under transactions with derivatives and securities. Refer to Note 34.

For the purposes of measurement the Group classified all balances included in due from other banks as financial assets at AC (2017: loans and receivables (IAS 39)). Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 32. The estimated fair value of due from other banks is disclosed in Note 39. The information on related party balances is disclosed in Note 40.

10 Loans and Advances to Customers

In millions of US Dollars	31 December 2018 Gross carrying amount	31 December 2018 Credit loss allowance	31 December 2018 Carrying amount	31 December 2017 Gross carrying amount	31 December 2017 Credit loss allowance	31 December 2017 Carrying amount
Corporate customers						
Corporate borrowers	22 350	(570)	21 780	22 661	(574)	22 087
Finance lease receivables	1 218	(9)	1 209	822	(12)	810
Reverse sale and repurchase receivables	911	-	911	638	-	638
Advances on lease operations	20	-	20	31	-	31
Total loans and advances to corporate customers	**24 499**	**(579)**	**23 920**	**24 152**	**(586)**	**23 566**
Individuals						
Personal instalment loans	3 216	(156)	3 060	2 087	(85)	2 002
Credit cards	2 176	(138)	2 038	1 428	(99)	1 329
Mortgage loans	519	(6)	513	195	(2)	193
Consumer (POS) loans	127	(9)	118	665	(48)	617
Reverse sale and repurchase receivables	35	-	35	35	-	35
Total loans and advances to individuals	**6 073**	**(309)**	**5 764**	**4 410**	**(234)**	**4 176**
Total loans and advances to customers	**30 572**	**(888)**	**29 684**	**28 562**	**(820)**	**27 742**

Consumer (POS) loans decreased and Credit cards increased in comparison to 31 December 2017 due to change in lending model: the Group started issue consumer loans via credit cards.

10 Loans and Advances to Customers (Continued)

Movements in the credit loss allowance during 2018 were as follows:

	Corporate customers		Individuals				Total
In millions of US Dollars	Corporate borrowers	Finance lease receivables	Personal instalment loans	Credit cards	Mortgage loans	Consumer (POS) loans	
Credit loss allowance as at 1 January 2018	**580**	**14**	**149**	**156**	**3**	**42**	**944**
Credit loss allowance during the year	134	(3)	92	82	3	-	308
Amounts written off as uncollectible	(123)	-	(62)	(80)	-	(27)	(292)
Unwinding of discount	8	-	-	-	-	-	8
Effect of translation to functional currency	27	-	-	-	-	-	27
Effect of translation to presentation currency	(56)	(2)	(23)	(20)	-	(6)	(107)
Credit loss allowance as at 31 December 2018	**570**	**9**	**156**	**138**	**6**	**9**	**888**

Movements in the credit loss allowance during 2017 were as follows:

	Corporate customers		Individuals				Total
In millions of US Dollars	Corporate borrowers	Finance lease receivables	Personal instalment loans	Credit cards	Mortgage loans	Consumer (POS) loans	
Credit loss allowance as at 1 January 2017	**991**	**49**	**37**	**41**	**4**	**17**	**1 139**
Credit loss allowance during the year	(55)	(25)	47	55	1	34	57
Amounts written off as uncollectible	(402)	(13)	-	-	(3)	(3)	(421)
Effect of translation to functional currency	(10)	(1)	-	-	-	-	(11)
Effect of translation to presentation currency	50	2	1	3	-	-	56
Credit loss allowance as at 31 December 2017	**574**	**12**	**85**	**99**	**2**	**48**	**820**

The credit loss allowance for loan impairment during 2018 differs from the amount presented in profit or loss for the year due to USD 47 million (including USD 26 million relating to loans and advances to individuals) recovery of amounts previously written off as uncollectible (2017: USD 47 million (including USD 25 million relating to loans and advances to individuals)). This amount was credited directly to the credit loss allowance line in profit or loss for the year.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

10 Loans and Advances to Customers (Continued)

Corporate borrowers.

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
In millions of US Dollars	**(12-months ECL)**	**(lifetime ECL)**	**(lifetime ECL)**		**(12-months ECL)**	**(lifetime ECL)**	**(lifetime ECL)**	
As at 1 January 2018	**(69)**	**(74)**	**(437)**	**(580)**	**18 896**	**2 089**	**1 676**	**22 661**
Movements with impact on credit loss allowance charge:								
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	19	(80)	61	-	(1 745)	2 463	(718)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	17	(17)	-	(31)	(219)	250	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(27)	27	-	-	1 603	(1 603)	-	-
New originated	(107)	-	-	(107)	11 220	-	-	11 220
Derecognised	29	32	8	69	(8 210)	(945)	(44)	(9 199)
Other movements	65	1	(162)	(96)	102	(56)	(25)	21
Total movements with impact on credit loss allowance charge	**(21)**	**(3)**	**(110)**	**(134)**	**2 939**	**(360)**	**(537)**	**2 042**
Movements without impact on credit loss allowance charge:								
Amounts written off as uncollectible	-	-	123	123	-	-	(123)	(123)
Unwinding of discount	-	-	(8)	(8)	-	-	-	-
Effect of translation to functional currency	(1)	(12)	(14)	(27)	1 036	195	151	1 382
Effects of translation to presentation currency	6	22	28	56	(2 992)	(350)	(270)	(3 612)
As at 31 December 2018	**(85)**	**(67)**	**(418)**	**(570)**	**19 879**	**1 574**	**897**	**22 350**

10 Loans and Advances to Customers (Continued)

Finance lease receivables.

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
In millions of US Dollars	**(12-months ECL)**	**(lifetime ECL)**	**(lifetime ECL)**		**(12-months ECL)**	**(lifetime ECL)**	**(lifetime ECL)**	
As at 1 January 2018	**(6)**	**(8)**	**-**	**(14)**	**544**	**278**	**-**	**822**
Movements with impact on credit loss allowance charge:								
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	3	(3)	-	-	(45)	45	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	(1)	1	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(5)	5	-	-	212	(212)	-	-
New originated	(2)	-	-	(2)	837	-	-	837
Derecognised	1	-	-	1	(274)	(2)	-	(276)
Other movements	3	1	-	4	12	(10)	-	2
Total movements with impact on credit loss allowance charge	**-**	**3**	**-**	**3**	**742**	**(180)**	**1**	**563**
Movements without impact on credit loss allowance charge:								
Effects of translation to presentation currency	1	1	-	2	(119)	(48)	-	(167)
As at 31 December 2018	**(5)**	**(4)**	**-**	**(9)**	**1 167**	**50**	**1**	**1 218**

10 Loans and Advances to Customers (Continued)

Personal instalment loans.

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
In millions of US Dollars	(12-months ECL)	(lifetime ECL)	(lifetime ECL)		(12-months ECL)	(lifetime ECL)	(lifetime ECL)	
As at 1 January 2018	**(34)**	**(48)**	**(67)**	**(149)**	**1 738**	**278**	**71**	**2 087**
Movements with impact on credit loss allowance charge:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	50	(50)	-	-	(750)	750	-	-
- to credit-impaired (from Stage 2 to Stage 3)	-	48	(48)	-	-	(58)	58	-
- to 12-months ECL (from Stage 2 to Stage 1)	(62)	62	-	-	412	(412)	-	-
Origination, repayments and movements other than transfers between stages	3	(93)	(2)	(92)	1 624	(67)	(10)	1 547
Total movements with impact on credit loss allowance charge	**(9)**	**(33)**	**(50)**	**(92)**	**1 286**	**213**	**48**	**1 547**
Movements without impact on credit loss allowance charge:								
Amounts written off as uncollectible	-	-	62	62	-	-	(62)	(62)
Effects of translation to presentation currency	4	4	15	23	(297)	(46)	(13)	(356)
As at 31 December 2018	**(39)**	**(77)**	**(40)**	**(156)**	**2 727**	**445**	**44**	**3 216**

10 Loans and Advances to Customers (Continued)

Credit cards.

	Credit loss allowance				Gross carrying amount			
In millions of US Dollars	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL)**	**Total**
As at 1 January 2018	**(46)**	**(23)**	**(87)**	**(156)**	**1 256**	**81**	**91**	**1 428**
Movements with impact on credit loss allowance charge:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	39	(39)	-	-	(397)	397	-	-
- to credit-impaired (from Stage 2 to Stage 3)	-	62	(62)	-	-	(88)	88	-
- to 12-months ECL (from Stage 2 to Stage 1)	(45)	45	-	-	231	(231)	-	-
Origination, repayments movements other than transfers between stages	(4)	(79)	1	(82)	1 084	-	(13)	1 071
Total movements with impact on credit loss allowance charge	**(10)**	**(11)**	**(61)**	**(82)**	**918**	**78**	**75**	**1 071**
Movements without impact on credit loss allowance charge:								
Amounts written off as uncollectible	-	-	80	80	-	-	(80)	(80)
Effects of translation to presentation currency	6	3	11	20	(215)	(12)	(16)	(243)
As at 31 December 2018	**(50)**	**(31)**	**(57)**	**(138)**	**1 959**	**147**	**70**	**2 176**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 32. Below main movements in the table are described:

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

10 Loans and Advances to Customers (Continued)

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans.

In millions of US Dollars	**Corporate borrowers**	**Reverse sale and repurchase receivables**	**Finance lease receivables**	**Advances on lease operations**	**Total**
Stage 1 (12-months ECL):					
- first class borrowers	10 928	-	300	9	11 237
- good and standard borrowers	7 025	911	668	8	8 612
- acceptable borrowers	1 478	-	199	3	1 680
- weak borrowers	448	-	-	-	448
Stage 2 (lifetime ECL):					
- not past due					
- first class borrowers	95	-	-	-	95
- good and standard borrowers	498	-	7	-	505
- acceptable borrowers	193	-	20	-	213
- weak borrowers	788	-	23	-	811
Stage 3 (lifetime ECL):					
- not past due	294	-	-	-	294
- less than 30 days overdue	77	-	-	-	77
- 30 to 90 days overdue	210	-	-	-	210
- over 90 days overdue	316	-	1	-	317
Total gross loans and advances to corporate customers	**22 350**	**911**	**1 218**	**20**	**24 499**
Credit loss allowance	(570)	-	(9)	-	(579)
Total loans and advances to corporate customers	**21 780**	**911**	**1 209**	**20**	**23 920**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2017 was as follows:

In millions of US Dollars	Corporate borrowers	Reverse sale and repurchase receivables	Finance lease receivables	Advances on lease operations	Total
Neither past due nor impaired					
- first class borrowers	11 399	-	-	-	11 399
- good and standard borrowers	6 860	638	49	8	7 555
- acceptable borrowers	1 685	-	651	23	2 359
- weak borrowers	830	-	95	-	925
- unrated	75	-	-	-	75
Total gross neither past due nor impaired	**20 849**	**638**	**795**	**31**	**22 313**
Individually determined to be impaired					
- not past due	1 162	-	21	-	1 183
- less than 14 days overdue	61	-	6	-	67
- 14 to 90 days overdue	101	-	-	-	101
- 91 to 180 days overdue	77	-	-	-	77
- 181 to 360 days overdue	82	-	-	-	82
- over 360 days overdue	329	-	-	-	329
Total gross impaired loans	**1 812**	**-**	**27**	**-**	**1 839**
Total gross loans and advances to corporate customers	**22 661**	**638**	**822**	**31**	**24 152**
Credit loss allowance	(574)	-	(12)	-	(586)
Total loans and advances to corporate customers	**22 087**	**638**	**810**	**31**	**23 566**

Refer to Note 32 for the description of credit quality ratings.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to individuals outstanding as at 31 December 2018 was as follows:

In millions of US Dollars	**Personal instalment loans**	**Credit cards**	**Consumer (POS) loans**	**Mortgage loans**	**Reverse sale and repurchase agreements**	**Total**
Stage 1 (12-months ECL):						
- first class borrowers	53	66	26	12	-	157
- good and standard borrowers	1 933	1 005	63	436	35	3 472
- acceptable borrowers	666	665	19	55	-	1 405
- weak borrowers	75	223	5	6	-	309
Stage 2 (lifetime ECL):						
- not past due						
- good and standard borrowers	2	-	-	1	-	3
- acceptable borrowers	66	14	1	3	-	84
- weak borrowers	338	98	6	-	-	442
- less then 30 days overdue	23	14	-	-	-	37
- 30 to 90 days overdue	16	21	-	-	-	37
Stage 3 (lifetime ECL):						
- not past due	3	9	-	6	-	18
- over 90 days overdue	41	61	7	-	-	109
Total gross loans and advances to individuals	**3 216**	**2 176**	**127**	**519**	**35**	**6 073**
Credit loss allowance	(156)	(138)	(9)	(6)	-	(309)
Total loans and advances to individuals	**3 060**	**2 038**	**118**	**513**	**35**	**5 764**

Starting from 2018 the Group revised the approach to write-off of past due loans to individuals (except mortgage). The write-off date was moved from day 541 to day 360.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to individuals outstanding as at 31 December 2017 was as follows:

In millions of US Dollars	Personal instalment loans	Credit cards	Consumer (POS) loans	Mortgage and car loans	Reverse sale and repurchase receivables	Total
Neither past due nor impaired						
- good credit standing	330	317	150	141	-	938
- average credit standing	1 531	941	444	44	-	2 960
- below average credit	8	12	11	-	-	31
- unrated	120	44	2	5	35	206
Total gross neither past due nor impaired	**1 989**	**1 314**	**607**	**190**	**35**	**4 135**
Past due but not impaired						
- less than 30 days overdue	20	22	13	3	-	58
Total gross past due but not impaired	**20**	**22**	**13**	**3**	**-**	**58**
Individually determined to be impaired						
- 30 to 90 days overdue	13	15	8	1	-	37
- 91 to 180 days overdue	14	17	10	-	-	41
- 181 to 360 days overdue	51	60	27	1	-	139
Total gross impaired loans	**78**	**92**	**45**	**2**	**-**	**217**
Total gross loans and advances to individuals	**2 087**	**1 428**	**665**	**195**	**35**	**4 410**
Credit loss allowance	(85)	(99)	(48)	(2)	-	(234)
Total loans and advances to individuals	**2 002**	**1 329**	**617**	**193**	**35**	**4 176**

The above ratings for neither past due nor impaired represent aggregated results of the scoring system used by the Group. Good credit standing category represents excellent quality loans with the best score, average credit standing category – medium quality with average score and below average credit standing category – loans potentially under surveillance.

The primary factors that the Group considers in determining whether a loan has become impaired are ability of borrowers to service their debt, loans and interest overdue status and realisability of related collateral, if any.

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the loans and advances to customers were as follows:

	31 December 2018		31 December 2017	
In millions of US Dollars	**Amount**	**%**	**Amount**	**%**
Individuals	6 073	20	4 410	15
Oil industry	3 999	13	4 489	16
Real estate and construction	2 757	9	2 812	10
Food industry and agriculture	2 494	8	2 285	8
Finance and investment companies	2 391	8	2 103	7
Trade and commerce	2 133	7	2 230	8
Chemistry and petrochemistry	1 546	5	1 202	4
Non-ferrous metallurgy	1 409	5	1 829	6
Ferrous metallurgy	1 176	4	1 377	5
Railway transport	1 062	4	1 206	4
Timber industry	953	3	402	1
Mass media and telecommunications	903	3	1 122	4
Coal Industry	736	2	667	2
Miscellaneous machinery and metal working	545	2	820	3
Nuclear industry	481	2	143	1
Aviation transport	414	1	348	1
Water transport	380	1	220	1
Power generation	356	1	260	1
Diamond extraction and processing	4	-	24	-
Other	760	2	613	3
Total gross loans and advances to customers	**30 572**	**100**	**28 562**	**100**

As at 31 December 2018 aggregate loans and advances to the ten largest borrowers (or groups of related borrowers) amounted to USD 6 629 million (2017: USD 7 833 million) or 21.7% (2017: 27.4%) of the gross loans and advances to customers, while aggregate loans and advances to the twenty largest borrowers (or groups of related borrowers) amounted to USD 10 436 million (2017: USD 11 574 million) or 34.1% (2017: 40.5%) of the gross loans and advances to customers.

As at 31 December 2018 loans and advances to customers in the total amount of USD 116 million (2017: USD 86 million) were pledged as collateral for the financing received from the CBRF (Note 15).

The outstanding contractual amount of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2018:

In millions of US Dollars	**31 December 2018**
Corporate customers	51
Individuals	169
Total loans and advances to customers	**220**

The Group's policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

10 Loans and Advances to Customers (Continued)

Maturities of gross and net investments in finance lease are analysed as follows:

In millions of US Dollars	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Gross finance lease receivable as at 31 December 2018	**456**	**860**	**404**	**1 720**
Less future finance income on finance leases	(149)	(280)	(73)	(502)
Net investment in finance leases as at 31 December 2018	**307**	**580**	**331**	**1 218**
Gross finance lease receivable as at 31 December 2017	**259**	**692**	**188**	**1 139**
Less future finance income on finance leases	(106)	(170)	(41)	(317)
Net investment in finance leases as at 31 December 2017	**153**	**522**	**147**	**822**

The financial effect of collateral is presented by disclosing impact of collateral and other credit enhancements on credit loss allowance recognised at the end of the reporting period. Without holding collateral and other credit enhancements, the credit loss allowance would be higher by the following amounts:

In millions of US Dollars	2018	2017
Corporate borrowers	256	747
Finance lease receivables	1	13
Advances on lease operations	-	-
Loans to individuals - Personal instalment loans	-	-
Loans to individuals - Credit cards	-	-
Loans to individuals - Consumer (POS) loans	-	-
Total difference on credit loss allowance	**257**	**760**

Reverse sale and repurchase receivables and mortgage loans are not included in the above table since the Group would not originate these instruments without collateral.

In the normal course of business the Group obtains collateral and/or guarantees and sureties for loans to legal entities. Acceptable collateral includes real estate, property, equipment, inventories, securities, contractual rights and certain other assets. Guarantees and sureties can be provided by controlling shareholders, government entities, banks and other solvent legal entities.

As at 31 December 2018 corporate loans in the amount of USD 6 410 million (2017: USD 8 961 million) were not secured (or were secured by low quality collateral which does not allow to classify the loan as secured using criteria of the Group) and loans in the amount of USD 7 495 million (2017: USD 8 765 million) were secured only by third party guarantees where guarantors are considered to be related to the borrower itself.

As at 31 December 2018 and 2017 most of the loans to small and medium size enterprises were secured by collateral or sureties. Finance lease receivables are secured by the leased equipment the title to which is normally retained by the Group for the duration of the lease.

Reverse sale and repurchase agreements are effectively collateralised by securities purchased under those agreements. As at 31 December 2018 reverse sale and repurchase agreements were collateralised by securities purchased with estimated fair value of USD 1 261 million (2017: USD 963 million) all of which the Group had the right to sell or repledge.

Credit cards, personal instalment and consumer (POS) loans to individuals are not secured. Mortgage loans to individuals are collateralised by respective property acquired.

For the purposes of measurement the Group classified all balances included in loans and advances to customers as financial assets at AC (2017: loans and receivables (IAS 39)). Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 32. The estimated fair value of loans and advances to customers is disclosed in Note 39. The information on related party balances is disclosed in Note 40.

11 Investments and Repurchase Receivables

In millions of US Dollars	**2018**	**2017**
Investments		
Investments at AC	2 426	-
Investments HTM	-	2 697
Debt investments at FVOCI	3 388	-
Debt investments AFS	-	1 657
Equity investments at FVOCI	10	-
Equity investments AFS	-	7
Equity investments at FVTPL	-	15
Other investments	1	-
Credit loss allowance for investments at AC	(3)	-
Provision for impairment of investments HTM	-	(2)
Total investments	**5 822**	**4 374**
Repurchase receivables relating to investments		
Debt investments at FVOCI	45	-
Investments at AC	33	-
Investments HTM	-	115
Total repurchase receivables relating to investments	**78**	**115**
Total investments and repurchase receivables relating to investments	**5 900**	**4 489**

Investments at AC and repurchase receivables relating to investments at AC

In millions of US Dollars	**2018**
Investments at AC	
Corporate Eurobonds	1 401
Corporate bonds	936
Bonds of other states	89
Credit loss allowance	(3)
Total investments at AC	**2 423**
Repurchase receivables relating to investments at AC	
Bonds of other states	30
Corporate Eurobonds	3
Total repurchase receivables relating to investments at AC	**33**
Total investments and repurchase receivables relating to investments at AC	**2 456**

Corporate Eurobonds are interest-bearing securities denominated in US Dollars, Russian Roubles and Euro, issued mainly by large Russian and European companies and freely tradable internationally. As at 31 December 2018 these securities have maturity dates ranging from April 2019 to May 2024, coupon rates from 0.3% to 8.3% p.a. and yields to maturity from 1.6% to 38.3% p.a.

Corporate bonds are interest-bearing securities issued by large Russian companies, denominated in Russian Roubles and freely tradable in the Russian Federation. As at 31 December 2018 these bonds have maturity dates ranging from April 2019 to August 2023, coupon rates from 0.5% to 13.1% p.a. and yields to maturity from 0.3% to 11.8% p.a.

11 Investments and Repurchase Receivables (Continued)

The following table contains an analysis of investments at AC by credit quality as at 31 December 2018 based on credit quality. Refer to Note 32 for the description of ratings system used by the Group and the approach to ECL measurement. The carrying amount of investments at AC at 31 December 2018 below also represents the Group's maximum exposure to credit risk on these assets.

In millions of US Dollars	Corporate Eurobonds	Corporate bonds	Bonds of other states	Total
First class	576	204	119	899
Good and standard	828	498	-	1 326
Acceptable	-	219	-	219
Weak	-	15	-	15
Credit loss allowance	(1)	(2)	-	(3)
Total investments at AC and repurchase receivables relating to investments at AC	**1 403**	**934**	**119**	**2 456**

For the purpose of ECL measurement investments at AC balances are included in Stage 1. Refer to Note 32 for the ECL measurement approach.

Currency, maturity and interest rate analyses of investments at AC and repurchase receivables relating to investments at AC are disclosed in Note 32. The estimated fair value of investments at AC and repurchase receivables relating to investments at AC is disclosed in Note 39.

Investments HTM and repurchase receivables relating to investments HTM

In millions of US Dollars	2017
Investments HTM	
Corporate Eurobonds	1 313
Corporate bonds	1 234
Bonds of other states	150
Credit loss allowance	(2)
Total investments HTM	**2 695**
Repurchase receivables relating to investments HTM	
Corporate Eurobonds	115
Total repurchase receivables relating to investments HTM	**115**
Total investments HTM and repurchase receivables relating to investments HTM	**2 810**

Corporate Eurobonds are interest-bearing securities denominated in US Dollars, Russian Roubles and Euro, issued mainly by large Russian and European companies and freely tradable internationally. As at 31 December 2017 these securities have maturity dates ranging from January 2018 to September 2023, coupon rates from 1.1% to 8.3% p.a. and yields to maturity from 2.3% to 21.7% p.a.

Corporate bonds are interest-bearing securities issued by large Russian companies, denominated in Russian Roubles and freely tradable in the Russian Federation. As at 31 December 2017 these bonds have maturity dates ranging from February 2018 to March 2023, coupon rates from 3.4% to 13.0% p.a. and yields to maturity from 0.2% to 10.3% p.a.

11 Investments and Repurchase Receivables (Continued)

As at 31 December 2017 the analysis by credit quality of investments HTM and repurchase receivables relating to investments HTM was as follows:

In millions of US Dollars	Corporate Eurobonds	Corporate bonds	Bonds of other states	Total
Neither past due nor impaired				
First class	1 419	1 011	150	2 580
Good and standard	9	223	-	232
Credit loss allowance	(1)	(1)	-	(2)
Total investments HTM and repurchase receivables relating to investments HTM	**1 427**	**1 233**	**150**	**2 810**

Refer to Note 32 for the description of credit quality ratings.

Currency, maturity and interest rate analyses of investments HTM and repurchase receivables relating to investments HTM are disclosed in Note 32. The estimated fair value of investments HTM and repurchase receivables relating to investments HTM is disclosed in Note 39.

Debt investments at FVOCI

In millions of US Dollars	2018
Debt investments at FVOCI	
Russian Federation bonds and Eurobonds	2 963
Bonds of other states	425
Total debt investments at FVOCI	**3 388**
Repurchase receivables relating to investments at FVOCI	
Russian Federation bonds and Eurobonds	45
Total repurchase receivables relating to investments at FVOCI	**45**
Total debt investments at FVOCI and repurchase receivables relating to investments at FVOCI	**3 433**

Russian Federation bonds and Eurobonds are interest-bearing securities denominated in US Dollars, Euro, Russian Rouble and are freely tradable in the Russian Federation and internationally. As at 31 December 2018 these bonds have maturity dates ranging from January 2019 to September 2023, coupon rates from 3.6% to 8.0% p.a. and yields to maturity from 0.4% to 7.1% p.a.

Bonds of other states are interest-bearing securities denominated in US Dollars and Euro, issued by government of the United State, Italy, Portugal and freely tradable internationally. As at 31 December 2018 these bonds have maturity dates ranging from January 2020 to October 2022, coupon rates from 0.1% to 4.4% p.a. and yields to maturity from 0.3% to 2.6% p.a.

Analysis by credit quality of debt investments at FVOCI was as follows as at 31 December 2018:

In millions of US Dollars	Russian Federation bonds and Eurobonds	Bonds of other states	Total
First class	3 008	425	3 433
Total debt investments at FVOCI and repurchase receivables relating to investments at FVOCI	**3 008**	**425**	**3 433**

For the purpose of ECL measurement debt investments at FVOCI balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognise any credit loss allowance for debt investments at FVOCI. Refer to Note 32 for the ECL measurement approach.

Refer to Note 32 for the description of credit quality ratings.

11 Investments and Repurchase Receivables (Continued)

Movements in investments at FVOCI were as follows:

In millions of US Dollars	**2018**
Carrying amount as at 1 January	**1 825**
Acquisition	11 615
Disposals and redemption	(9 709)
Fair value gains less losses	(14)
Interest income accrued	193
Interest income received	(200)
Effect of exchange rates changes	103
Effect of translation to presentation currency	(370)
Carrying amount as at 31 December	**3 443**

Currency, maturity and interest rate analyses of debt investments at FVOCI and repurchase receivables relating to debt investments at FVOCI are disclosed in Note 32.

Debt investments AFS

In millions of US Dollars	**2017**
Debt investments AFS	
Russian Federation bonds and Eurobonds	1 248
Bonds of other states	409
Total debt investments AFS	**1 657**

Russian Federation bonds and Eurobonds are interest-bearing securities denominated in US Dollars, Euro, Russian Rouble and are freely tradable in the Russian Federation and internationally. As at 31 December 2017 these bonds have maturity dates ranging from January 2018 to September 2023, coupon rates from 3.5% to 10.4% p.a. and yields to maturity from 0.3% to 7.1% p.a.

Bonds of other states are interest-bearing securities denominated in US Dollars and Euro, issued by government of the United State, Italy, Portugal and freely tradable internationally. As at 31 December 2017 these bonds have maturity dates ranging from January 2018 to October 2022, coupon rates from 0.3% to 4.5% p.a. and yields to maturity from 0.3% to 2.0% p.a.

Analysis by credit quality of debt investments AFS was as follows as at 31 December 2017:

In millions of US Dollars	**Russian Federation bonds and Eurobonds**	**Bonds of other states**	**Total**
Neither past due nor impaired			
First class	1 248	409	1 657
Total debt investments AFS	**1 248**	**409**	**1 657**

Refer to Note 32 for the description of credit quality ratings.

Movements in investments AFS were as follows:

In millions of US Dollars	**2017**
Carrying amount as at 1 January	**1 736**
Acquisition	1 435
Disposals and redemption	(1 573)
Fair value gains less losses	(4)
Interest income accrued	95
Interest income received	(73)
Effect of exchange rates changes	(60)
Effect of translation to presentation currency	108
Carrying amount as at 31 December	**1 664**

Currency, maturity and interest rate analyses of investments AFS are disclosed in Note 32.

12 Other Financial Assets

In millions of US Dollars	Note	2018	2017
Other financial assets at AC			
Receivables on operations with securities and derivatives		52	88
Receivables on conversion operations		45	25
Plastic card debtors		2	1
Other		88	37
Credit loss allowance		(7)	(7)
Total other financial assets at AC		**180**	**144**
Other financial assets mandatorily measured at FVTPL			
Derivative financial instruments	38	800	485
Financial instruments at FVTPL		-	20
Total other financial assets at FVTPL		**800**	**505**
Total other financial assets		**980**	**649**

As at 31 December 2018 derivative financial instruments included USD 787 million (2017: USD 335 million) related to instruments contracted with large international banks.

As at 31 December 2018 and 2017 the Group held margin call deposits pledged by its counterparties as collateral under transactions with derivative financial instruments and operations with securities. Refer to Notes 15 and 16.

Movements in the credit loss allowance of other financial assets were as follows:

In millions of US Dollars	2018	2017
Credit loss allowance as at 1 January	**7**	**6**
Credit loss allowance charge	20	40
Amounts written off during the year as uncollectible	(17)	(40)
Effect of translation to presentation currency	(3)	1
Credit loss allowance as at 31 December	**7**	**7**

Analysis by credit quality of other financial assets outstanding as at 31 December 2018 was as follows:

In millions of US Dollars	Derivative financial instruments	Receivables on operations with securities and derivatives	Receivables on conversion operations	Plastic card debtors	Other	Total
Neither past due nor impaired with credit history	800	52	45	2	76	975
Neither past due nor impaired without credit history	-	-	-	-	4	4
Past due and impaired	-	-	-	-	8	8
Total gross other financial assets	**800**	**52**	**45**	**2**	**88**	**987**
Credit loss allowance	-	-	-	-	(7)	(7)
Total other financial assets	**800**	**52**	**45**	**2**	**81**	**980**

12 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets outstanding as at 31 December 2017 was as follows:

In millions of US Dollars	Derivative financial instruments	Financial instruments at fair value through profit and loss	Receivables on operations with securities and derivatives	Receivables on conversion operations	Plastic card debtors	Other	Total
Neither past due nor impaired with credit history	485	20	88	25	1	24	643
Past due and impaired	-	-	-	-	-	13	13
Total gross other financial assets	**485**	**20**	**88**	**25**	**1**	**37**	**656**
Provision for impairment	-	-	-	-	-	(7)	(7)
Total other financial assets	**485**	**20**	**88**	**25**	**1**	**30**	**649**

“Entities with credit history” are those entities of which the Group is aware of their credit history over more than one year.

For the purposes of measurement as at 31 December 2018 the Group classified all balances included in other financial assets, except for derivative financial instruments and receivables at FVTPL, as financial assets at AC (2017: loans and receivables (IAS 39)). Currency and maturity analyses of other financial assets are disclosed in Note 32. The estimated fair value of other financial assets is disclosed in Note 39. The information on related party balances is disclosed in Note 40.

13 Other Assets

In millions of US Dollars	2018	2017
Computer software	122	115
Prepayments	88	97
Investment properties	87	48
Prepayment of taxes, other than on income	83	40
Goodwill	28	34
Prepayment of current income tax	9	6
Repossessed collateral	6	4
Assets held for sale	-	46
Other intangibles	-	11
Provision for impairment	(1)	(2)
Total other assets	**422**	**399**

13 Other Assets (Continued)

Movements in intangible assets during 2018 were as follows:

In millions of US Dollars	Goodwill	Computer software	Other intangibles	Total
Carrying amount as at 1 January 2018	**34**	**115**	**11**	**160**
Cost				
Opening balance	34	240	37	311
Additions	-	73	-	73
Amounts written-off	-	(25)	(32)	(57)
Translation movement	(6)	(43)	(5)	(54)
Closing balance	**28**	**245**	**-**	**273**
Accumulated depreciation				
Opening balance	-	125	26	151
Amortisation (Note 29)	-	50	11	61
Amounts written-off	-	(25)	(32)	(57)
Translation movement	-	(27)	(5)	(32)
Closing balance	**-**	**123**	**-**	**123**
Carrying amount as at 31 December 2018	**28**	**122**	**-**	**150**

Movements in intangible assets during 2017 were as follows:

In millions of US Dollars	Goodwill	Computer software	Other intangibles	Customer relationship	Total
Carrying amount as at 1 January 2017	**32**	**104**	**26**	**6**	**168**
Cost					
Opening balance	32	188	37	59	316
Additions	-	58	-	-	58
Amounts written-off	-	(17)	-	(62)	(79)
Translation movement	2	11	-	3	16
Closing balance	**34**	**240**	**37**	**-**	**311**
Accumulated depreciation					
Opening balance	-	84	11	53	148
Amortisation (Note 29)	-	52	15	6	73
Amounts written-off	-	(17)	-	(62)	(79)
Translation movement	-	6	-	3	9
Closing balance	**-**	**125**	**26**	**-**	**151**
Carrying amount as at 31 December 2017	**34**	**115**	**11**	**-**	**160**

The recoverable amount of goodwill for the purposes of impairment testing was estimated based on value in use calculation.

14 Premises and Equipment

In millions of US Dollars	Premises	Leasehold improve-ments	Office and computer equipment	Construction in progress	Total
Carrying amount as at 1 January 2018	**337**	**-**	**184**	**20**	**541**
Cost / revaluation					
Opening balance	412	-	418	20	850
Revaluation	(8)	-	-	-	(8)
Impairment	(4)	-	-	-	(4)
Additions	13	2	63	13	91
Disposals	(5)	-	(21)	-	(26)
Translation movement	(69)	-	(73)	(3)	(145)
Closing balance	**339**	**2**	**387**	**30**	**758**
Accumulated depreciation					
Opening balance	75	-	234	-	309
Revaluation	(1)	-	-	-	(1)
Impairment	(2)	-	-	-	(2)
Depreciation (Note 28)	8	-	47	-	55
Disposals	(5)	-	(21)	-	(26)
Translation movement	(13)	-	(44)	-	(57)
Closing balance	**62**	**-**	**216**	**-**	**278**
Carrying amount as at 31 December 2018	**277**	**2**	**171**	**30**	**480**

Included in the above carrying amount is USD 61 million (2017: USD 69 million) representing revaluation surplus relating to premises of the Group. As at 31 December 2018 the carrying amount of premises would have been USD 216 million (2017: USD 268 million) had the assets been carried at cost less depreciation.

In millions of US Dollars	Premises	Leasehold improve-ments	Office and computer equipment	Construction in progress	Total
Carrying amount as at 1 January 2017	**335**	**-**	**171**	**18**	**524**
Cost / revaluation					
Opening balance	400	11	362	18	791
Revaluation	(16)	-	-	-	(16)
Additions	9	-	61	1	71
Disposals	(3)	(12)	(25)	-	(40)
Translation movement	22	1	20	1	44
Closing balance	**412**	**-**	**418**	**20**	**850**
Accumulated depreciation					
Opening balance	65	11	191	-	267
Revaluation	(2)	-	-	-	(2)
Depreciation (Note 29)	9	-	58	-	67
Disposals	-	(12)	(25)	-	(37)
Translation movement	3	1	10	-	14
Closing balance	**75**	**-**	**234**	**-**	**309**
Carrying amount as at 31 December 2017	**337**	**-**	**184**	**20**	**541**

15 Due to Other Banks

In millions of US Dollars	2018	2017
Correspondent accounts and overnight placements of other banks		
- Russian Federation	364	690
- Other countries	72	119
Term placements of other banks	1 161	870
Sale and repurchase agreements with other banks	159	281
Placements with the CBRF		
- Loans received under a secured lending programme	110	81
- Term deposits	6	9
Total due to other banks	**1 872**	**2 050**

As at 31 December 2018 the ten largest aggregate balances due to other banks amounted to USD 1 160 million (2017: USD 1 175 million) or 62.0% (2017: 57.3%) of total due to other banks.

Loans received from the CBRF under a secured lending programme were secured by a pledge of loans and advances to customers in the carrying amount of USD 116 million (2017: USD 86 million) (Note 10).

As at 31 December 2018 sale and repurchase agreements with other banks were effectively secured by trading securities and investments at AC and at FVTOCI in the amount of USD 86 million (2017: USD 306 million) (Notes 8 and 11) and securities purchased under reverse sale and repurchase agreements with a fair value of USD 83 million (2017: USD 91 million).

As at 31 December 2018 included within term placements of other banks are margin call deposits in the amount of USD 78 million (2017: USD 17 million) received by the Group as collateral under transactions with derivatives and operations with securities with other banks.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 32. The estimated fair value of due to other banks is disclosed in Note 39. The information on related party balances is disclosed in Note 40.

16 Customer Accounts

In millions of US Dollars	2018	2017
Commercial organisations		
- Current/settlement accounts	6 041	5 694
- Term deposits	5 974	7 252
Individuals		
- Current/demand accounts	9 989	8 686
- Term deposits	6 459	6 410
State and public organisations		
- Current/settlement accounts	146	116
- Term deposits	3 497	1 394
Total customer accounts	**32 106**	**29 552**

16 Customer Accounts (Continued)

Economic sector concentrations within customer accounts were as follows:

	2018		2017	
In millions of US Dollars	**Amount**	**%**	**Amount**	**%**
Individuals	16 448	51	15 096	51
Trade and commerce	4 560	14	3 807	13
State and public organisations	3 643	11	1 510	5
Energy and oil and gas	1 955	6	1 426	5
Finance and investment companies	1 564	5	2 811	10
Manufacturing	878	3	1 627	6
Construction	780	2	768	3
Transport	646	2	949	3
Mass media and telecommunications	175	1	238	1
Other	1 457	5	1 320	3
Total customer accounts	**32 106**	**100**	**29 552**	**100**

As at 31 December 2018 the aggregate balances of ten largest customers (or groups of related customers) amounted to USD 5 048 million (2017: USD 3 875 million) or 15.7% (2017: 13.1%) of the total customer accounts.

Included in customer accounts are balances in the amount of USD 86 million (2017: USD 12 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 34.

As at 31 December 2018 included within customer accounts are margin call deposits in the amount of USD 113 million (2017: USD 259 million) received by the Group as collateral under transactions with derivatives and operations with securities with customers.

As at 31 December 2018 sale and repurchase agreements in the amount of USD 68 million (2017: USD 72 million) were effectively secured by securities purchased under reverse sale and repurchase agreements with a fair value of USD 73 million (2017: USD 72 million).

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 32. The estimated fair value of customer accounts is disclosed in Note 39. The information on related party balances is disclosed in Note 40.

17 Debt Securities Issued

In millions of US Dollars	**2018**	**2017**
Notes	1 633	2 215
Rouble denominated bonds	1 119	963
Promissory notes	367	283
Euro Commercial Paper Notes	120	151
Euro denominated bonds	12	12
US Dollars denominated bonds	8	-
Total debt securities issued	**3 259**	**3 624**

17 Debt Securities Issued (Continued)

Notes.

The details of Notes outstanding as at 31 December 2018 are disclosed below:

Issue date	Maturity date	Interest rate	Effective interest rate	Currency	Nominal in millions of currency	in millions of US Dollars			
						Nominal	Issue proceeds net of costs	Amortised cost	Repurchased amount
28 April 2011	28 April 2021	7.75%	7.94%	USD	1 000	1 000	997	727	(273)
28 March 2017	28 April 2020	2.63%	2.72%	EUR	400	435	434	465	-
9 November 2017	9 November 2022	2.88%	2.99%	CHF	165	165	164	168	-
20 July 2017	20 July 2021	8.90%	9.16%	RUR	10 000	169	168	144	(5)
16 February 2017	16 February 2022	9.25%	9.49%	RUR	10 000	176	176	129	(20)
Total Notes								**1 633**	**(298)**

The details of Notes outstanding as at 31 December 2017 are disclosed below:

Issue date	Maturity date	Interest rate	Effective interest rate	Currency	Nominal in millions of currency	in millions of US Dollars			
						Nominal	Issue proceeds net of costs	Amortised cost	Repurchased amount
28 April 2011	28 April 2021	7.75%	7.94%	USD	1 000	1 000	997	718	(285)
28 March 2017	28 April 2020	2.63%	2.72%	EUR	400	435	434	486	-
25 November 2015	27 November 2018	5.00%	5.16%	USD	500	500	499	367	(135)
20 July 2017	20 July 2021	8.90%	9.16%	RUR	10 000	169	168	180	-
16 February 2017	16 February 2022	9.25%	9.49%	RUR	10 000	176	176	177	(3)
9 November 2017	9 November 2022	2.88%	2.99%	CHF	165	165	164	169	-
6 December 2013	16 January 2018	4.00%	4.28%	CHF	85	94	93	90	-
16 December 2015	28 August 2018	0.47%	10.81%	RUR	1 460	21	19	28	-
Total Notes								**2 215**	**(423)**

Rouble denominated bonds. The details of Rouble denominated bonds outstanding as at 31 December 2018 are disclosed below:

Issue date	Maturity date	Offer date	Interest rate	Effective interest rate	in millions of US Dollars	
					Amortised cost	Repurchased amount
31 July 2018	2 August 2021	-	7.90%	8.06%	149	-
21 February 2018	4 March 2033	26 February 2021	7.35%	7.50%	148	-
6 March 2018	17 March 2033	9 September 2021	7.35%	7.49%	147	-
30 October 2018	1 November 2021	-	8.95%	9.16%	146	-
23 January 2017	5 January 2032	22 January 2020	9.45%	9.70%	75	-
4 October 2016	16 September 2031	30 September 2021	9.50%	9.73%	74	-
2 October 2017	13 October 2032	7 October 2020	8.35%	8.54%	73	-
23 November 2017	4 December 2032	27 November 2020	8.10%	8.28%	73	-
30 May 2017	11 May 2032	28 May 2020	8.70%	8.90%	73	-
21 December 2018	24 June 2022	-	9.20%	9.42%	72	-
2 December 2014	13 November 2029	27 May 2021	7.35%	7.48%	45	-
18 September 2014	30 August 2029	16 September 2019	9.35%	9.57%	35	-
12 May 2017	8 May 2020	-	5.00%	8.90%	6	(25)
12 April 2016	12 April 2019	-	6.75%	6.83%	1	-
18 September 2014	30 August 2029	13 September 2021	8.25%	8.46%	1	-
11 August 2016	24 July 2031	7 February 2022	7.80%	8.35%	1	-
Total Rouble denominated bonds					**1 119**	**(25)**

17 Debt Securities Issued (Continued)

The details of Rouble denominated bonds outstanding as at 31 December 2017 are disclosed below:

Issue date	Maturity date	Offer date	Interest rate	Effective interest rate	in millions of US Dollars	
					Amortised cost	Repurchased amount
20 October 2015	20 October 2018	-	8.15%	8.28%	139	-
11 August 2016	24 July 2031	13 August 2018	9.75%	9.99%	90	-
23 January 2017	5 January 2032	22 January 2020	9.45%	9.70%	90	-
12 April 2016	12 April 2019	16 April 2018	10.65%	10.95%	89	-
4 October 2016	16 September 2031	30 September 2021	9.50%	9.73%	89	-
2 October 2017	13 October 2032	7 October 2020	8.35%	8.54%	89	-
23 November 2017	4 December 2032	27 November 2020	8.10%	8.28%	88	-
30 May 2017	11 May 2032	28 May 2020	8.70%	8.90%	87	-
2 December 2014	13 November 2029	31 May 2018	10.30%	10.57%	84	-
18 September 2014	30 August 2029	17 September 2018	8.50%	8.67%	67	-
18 September 2014	30 August 2029	16 September 2019	9.35%	9.57%	42	-
17 May 2017	8 May 2020	-	5.00%	8.90%	9	(28)
Total Rouble denominated bonds					**963**	**(28)**

Promissory notes. Promissory notes comprise of securities in Russian Roubles, US Dollars and Euros issued by the Group with a discount to face value or with interest accrual.

USD denominated Euro Commercial Paper Programme. On 2 February 2012 the Group established Euro Commercial Paper Programme (the "ECP Programme") with a limit of the aggregate principal amount of outstanding notes issued under the ECP Programme of USD 1 400 million.

The details of Notes outstanding are disclosed below:

Issue date	Maturity date	Effective interest rate per annum	Amortised cost in millions of US Dollars	
			as at 31 December 2018	as at 31 December 2017
4 May 2018	3 May 2019	3.33%	54	-
10 July 2018	9 July 2019	3.58%	66	-
30 June 2017	29 June 2018	3.12%	-	104
25 April 2017	24 April 2018	3.09%	-	47
Total Euro Commercial Paper Notes			**120**	**151**

Currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 32.The estimated fair value of debt securities issued is disclosed in Note 39.

18 Loan from the SDIA

In September 2014 the SDIA provided Baltiyskiy Bank (a subsidiary of Alfa-Bank) with a RR 57 400 million (equivalent of USD 1 537 million) loan carrying an interest rate of 0.51% p.a. and repayable on 3 September 2024 (except that earlier partial repayments are required in case of recovery of certain problem assets of Baltiyskiy Bank). The loan was recorded by the Group at the date of acquisition of Baltiyskiy Bank at its fair value of RR 15 564 million (equivalent of USD 285 million) determined by discounting future cash flows at interest rate of 15.65% p.a.

Currency, maturity and interest rate analyses of loan from SDIA are disclosed in Note 32.The estimated fair value of loan from the SDIA is disclosed in Note 39.

19 Subordinated Debt

In millions of US Dollars	2018	2017
Subordinated loan from VEB maturing in 2020	405	480
Subordinated notes maturing in 2019	373	421
Subordinated notes maturing in 2020	229	237
Subordinated loan from VEB maturing in 2019	148	176
Subordinated loan maturing in 2023	40	43
Total subordinated debt	**1 195**	**1 357**

In 2008 the Russian government provided assistance to the Russian financial system by instructing the Russian State Corporation Bank for Development and Foreign Economic Affairs ("VEB") to grant subordinated loans to selected banks.

On 29 January 2009 the Group received a subordinated loan from VEB in the amount of RR 10 201 million (equivalent of USD 307 million) bearing a fixed interest rate of 8% p.a. plus a fee of 0.03% p.a., which matures on 25 December 2019, followed by the second tranche of that subordinated loan in the amount of RR 231 million (equivalent of USD 8 million) received on 19 October 2009.

In October 2009 the Group received another subordinated loan from VEB in the amount of RR 29 181 million (equivalent of USD 994 million) bearing a fixed interest rate of 9.5% p.a. plus a fee of 0.03% p.a., which matures on 25 December 2020.

The Group has an option to repay these loans at any time subject to approvals from the CBRF and VEB.

Since 25 August 2010 the interest rates on the above subordinated loans were reduced from 8% p.a. to 6.5% p.a. on the loan maturing on 25 December 2019 and from 9.5% p.a. to 7.5% p.a. on the loan maturing on 25 December 2020. All other terms of these loans remain unchanged.

The Group accounted for such reduction in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". The revised carrying value of the loans as at 25 August 2010 of USD 1 148 million represented the future revised cash flows relating to the loans discounted at the loans' original effective interest rates. The difference in the amount of USD 157 million between the previous and revised carrying value of the loans was recorded on 25 August 2010 as government grant deferred income within other liabilities (Note 22) and is amortised through interest expense until the loans' maturity dates. In accordance with the terms of the loan agreements Alfa-Bank is required (i) to maintain a portfolio of loans with a term of not less than six months issued to priority sectors of economy in Russia in the amount of the January 2009 subordinated loan outstanding; (ii) to maintain a portfolio of loans with a term of not less than one year issued to priority sectors of the economy in Russia in the amount of the October 2009 subordinated loan outstanding at interest rates less than or equal to the CBRF refinancing rate plus three percent; (iii) to obtain approval from VEB for certain significant transactions and (iv) to include VEB nominees in Alfa-Bank's management bodies.

On 26 September 2012 the Group issued subordinated Notes in the amount of USD 750 million. The Notes bear a fixed interest rate of 7.50% p.a. payable semi-annually from the issuance until maturity on 26 September 2019. The issue proceeds net of transaction costs were equal to USD 748 million and effective interest rate at origination was 7.71% p.a. As at 31 December 2018 balance of Notes repurchased by the Group on the market amounted to USD 387 million at amortised cost (2017: USD 337 million).

On 18 November 2014 the Group issued subordinated Notes in the amount of USD 250 million. The Group has an option to repay these Notes on 18 February 2020. The Notes bear a fixed interest rate of 9.50% p.a. payable semi-annually from 18 February 2015 until 18 February 2020 and if the option is not exercised thereafter a floating interest rate set at the US Treasury Rate plus 7.847% p.a. payable semi-annually until maturity on 18 February 2025. The issue proceeds net of transaction costs were equal to USD 248 million and effective interest rate at origination was 9.90% p.a. As at 31 December 2018 balance of Notes repurchased by the Group on the market amounted to USD 29 million at amortised cost (2017: USD 20 million).

On 28 April 2016 the Group received a subordinated loan from ABHH in the amount of Euro 50 million (equivalent of USD 55 million) bearing a floating interest rate EURIBOR plus 4.5% p.a. payable quarterly with minimum margin of 4.5% p.a. and maturity date on 28 April 2023. In June 2017 a part of this subordinated loan in the amount of Euro 15 million (equivalent of USD 17 million) was repaid ahead of schedule and simultaneously ABHH contributed 15 million Euro to the share capital of Amsterdam Trade Bank N.V.

Currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 32. The estimated fair value of subordinated debt is disclosed in Note 39.

20 Reconciliation of Liabilities Arising from Financing Activities

The table below sets out 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 activities in the statement of cash flows.

	Liabilities from financing activities			
In millions of US Dollars	**Debt securities issued (Note 17)**	**Loan from the SDIA (Note 18)**	**Subordinated debt (Note 19)**	**Total**
Net debt as at 1 January 2017	**3 580**	**323**	**1 534**	**5 437**
Cash flows	(356)	(5)	(305)	(666)
Foreign exchange adjustments	134	17	37	188
Other non-cash movements	266	53	91	410
Net debt as at 31 December 2017	**3 624**	**388**	**1 357**	**5 369**
Cash flows	(249)	(7)	(162)	(418)
Foreign exchange adjustments	(362)	(67)	(104)	(533)
Other non-cash movements	246	53	104	403
Net debt as at 31 December 2018	**3 259**	**367**	**1 195**	**4 821**

Other non-cash movements mainly include accrual of interest for the year and the effects of time value of money.

21 Other Financial Liabilities

In millions of US Dollars	**Note**	**2018**	**2017**
Other financial liabilities at AC			
Trade creditors		41	37
Provision for losses on credit related and other commitments	34	27	44
Payables on operations with securities		12	58
Plastic card and other settlements with clients		10	32
Other		64	52
Total other financial liabilities at AC		**154**	**223**
Other financial liabilities mandatorily measured at FVTPL			
Derivative financial instruments	38	494	635
Total other financial liabilities at FVTPL		**494**	**635**
Total other financial liabilities		**648**	**858**

Currency and maturity analyses of other financial liabilities are disclosed in Note 32. The estimated fair value of other financial liabilities is disclosed in Note 39.

22 Other Liabilities

In millions of US Dollars	Note	2018	2017
Accrued staff costs		200	237
Current income tax payable		22	132
Taxation payable, other than on income		23	20
Government grant	19	18	31
Other		76	89
Total other liabilities		**339**	**509**

23 Share Capital

As at 31 December 2018 and 2017 authorised, issued and fully paid share capital of ABH Financial Limited comprised 6 324 000 preference shares and 1 258 476 000 ordinary shares. All shares had a nominal value of USD 1 per share and rank equally except that the preference shares are entitled to distributions (1) in priority to ordinary shares and (2) on the basis of distributable profits determined by the Board of Directors of the Company. Each share carries one vote.

In April 2017 the Group contributed certain loans with a carrying value of USD 250 million to a subsidiary of ABHH. Since this transaction was performed between companies under common control with the same effective ownership the transaction was treated as a distribution to ABHH and recorded directly in equity.

24 Perpetual Loan Participation Notes

On 30 January 2018 the Group issued Perpetual subordinated loan participation notes in the amount of USD 500 million with no stated maturity and a right to repay the Notes at its discretion quarterly starting from 30 April 2023. The issue proceeds net of transaction cost were equal to USD 499 million. The Notes bear a fixed interest rate of 6.95% p.a. payable quarterly starting from 30 April 2018, interest payments may be cancelled by the Group any time. If the Group does not execute a right to repay the Notes on 30 April 2023 then the interest rate is re-set at the relevant US Treasury Rate plus 4.572% p.a. and it will be revised every 5 years starting from 30 April 2023.

On 3 November 2016 the Group issued Perpetual subordinated loan participation notes in the amount of USD 400 million. The issue proceeds net of transaction cost were equal to USD 400 million. On 23 December 2016 the Group issued additional (to the Perpetual subordinated loan participation notes issued on 3 November 2016) Perpetual subordinated loan participation notes in the amount of USD 300 million. The issue proceeds net of transaction cost were equal to USD 301 million. These two Perpetual subordinated loan participation notes issues formed a single issue in the total nominal amount of USD 700 million. The Notes have no stated maturity and the Group has a right to repay the Notes at its discretion quarterly starting from 3 February 2022. The Notes bear a fixed interest rate of 8.0% p.a. payable quarterly starting from 3 February 2017, interest payments may be cancelled by the Group any time. If the Group does not execute a right to repay the Notes on 3 February 2022 then the interest rate is re-set at the relevant US Treasury Rate plus 6.659% p.a. and it will be revised every 5 years starting from 3 February 2022.

Since the Notes have no stated maturity and the Group has no contractual obligation to repay the principal and it can cancel any interest payment, the Group has classified the Notes as an equity instrument. Interest payments made are treated as a distribution and recorded directly in equity.

In January 2019 the CBRF has registered Alfa-Bank programme for the issuance of local perpetual subordinated bonds. The size of a single issue may vary, while the total amount of outstanding obligations under the programme should not exceed RR 50 000 million or its equivalent. The bonds can be offered to qualified investors only. Alfa-Bank may use this instrument depending on its capital needs and market situation.

25 Net Margin

In millions of US Dollars	**2018**	**2017**
Interest income calculated using the effective interest method		
Loans and advances to corporate customers	1 972	1 857
Loans and advances to individuals	853	710
Due from other banks	236	285
Debt investments at FVOCI and repurchase receivables	193	-
Investments at AC and repurchase receivables	161	-
Debt investments HTM and repurchase receivables	-	179
Trading securities and repurchase receivables	-	99
Debt investments AFS	-	95
Total interest income calculated using the effective interest method	**3 415**	**3 225**
Other similar income	**56**	**-**
Interest expense		
Term deposits of legal entities	528	506
Term deposits of individuals	257	315
Debt securities issued	232	271
Current/settlement accounts	175	126
Due to other banks	105	108
Subordinated debt	105	108
Loan from the SDIA	58	52
Total interest expense	**1 460**	**1 486**
Expenses directly attributable to deposit insurance	91	62
Net margin	**1 920**	**1 677**

Expenses directly attributable to deposit insurance include regular contributions to the SDIA.

Refer to Note 40 for details of related party transactions.

26 Fee and Commission Income and Expense

In millions of US Dollars	**2018**	**2017**
Fee and commission income		
Commission on operations with plastic cards	697	605
Commission on settlement transactions	467	402
Agency commission on insurance operations	139	86
Commission on cash and foreign currency exchange transactions	93	83
Commission on guarantees issued	24	22
Other	38	27
Total fee and commission income	**1 458**	**1 225**
Fee and commission expense		
Commission on operations with plastic cards	381	299
Commission for consulting services	27	31
Commission on settlement transactions	20	17
Commission on cash and foreign currency exchange transactions	4	4
Commission on transactions with securities	4	2
Commission from fiduciary activities	-	1
Other	44	25
Total fee and commission expense	**480**	**379**
Net fee and commission income	**978**	**846**

Refer to Note 40 for details of related party transactions.

27 Gains Less Losses Arising from Foreign Currencies

In millions of US Dollars	**2018**	**2017**
Gains less losses arising from trading in foreign currencies	(395)	46
Foreign exchange translation gains less losses	646	(251)
Total gains less losses arising from foreign currencies	**251**	**(205)**

Gains less losses arising from trading in foreign currencies include result from hedge of net investment in foreign operations (Note 38).

Refer to Note 38 for the information on the total amount of the effective portion of the foreign currency exchange gains or losses recorded on hedging instruments the Group used to hedge net investment in foreign operations.

28 Other Operating Income

In millions of US Dollars	**2018**	**2017**
Gains from sale of repossessed collateral and non-core activities	5	8
Gains less losses from financial instruments at FVTPL	(4)	16
Release of provision related to the borrowed OFZ	-	21
Other	4	4
Total other operating income	**5**	**49**

29 Operating Expenses

In millions of US Dollars	Note	2018	2017
Staff costs		719	685
Computer and telecommunications expenses		80	60
Advertising and marketing		73	56
Amortisation of intangible assets	13	61	73
Expenses related to premises and equipment		59	55
Rent		58	59
Depreciation of premises and equipment	14	55	67
Consulting and professional services		54	36
Maintenance		21	23
Administrative expenses		16	16
Travel expenses		6	7
Taxes other than income tax		5	5
Other		29	61
Total operating expenses		**1 236**	**1 203**

Staff costs include contributions to the Russian state pension plan made by the Group for its personnel employed in Russia in the amount of USD 100 million (2017: USD 95 million). The state pension plan is classified as a defined contribution plan because the Group does not have any legal or constructive obligation to make further contributions if the state pension plan would not hold sufficient assets to pay all employee benefits relating to employees' past service.

Refer to Note 40 for details of related party transactions.

30 Income Taxes

Income tax expense comprises the following:

In millions of US Dollars	2018	2017
Current tax	189	316
Deferred tax	124	(3)
Income tax expense for the year	**313**	**313**

The statutory income tax rate applicable to the majority of Alfa-Bank's income is 20% (2017: 20%).

In millions of US Dollars	2018	2017
IFRS profit before tax	**1 634**	**1 111**
Theoretical tax charge at the statutory rate (2018: 20%; 2017: 20%)	327	222
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	30	24
- Net result on activities taxed at different rates	(11)	35
- Other	(33)	32
Income tax expense for the year	**313**	**313**

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movement of these temporary differences is detailed below and recorded mainly at the rate of 20% (2017: 20%), except for income on state securities that is taxed at 15% and dividend income that is taxed at 13%.

30 Income Taxes (Continued)

The Group has not recorded a deferred tax liability in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

In millions of US Dollars	31 December 2017	Impact of adopting of IFRS 9 as at 1 January 2018	Translation movement recorded in other comprehen-sive income	Recorded in profit or loss	Recorded in other comprehen-sive income	31 December 2018
Tax effect of deductible temporary differences						
Accruals	186	(6)	(31)	12	-	161
Financial assets at FVTPL and Investments	114	-	(20)	(94)	-	-
Tax loss carry forwards	28	-	(5)	(8)	-	15
Other impairment provisions	10	1	(2)	(2)	-	7
Derivative financial instruments	54	-	(9)	(45)	-	-
Gross deferred tax asset	**392**	**(5)**	**(67)**	**(137)**	**-**	**183**
Deferred tax netted off within individual entities	(392)	5	67	137	-	(183)
Deferred tax asset	**-**	**-**	**-**	**-**	**-**	**-**
Tax effect of taxable temporary differences						
Loan from the SDIA	(116)	-	20	9	-	(87)
Premises and equipment	(57)	-	10	(15)	1	(61)
Financial assets at FVTPL and Investments	-	-	-	(28)	3	(25)
Provision for loan impairment	(187)	27	28	(1)	-	(133)
Derivative financial instruments	-	-	-	58	(120)	(62)
Receivables on financial leasing	(38)	-	6	2	-	(30)
Gross deferred tax liability	**(398)**	**27**	**64**	**25**	**(116)**	**(398)**
Deferred tax netted off within individual entities	392	(5)	(67)	(137)	-	183
Deferred tax liability	**(6)**	**22**	**(3)**	**(112)**	**(116)**	**(215)**
Effect of translation of deferred taxation at average rates	-	-	12	(12)	-	-
Total net deferred tax liability	**(6)**	**22**	**9**	**(124)**	**(116)**	**(215)**

30 Income Taxes (Continued)

In millions of US Dollars	31 December 2016	Translation movement recorded in other comprehen-sive income	Recorded in profit or loss	Recorded in other comprehen-sive income	31 December 2017
Tax effect of deductible temporary differences					
Accruals	158	8	20	-	186
Tax loss carry forwards	37	2	(11)	-	28
Trading securities and investments	134	6	(25)	(1)	114
Other impairment provisions	12	1	(3)	-	10
Derivative financial instruments	75	4	(46)	21	54
Gross deferred tax asset	**416**	**21**	**(65)**	**20**	**392**
Deferred tax netted off within individual entities	(415)	(21)	44	-	(392)
Deferred tax asset	**1**	**-**	**(21)**	**20**	**-**
Tax effect of taxable temporary differences					
Loan from the SDIA	(120)	(6)	10	-	(116)
Premises and equipment	(64)	(3)	7	3	(57)
Intangible assets and other fair value adjustments	(1)	-	1	-	-
Credit loss allowance	(214)	(12)	39	-	(187)
Receivables on financial leasing	(46)	(3)	11	-	(38)
Other	(1)	-	(1)	-	(2)
Gross deferred tax liability	**(446)**	**(24)**	**67**	**3**	**(400)**
Deferred tax netted off within individual entities	415	21	(44)	-	392
Deferred tax liability	**(31)**	**(3)**	**23**	**3**	**(8)**
Effect of translation of deferred taxation at average rates	-	(1)	1	-	-
Total net deferred tax liability	**(30)**	**(4)**	**3**	**23**	**(8)**

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

31 Segment Analysis

The Group's reportable segments are strategic business units that offer different products and services:

- Corporate and investment banking - comprises corporate lending, leasing, corporate deposit services, trade finance operations and structured corporate lending, securities trading, debt and equity capital markets services, derivative products, corporate finance advisory services and merger and acquisition advice.
- Retail banking - comprises retail demand and term deposit services, credit and debit card services, retail lending (including consumer (POS) loans and personal instalment loans, car loans and mortgages), money transfers and private banking services.
- Treasury - comprises the Group's wholesale funding, internal funding reallocation, liquidity and risk management activities.

These segments are managed separately because each of them requires formulating a different strategy and uses different operational platforms. The Group evaluates segment performance on the basis of profit or loss before tax. Segment performance is regularly reviewed by the Group's Chief Operating Decision Maker ("CODM"). The CODM has been identified as the members of the Executive Board of Alfa Bank.

The accounting policies of the operating segments are materially the same as those described in the summary of significant accounting policies except for: (i) use of a transfer pricing system, (ii) different classification of certain lines of income and expenses including other comprehensive income items and (iii) some balances and operations are excluded from segment analysis since they are monitored separately and on a less regular basis (including situations when balance is not allocated and related income or expense are allocated for the segment analysis and vice versa). In accordance with the transfer pricing system used by the Group funds are generally reallocated at internal interest rates set by the Treasury Department of the Group, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances.

Segment information for the reportable segments of the Group for the year ended 31 December 2018 is set out below:

In millions of US Dollars	**Corporate and Investment banking**	**Retail banking**	**Treasury**	**Total**
External revenues				
Interest income calculated using the effective interest method	2 148	827	358	3 333
Other similar income	56	-	-	56
Fee and commission income	664	780	9	1 453
Other operating income	10	3	1	14
Total external revenues	**2 878**	**1 610**	**368**	**4 856**
Interest income from other segments	945	809	3 190	4 944
Fee and commission income from other segments	-	-	19	19
Total segment revenues	**3 823**	**2 419**	**3 577**	**9 819**
Interest expense to other segments	(1 679)	(471)	(2 818)	(4 968)
Interest expense	(576)	(463)	(516)	(1 555)
Credit loss allowance	(181)	(151)	-	(332)
Fee and commission expense	(131)	(319)	(3)	(453)
Fee and commission expenses to other segments	(23)	(10)	-	(33)
Gains less losses from investments	(6)	-	(10)	(16)
Gains less losses from foreign currencies	81	52	(293)	(160)
Other provisions	(12)	(15)	-	(27)
Operating expenses	(278)	(430)	(9)	(717)
Allocated operating expenses	(242)	(169)	(7)	(418)
Segment result	**776**	**443**	**(79)**	**1 140**
31 December 2018				
Segment assets	**29 408**	**5 775**	**8 201**	**43 384**
Segment liabilities	**14 037**	**15 481**	**9 071**	**38 589**

31 Segment Analysis (Continued)

Segment information for the reportable segments of the Group for the year ended 31 December 2017 is set out below:

In millions of US Dollars	Corporate and Investment banking	Retail banking	Treasury	Total
External revenues				
Interest income	2 239	695	222	3 156
Fee and commission income	495	718	7	1 220
Other operating income	17	3	-	20
Total external revenues	**2 751**	**1 416**	**229**	**4 396**
Interest income from other segments	885	773	3 020	4 678
Fee and commission income from other segments	-	-	14	14
Total segment revenues	**3 636**	**2 189**	**3 263**	**9 088**
Interest expense to other segments	(1 711)	(399)	(2 553)	(4 663)
Gains less losses from investments	8	-	(23)	(15)
Gains less losses from foreign currencies	98	36	(280)	(146)
Interest expense	(584)	(455)	(535)	(1 574)
Credit loss allowance	78	(107)	-	(29)
Fee and commission expense	(32)	(314)	(5)	(351)
Fee and commission expense to other segments	(17)	(11)	-	(28)
Other provisions	(11)	-	-	(11)
Operating expenses	(262)	(434)	(12)	(708)
Allocated operating expenses	(235)	(146)	(6)	(387)
Segment result	**968**	**359**	**(151)**	**1 176**
31 December 2017				
Segment assets	**29 671**	**4 165**	**6 719**	**40 555**
Segment liabilities	**16 490**	**13 867**	**6 520**	**36 877**

A reconciliation of the revenue for reportable segments to the Group's total revenue for the year is as follows:

In millions of US Dollars	2018	2017
Segment revenues	**9 819**	**9 088**
Interest income from other segments	(4 944)	(4 678)
Fee and commission income from other segments	(19)	(14)
Unallocated subsidiary banks' external revenues	59	80
Other non-reportable segments' unallocated amounts	33	47
Release of expenses related to the borrowed OFZ	-	21
Gains less losses from interest rate derivatives reported within segment revenues	(4)	(4)
Differences in translation to presentation currency	7	(14)
Total Group's revenues	**4 951**	**4 526**
Interest income calculated using the effective interest method	3 415	3 225
Other similar income	56	
Fee and commission income	1 458	1 225
Other operating income	22	76
Total Group's revenues	**4 951**	**4 526**

31 Segment Analysis (Continued)

A reconciliation of the segments' result to the Group's total profit before tax for the year is as follows:

In millions of US Dollars	**2018**	**2017**
Segments' result	**1 140**	**1 176**
Credit loss allowance unallocated to segments (except related to subsidiary banks)	55	(1)
Subsidiary banks' profit before tax	(11)	7
Discretionary interest payments on perpetual loan notes	82	55
Effect of translantion of the financial statements of foreign operations and related hedge	383	(39)
Other non-reportable segments' unallocated results	(6)	(82)
Gains less losses on available for sale investments recorded in equity	8	(5)
Other	(17)	-
Profit for the year before tax	**1 634**	**1 111**

Reportable segments' assets are reconciled to total assets as follows:

In millions of US Dollars	**2018**	**2017**
Segments' assets	**43 384**	**40 555**
Items unallocated to segments:		
Unallocated assets of subsidiary banks	1 488	1 318
Cash on hand and settlement accounts with trading systems	909	1 534
Mandatory cash balances with central banks	336	327
Other financial assets	180	54
Other assets	422	399
Premises and equipment	480	541
Deferred tax asset	-	-
Total Group's assets	**47 199**	**44 728**

Reportable segments' liabilities are reconciled to total liabilities as follows:

In millions of US Dollars	**2018**	**2017**
Segments' liabilities	**38 589**	**36 877**
Items unallocated to segments:		
Unallocated liabilities of subsidiary banks	1 689	1 560
Other financial liabilities	112	87
Other liabilities	339	509
Deferred tax liability	215	8
Perpetual loan participation notes	(943)	(695)
Total Group's liabilities	**40 001**	**38 346**

Reportable segments' interest income is reconciled to total interest income as follows:

In millions of US Dollars	**2018**	**2017**
Segments' interest income	**3 389**	**3 156**
Unallocated interest income related to subsidiary banks	52	46
Other non-reportable segments' interest income	29	37
Differences in translation to presentation currency	1	(11)
Other	-	(3)
Total Group's interest income	**3 471**	**3 225**

31 Segment Analysis (Continued)

Reportable segments' interest expense is reconciled to total interest expense as follows:

In millions of US Dollars	2018	2017
Segments' interest expense	**(1 555)**	**(1 574)**
Unallocated interest expense related to subsidiary banks	(71)	(40)
Expenses directly attributable to leasing and deposit insurance	91	62
Differences in translation to presentation currency	(11)	5
Other non-reportable segments' interest expense	4	6
Discretionary interest payments on perpetual loan notes	82	55
Total Group's interest expense	**(1 460)**	**(1 486)**

Reportable segments' credit loss allowance is reconciled to total credit loss allowance as follows:

In millions of US Dollars	2018	2017
Segments' credit loss allowance	**(332)**	**(29)**
Unallocated credit loss allowance related to subsidiary banks	16	20
Credit loss allowance unallocated to segments	55	(1)
Total Group's provision for loan impairment	**(261)**	**(10)**

Reportable segments' operating expenses and allocated operating expenses are reconciled to total Group's operating expenses as follows:

In millions of US Dollars	2018	2017
Segments' operating expenses and allocated operating expenses	**(1 135)**	**(1 095)**
Unallocated operating expense related to subsidiary banks	(55)	(45)
Other non-reportable segments' operating expense	(35)	(71)
Differences in translation to presentation currency	(11)	8
Total Group's operating expense	**(1 236)**	**(1 203)**

The Group's revenues from external customers are analysed by products and services in Notes 25, 26 and 28.

The vast majority of the Group's revenues from external customers are attributed to customers domiciled in the Russian Federation. Revenues from external customers domiciled in other countries are below the threshold for separate disclosure in these consolidated financial statements. The vast majority of non-financial assets are also located in the Russian Federation.

32 Financial Risk Management

The Group systematically exploits the opportunities available to it to achieve its growth targets without losing sight of the related risks. The Group applies across all product lines a unified risk management practice comprising credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk management. The primary objective of the Group's risk management is to achieve an optimal level of risk-return for its operations. The Group continues to enhance its risk management.

The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise the Group's exposure to internal and external risk factors.

The Group's approach to managing risks is composed of following elements: (i) risk governance, (ii) risk identification, (iii) risk assessment, management and control, and (iv) risk reporting.

32 Financial Risk Management (Continued)

Subsidiaries of the Group have own unified risk management bodies depending on their size and risk profiles aimed at effective and efficient governance and decision making.

The Board of Directors has overall responsibility for the implementation of the risk management framework, including, but not limited to review and approval of the Risk and capital management strategy, procedure of significant risks management, risk-appetite, internal ratings-based ("IRB") models and validation reports. The Board of Directors also approves significant exposures, affiliated and related party transactions, which exceed the specific limits.

The Audit Committee is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.

The Remuneration Committee is responsible for reviewing and developing the remuneration framework, including recommendations to the Board of Directors.

The Risk Committee is responsible for preliminary consideration, analysis and proposals to the Board of Directors of the following key subjects: oversight the risk and capital management strategy, establishing risk appetite, monitoring the effectiveness of the risk management system, improvement of risk-culture and "Three lines of defence" model, IRB models and validation.

The Executive Board is responsible for implementation and monitoring of risk mitigation measures. The Executive Board monitors that the Group operates within the established risk parameters. The Executive Board approves risks which exceed the individual authority of the relevant committees. The Executive Board is responsible for approval of procedures for risk and capital management and stress-testing based on the Risk and capital management strategy approved by the Board of Directors. It ensures internal capital adequacy assessment procedures ("ICAAP") procedures and maintains capital adequacy higher than minimum regulatory requirements, as well as considers ICAAP reporting.

Risks are managed and controlled through a system of relevant committee (in order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure): a) non-retail credit risk through the Non-Retail Credit Committees, b) retail credit risk through the Retail Business Development Committee, c) Market, Liquidity and Interest rate risk through the Asset and Liability Management Committee ("ALCO"), d) operational risk through the Operational Risk Steering Committee.

The Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting risks. The Risk Management Department deals with non-retail credit risk, counterparty credit risk, retail credit risks along with market risk, operational risk, liquidity risk and interest rate risk (together with the Treasury Department). The department structure is geared to bring focus on proactive portfolio management and to perform an extensive program of risk management processes and models improvements with ultimate goal to satisfy Basel II and III standards for risk management.

Corporate bad debts are managed through the Problem Loans Department that is independent from the Risk Management Department. Corporate problem loans are approved by the Main Credit Committee. The Non-Retail Default Committee is responsible for approval defaults and recovery period of borrowers (group of borrowers).

Hard and legal collection was outsourced till 1 January 2019. Starting 2019 the Legal Department of Alfa-Bank is responsible for collection process.

32 Financial Risk Management (Continued)

In relation to retail business, the Bad Debt Management Department is part of the Operational Department and executes the bad debt management strategy developed by the Retail Credit Risk Management Division. Default process is mainly automated, methodology is approved by the Retail Credit Committee.

Amsterdam Trade Bank N.V. has its own Risk Management and Treasury departments, operating in a way similar to Alfa-Bank.

Alfa-Leasing has its own Risk Management Department under supervision of Alfa-Bank.

Risk identification. Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. An overview of the key risks is regularly reported to the CRO, members of the risk management commities, the Executive Board and the Board of Directors.

Risk assessment, management and control. The Group's risk assessment, reporting and control procedures vary by type of risk, but share a common methodology developed and updated by the Risk Management Department. Compliance with the Group’s standards is supported by periodic reviews undertaken by the Internal Audit Department. The results of Internal Audit reviews are discussed with the management of the business units to which they relate and presented to the Audit Committee and the senior management of the Group.

Risk Reporting. Risk reporting represents a comprehensive reporting system that provides the senior management with the summary information about significant risks, risk-appetite and consequences of changes of the operating environment. Regular risk reporting includes results on risk identification and analysis of significant risks through the set of indicators, analysis of the available capital and capital adequacy estimation, stress-testing results.

Risk-appetite and significant risks. The Group indicates significant risks and defines risk-appetite for each significant risk disclosed below:

- Non-retail credit risk
- Counterparty credit risk
- Retail credit risk
- Market risk
- Interest rate risk
- Operational risk
- Liquidity risk
- Concentration risk

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.

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

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 credit conversion factors.

32 Financial Risk Management (Continued)

Limits. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Group established a number of credit committees that are responsible for approving credit limits for individual borrowers. Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or the Small Credit Committee. These committees convene weekly. In certain circumstances (for example, based on tenor or size) loans are approved by the Executive Board or the Board of Directors. Authority to approve deals with insignificant credit limits are delegated by the Executive Board to the special groups within Corporate and Investment Bank and the Risk Management Department under the "4 eyes" principle.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Executive Board or the Board of Directors.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies two approaches – an Internal Rating-Based (IRB) system or risk grades estimated by external international rating agencies (S&P, Fitch, Moody's).

In accordance with the internal rating loans and advances to customers and investments at AC assigned in one of the following rating categories:

- *First class* – strong credit quality with low expected credit risk
- *Good and standard* – adequate credit quality with a moderate credit risk
- *Acceptable* – moderate credit quality with a satisfactory credit risk
- *Weak* – facilities that require closer monitoring and remedial management
- *Impaired* – facilities in which a default has occurred.

The IRB system is designed internally and ratings are estimated by the Group itself. Various credit-risk estimating techniques are used by the Group depending on the class of the asset. There are three commonly used types of such systems:

- *Model-based* – In this system, credit risk ratings are assigned by internally developed statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.
- *Expert judgement-based* – In this system, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated statistical models.
- *Hybrid* – This rating system is a combination of the two systems above. It is developed by using historical data combined with expert input.

The Group applies IRB systems for measurement of credit risk for the following financial assets: interbank loans with Russian counterparties, corporate and retail loans, corporate bonds.

The rating models are regularly reviewed by the Risk Management Department, backtested on actual default data and updated if necessary. Despite the method used, the Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

32 Financial Risk Management (Continued)

Assessment of the credit quality of cash and cash equivalents, debt trading securities, due from other banks and debt investments at FVOCI are based on the counterparties' long-term credit ratings assigned by international rating agencies such as Standard & Poor's, Moody's Investors Services and Fitch Ratings and in accordance with the internal rating methodology:

- *First class* - banks and companies with minimal probability of default and with ratings above BB+ by Standard & Poor's and FitchRaings, Ba1 by Moody's Investors Services and BB+ in accordance with the internal rating methodology.
- *Good and standard* - banks and companies with long-term credit rating from BB- to BB by Standard & Poor's and FitchRaings, Ba3 to Ba2 by Moody's Investors Services and from BB- to BB in accordance with the internal rating methodology.
- *Acceptable* - banks and companies with long-term credit rating from B- to B+ by Standard & Poor's and FitchRaings, B3 to B1 by Moody's Investors Services and from B- to B+ in accordance with the internal rating methodology.
- *Weak* - banks and companies with long-term credit rating from CCC+ to C by Standard & Poor's and FitchRaings, Caa1 and Ca by Moody's Investors Services and CCC in accordance with the internal rating methodology.
- *Impaired* - banks and companies with long-term credit rating below C by Standard & Poor's and FitchRaings, Ca by Moody's Investors Services and below CCC in accordance with the internal rating methodology.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of PDs are applied for the following financial instruments if these instruments are not covered by IRB rating systems: interbank placements to foreign counterparties, loans to sovereigns, and investments in debt securities (government, corporate and municipal bonds, and Eurobonds and promissory notes purchased).

In December 2018 Alfa-Bank submitted an application to the CBRF for transition on IRB models for corporate loans.

Expected credit loss (ECL) measurement – definitions

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 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.

Exposure at Default (EAD) – an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Probability of Default (PD) – an estimate of the likelihood of default to occur over a given time period.

Loss Given Default (LGD) – an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is expressed as a percentage of the EAD.

Discount Rate – a tool to discount an expected loss to the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Lifetime period – the maximum period over which ECL should be measured. For loans with fixed maturity, the lifetime period is equal to the remaining contractual period. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit. For credit cards issued to individuals, it is the period that is based on internal statistics, and it is equal to 3 years.

Lifetime ECL – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL – the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument. For those instruments without contractual life - 12 months are used.

32 Financial Risk Management (Continued)

Forward looking information – the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. Among other factors the Group analyses:

- oil prices and volumes;
- Russian CDSs;
- CPI and GDP changes.

Credit Conversion Factor (CCF) – a coefficient that shows the probability of conversion of an off-balance sheet amounts to exposure on the balance within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Group considers that 12-month and lifetime CCFs are the same.

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

Low credit risk financial assets – assets that have an investment grade defined by external rating agencies or corresponding internal rating, debt instruments issued by Russian Federation and denominated in RUR, loans to companies owned by the Russian Federation and denominated in RUR. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

Default and credit-impaired asset – a loan is in default, meaning fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the Group consider to sell the borrower's debt with significant losses (more than 5% of the debt principal balance and accrued interest);
- the Default Committee recognized restructured debt as default;
- the Group has classified the borrower in the default rating class according to the master scale together with the fact that the Main Credit Committee recognised the borrower as credit-impaired one. The Main Credit Committee decides on recognition of the borrower as credit-impaired one based on the unlikeliness-to-pay criteria listed below:
  - the borrower is insolvent;
  - it is becoming likely that the borrower will enter bankruptcy;
  - other criteria reflecting difficulties with successful fulfilling of obligations by the borrower.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months.

Significant increase in credit risk (SICR) – the SICR assessment is performed on an individual basis and on a portfolio basis. For loans issued to legal entities and individuals, interbank loans and debt securities accounted for at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Group's Risk Management Department.

The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For loans issued to legal entities and bonds issued by the legal entities, interbank operations and bonds issued by the banks:

- 30 days past due;
- increase of PD by 2,7 times (that is close to decrease of rating by 3 notches) compared to PD on the date of initial recognition (the relative threshold);
- loan for which internal rating cannot be calculated (excluding loans rated by international rating agencies);
- inclusion of loan into a watch list zone "Red" according to the internal credit risk monitoring process.

32 Financial Risk Management (Continued)

For loans to Individuals:

- 30 days past due;
- increase of PD by 4 times compared to PD on the date of initial recognition (the relative threshold);
- refinanced loan – a special type of loan when all loans of the borrower are refinanced into one.

If there is evidence that the SICR criteria are no longer met, the instrument will be transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed.

ECL measurement – description of estimation techniques

General principle

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the credit risk of the borrower has increased significantly since initial recognition. This approach can be summarised in a three-stage model for ECL measurement:

- Stage 1: a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition, loss allowance is based on 12-month ECL.
- Stage 2: if a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but not yet deemed to be credit-impaired, loss allowance is based on lifetime ECL.
- Stage 3: if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3 and loss allowance is based on lifetime ECL.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Group only recognises the cumulative changes in lifetime expected credit losses.

The Group can carry out three separate approaches for ECL measurement:

- assessment on an individual basis;
- assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio;
- assessment based on external ratings.

The Group performs an assessment on an individual basis for the following types of loans issued to legal entities: loans with unique credit risk characteristics, individually significant loans and credit-impaired loans.

The Group performs an assessment on a portfolio basis for the following types of assets: loans and credit-related commitments issued to legal entities (standard lending, specialised lending, loans to leasing companies, etc.), interbank loans, retail loans and loans issued to SMEs. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information.

The Group performs assessments on external ratings for the following types of loans: interbank loans, debt securities issued by the banks and legal entities, and loans issued to sovereigns.

Principles of assessment on individual basis – ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines at least two possible outcomes for each loan, one of which leads to credit loss in spite of the probability of such a scenario. Individual assessment is mainly based on the expert judgement of the Problem Loans Collection Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

Principles of assessment on portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a group are homogeneous.

32 Financial Risk Management (Continued)

Examples of shared characteristics include: type of customer (such as income producing real estate or leasing companies), product type (such as credit cards or cash loans), credit risk rating and date of initial recognition.

The different segments reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the multiplication of the following credit risk parameters: EAD, PD and LGD (definitions of the parameters are provided above). The general approach used for ECL calculation is stated below. It could be applied for products assessed on a portfolio basis and for products for which the bank has credit risk ratings assessment based on borrower-specific information.

$$ECL = LGD_{t_i} \sum_{i=0}^{N-1} (PD_{t_i,t_{i+1}} \frac{EAD_{t_i}}{(1+EIR)^{t_i}})$$

where:
LGD_{t_i} – loss given default in moment t_i
EAD_{t_i}– exposure to default in moment t_i
$PD_{t_i,t_{i+1}}$ – probability of default between t_i and t_{i+1} (cannot be higher than 100%)
t_i – number of months in the loan's lifetime
EIR – effective interest rate
N – remaining amount of payments.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The brief principles of calculating the credit risk parameters are as following.

The EADs are determined based on the expected payment profile, which varies by product type:

- for amortising products and bullet repayment loans, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- for revolving products, the EAD is predicted by taking the current drawn balance and adding a credit conversion factor that accounts for the expected drawdown of the remaining limit by the time of default.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for forward-looking information when appropriate.
- Lifetime PDs – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs for Stage 2 exposures. An assessment of a Lifetime PD is based on the latest available historic default data and adjusted for forward looking information when appropriate.

To calculate Lifetime PD, the Group uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes and developing lifetime PD curves based on the historical default data. For lifetime PD calculations, the Group uses historical default data and the extrapolation of trends for longer periods during which default data was not available.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the product, stage and the availability of collateral or other credit support.

The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event.

32 Financial Risk Management (Continued)

The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics;
- individually defined LGD depending on different factors and scenarios.

For loans secured by real estate the Group calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors.

For particular segments of the corporate, retail, interbank loan portfolio and corporate bonds LGD is calculated on a collective basis based on the latest available recovery statistics.

ECL measurement for off-balance sheet financial instruments (financial guarantees, loan commitments)

The ECL measurement of off-balance sheet accounts consists of the same steps described above for the balance sheet exposures and differs with respect to EAD calculation. EAD with respect to off-balance sheet exposures should be calculated in the following way:

$$EAD = ExOff * CCF$$

where:
CCF – credit conversion factor
$ExOff$ – amount of credit-related commitments
CCF for undrawn credit lines of legal entities, credit cards issued to individuals and financial guarantees is defined based on statistical analysis of exposure at default
CCF for overdrafts is defined as 100% since the limits can be used by the clients at any time.

Principles of assessment based on external ratings – the principles of ECL calculations based on external ratings are the same as for their assessment on a portfolio basis. Since the clients have defined the external credit rating, credit risk parameters (PD) could be taken from the default and recovery statistics published by international rating agencies.

Forward-looking information incorporated in the ECL models. The assessment of the SICR and the calculation of ECLs both incorporate forward-looking information. The Group has performed historical analyses and identified the key economic variables impacting credit risk and ECLs for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. These economic variables, such as consumer price index, natural gas price, Russian CDS, have been determined by performing statistical regression analysis to understand the impact of changes in these variables has historically had on default rates.

Based on them the Group's Risk Management Department makes the forecast of future macroeconomic conditions, which is considered by the management of the Group to define the next coming stage of economic cycle using not only statistical approach but also expert judgement of the management.

The assessment of SICR is performed using the Lifetime PD for retail borrowers and 12-month PD for other financial assets, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running the relevant ECL model.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Validation – the Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such validation is performed at least once a year. The results of validation the ECL measurement methodology are communicated to the Group management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

32 Financial Risk Management (Continued)

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

The Group manages its market risk through notional-based and risk-based limits for the Group's sub-positions. Overall Group's position is split between (i) Corporate and Retail Banking positions, (ii) Investment Banking position and (iii) Treasury position. Corporate and Retail Banking exposures to market risks are managed through the system of limits monitored by the Treasury Department. Investment Banking exposures to market risk are managed through open position limits, value at risk ("VaR") limits and extreme loss limits which are set for both aggregated position in equities, fixed income, foreign currency and derivative instruments (treated as separate "trading desks") and for individual trading desks. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities positions are approved by ALCO. An issuer limits on debt securities are approved separately by a relevant Credit Committee. The major part of the Group's proprietary and flow trading portfolios consists of liquid securities quoted on active market (Note 8). The Group's derivative operations are driven by two major factors: (i) the necessity to hedge own risks by foreign currency, securities and interest rate derivatives and (ii) customer's demand for foreign currency, securities, commodities and other derivatives.

Risk-based limits are monitored on a daily basis by the Risk Management Department with respect to individual (foreign currency, equity, fixed income, derivatives) trading desks. The overall VaR of Investment Banking is monitored on a weekly basis.

The limit for the overall 1-day, 99% confidence level VaR of trading position is USD 40 million.

Certain structured credit positions either with or without a component of financing from third parties were controlled according to their notional amount under the credit risk policy of the Group.

The daily VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of the Group were to be held unchanged for one business day. Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- One business day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR;
- As VaR is only calculated on the end-of-day basis, it does not necessarily reflect exposures that may arise on positions during the trading day; and
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The effectiveness of the VaR model is subject to back-test assessment. Back-testing compares the frequency of bigger-than-VaR loss occurrence and compares it to the set confidence level.

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of the Group's position have to be assessed by putting a stress on the number of standard deviations of market returns. Historical stress scenario can be also used. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. The Group uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Equity price risk. As noted above, for the purpose of quantifying the Group's equity price risks which is attributed to Investment Banking trading position only, the Group uses a VaR model.

As at 31 December 2018 the Group's equity price risk VaR was limited at USD 8 million (2017: USD 8 million) (limit set by ALCO).

32 Financial Risk Management (Continued)

Currency risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in the foreign exchange rates. The Treasury Department is responsible for the centralised management of the foreign exchange risk of the banking book (strategic position). The Corporate and Investment Bank is responsible for the currency risk management of trading position. ALCO sets separate limits on the open currency position. The Risk Management Department controls limits of trading position. The Treasury Department of the Group ensures compliance limits on open foreign exchange position of the banking book and general limits on the open currency position.

The Group uses derivatives to manage current and forecast exposures resulting from foreign currencies.

The table below summarises the Group's exposure to foreign currency exchange rate risk as monitored by management as at 31 December 2018:

In millions of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	1 008	2 089	1 054	182	-	4 333
Mandatory cash balances with central banks	-	326	10	-	-	336
Financial assets at FVTPL	665	124	37	3	34	863
Repurchase receivables relating to financial assets at FVTPL	8	-	-	-	-	8
Due from other banks	2 543	1 441	208	1	-	4 193
Loans and advances to customers	7 225	20 651	1 804	4	-	29 684
Investments	1 596	3 718	498	-	10	5 822
Repurchase receivables relating to investments	3	45	30	-	-	78
Other financial assets	836	88	2	54	-	980
Other assets	6	159	13	1	243	422
Premises and equipment	-	-	-	-	480	480
Total assets	**13 890**	**28 641**	**3 656**	**245**	**767**	**47 199**
Liabilities						
Due to other banks	699	862	297	14	-	1 872
Customer accounts	6 373	21 974	3 602	157	-	32 106
Debt securities issued	957	1 657	477	168	-	3 259
Loan from the SDIA	-	367	-	-	-	367
Subordinated debt	602	553	40	-	-	1 195
Other financial liabilities	481	140	12	15	-	648
Other liabilities	98	211	30	-	-	339
Deferred tax liability	-	-	-	-	215	215
Total liabilities	**9 210**	**25 764**	**4 458**	**354**	**215**	**40 001**
Net balance sheet position	**4 680**	**2 877**	**(802)**	**(109)**	**552**	**7 198**
Net balance sheet position less fair value of foreign exchange derivatives	**4 344**	**2 888**	**(806)**	**(113)**	**552**	**6 865**
Foreign exchange derivatives (fair value of currencies receivable or payable) (Note 38)	**3 033**	**(3 440)**	**623**	**117**	**-**	**333**
Net balance sheet and derivatives position	**7 377**	**(552)**	**(183)**	**4**	**552**	**7 198**
Total equity	**(7 198)**	**-**	**-**	**-**	**-**	**(7 198)**
Net	**179**	**(552)**	**(183)**	**4**	**552**	**-**

Almost all non-monetary items are attributable to the Russian Federation.

32 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as monitored by management as at 31 December 2017:

In millions of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	631	3 328	1 022	133	-	5 114
Mandatory cash balances with central banks	-	319	8	-	-	327
Trading securities	621	473	10	-	97	1 201
Repurchase receivables relating to trading securities	188	-	-	-	3	191
Due from other banks	1 939	1 781	354	1	-	4 075
Loans and advances to customers	8 346	18 032	1 362	2	-	27 742
Investments	1 683	2 211	458	-	22	4 374
Repurchase receivables relating to investments	115	-	-	-	-	115
Other financial assets	355	251	25	18	-	649
Other assets	4	103	34	-	258	399
Premises and equipment	-	-	-	-	541	541
Total assets	**13 882**	**26 498**	**3 273**	**154**	**921**	**44 728**
Liabilities						
Due to other banks	743	1 224	75	8	-	2 050
Customer accounts	8 810	17 557	3 053	132	-	29 552
Debt securities issued	1 323	1 540	502	259	-	3 624
Loan from the SDIA	-	388	-	-	-	388
Subordinated debt	658	657	42	-	-	1 357
Other financial liabilities	226	593	33	6	-	858
Other liabilities	143	348	18	-	-	509
Deferred tax liability	-	-	-	-	8	8
Total liabilities	**11 903**	**22 307**	**3 723**	**405**	**8**	**38 346**
Net balance sheet position	**1 979**	**4 191**	**(450)**	**(251)**	**913**	**6 382**
Net balance sheet position less fair value of foreign exchange derivatives	**1 917**	**4 421**	**(453)**	**(256)**	**913**	**6 542**
Foreign exchange derivatives (fair value of currencies receivable or payable) (Note 38)	**4 573**	**(5 304)**	**367**	**204**	**-**	**(160)**
Net balance sheet and derivatives position	**6 490**	**(883)**	**(86)**	**(52)**	**913**	**6 382**
Total equity	**(6 382)**	**-**	**-**	**-**	**-**	**(6 382)**
Net	**108**	**(883)**	**(86)**	**(52)**	**913**	**-**

Derivatives represent the fair value, as at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 38.

32 Financial Risk Management (Continued)

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations (Note 4). For the purpose of currency risk sensitivity analysis the Group splits its assets, liabilities and notional amounts of foreign currency receivable and payable at the reporting dates into three currency zones depending on the functional currencies of the entities included in the zone:

- Russian Rouble zone (includes all Russian Federation subsidiaries);
- Euro zone (includes Amsterdam Trade Bank N.V.);
- US Dollar zone (includes all other foreign subsidiaries operating internationally).

Sensitivity analysis presented below indicates the potential effect of the change in foreign exchange market conditions on the profit or loss for the year and risk arising out of translation of the financial statements of subsidiaries into the presentation currency of the Group.

As the Group exposure to currencies other than US Dollar, Euro and Russian Rouble is not considerable in comparison to other exposures, in performing sensitivity analysis the Group includes its net position in other currencies into the net position in US Dollars. As at 31 December 2018 the Group's net currency position including foreign currency derivatives was as follows:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	6 842	-	237
Euro zone	-	139	(14)
US Dollar zone	12	488	-
Exposure with effect on profit or loss	6 854	627	223
Exposure with effect on other comprehensive income	(5 821)	-	-
Net exposure	**1 033**	**627**	**223**

As at 31 December 2018 if either of USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would have affected total comprehensive income for the year (pre-tax) of the Group and on equity in the following way:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+ 10% change in all foreign exchange rates	103	63	22
- 10% change in all foreign exchange rates	(103)	(63)	(22)

As at 31 December 2017 the Group's net currency position including foreign currency derivatives was as follows:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	(6 747)	-	(36)
Euro zone	-	38	10
US Dollar zone	138	196	-
Exposure with effect on profit or loss	6 609	234	(26)
Exposure with effect on other comprehensive income	(6 143)	-	-
Net exposure	**466**	**234**	**(26)**

At 31 December 2017 if USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would affect total comprehensive income for the year (pre-tax) of the Group in the following way:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+ 10% change in all foreign exchange rates	47	23	(3)
- 10% change in all foreign exchange rates	(47)	(23)	3

32 Financial Risk Management (Continued)

Interest rate risk. Interest rate risk of the banking book (IRRBB) is the current or prospective risk to both the earnings and economic value arising from adverse movements in interest rates that affect interest rate sensitive instruments. IRRBB is assessed in two perspectives: sensitivity of net interest margin (NIM perspective), sensitivity of economic value of equity (EVE perspective). Thus, there are two classes of IRRBB metrics employed. Shocks of interest rates for IRRBB metrics calculations are: 1) standardised by Basel committee and 2) developed by the Treasury and the Risk Management Department.

While IRRBB arises from interest rates fluctuations, there are risks, reflecting in both mentioned perspectives of IRRBB, that come from movements in market rates (referring as “market risk”) and from Group’s credit spreads oscillations (referring as “spread risk”). Both market and spread IRRBB are measured in terms of NIM’s and EVE's sensitivities.

To control for IRRBB volume ALCO sets limits for all interest rate risk metrics. Limits for IRRBB metrics are set for significant currencies (these are currencies for each those total outstanding volume is not less than 5% of the total banking book balance). These are Russian Rouble, US Dollar and Euro. The Group’s IRRBB is managed by the Treasury Department within the limits set by ALCO. Such limits are monitored on a weekly basis by the Assets Liabilities Management Unit of the Treasury Department.

To remain within the limits set by ALCO, the Treasury Department has a mandate to hedge IRRBB. Hedge is achieved both 1) with derivatives and 2) by altering balance sheet structure.

In addition, risks of changes in prices of individual debt instruments related to trading positions of investment business (i.e. interest rate risk of the trading book) are covered by the limit on the size of the open position and the limit for VaR.

The table below summarises the Group’s exposure to interest rate risks as monitored by management. 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.

In millions of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
31 December 2018						
Total financial assets	13 008	10 382	2 728	20 135	44	46 297
Total financial liabilities	(10 345)	(6 527)	(4 326)	(18 249)	-	(39 447)
Effect of interest based derivatives	(14)	(8)	-	-	-	(22)
Net interest sensitivity gap as at 31 December 2018	**2 649**	**3 847**	**(1 598)**	**1 886**	**44**	**6 828**
31 December 2017						
Total financial assets	16 789	5 947	3 074	17 859	119	43 788
Total financial liabilities	(8 499)	(6 761)	(5 512)	(17 057)	-	(37 829)
Effect of interest based derivatives	2 366	-	-	(2 366)	-	-
Net interest sensitivity gap as at 31 December 2017	**10 656**	**(814)**	**(2 438)**	**(1 564)**	**119**	**5 959**

Refer to Note 38 for the information on interest rate derivatives used to manage the Group’s interest rate exposure.

For the year ended 31 December 2018 and 2017, if interest rates at that date had been 100 basis points higher/lower, with all other variables held constant, pre-tax profit would have been USD 181 million higher/lower (2017: USD 181 million higher/lower), mainly as a result of higher interest income on loans and advances to customers. Other components of equity (also pre-tax) would have been USD 32 million lower/higher (2017: USD 14 million lower/higher), as a result of change in the fair value of fixed interest rate debt investments classified as FVOCI (2017: AFS).

32 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2018				2017			
In % per annum	**USD**	**RR**	**EUR**	**Other**	**USD**	**RR**	**EUR**	**Other**
Assets								
Cash balances with central banks	-	0.0	0.0	-	-	0.0	0.0	-
Correspondent accounts and overnight placements with other banks	0.0	7.5	0.0	0.0	0.0	6.4	0.0	0.0
Mandatory cash balances with central banks	-	0.0	0.0	-	-	0.0	0.0	-
Financial assets at FVTPL	5.3	9.2	3.0	-	-	-	-	-
Repurchase receivables relating to financial assets at FVTPL	3.9	-	-	-	-	-	-	-
Debt trading securities	-	-	-	-	5.8	10.2	5.1	-
Repurchase receivables relating to trading securities	-	-	-	-	6.5	-	-	-
Due from other banks	3.0	7.9	2.0	0.0	2.6	7.7	1.1	0.0
Loans and advances to customers								
- corporate borrowers	5.6	9.5	3.7	6.1	5.5	10.4	3.4	6.1
- individuals	17.7	20.1	24.3	-	17.9	23.0	24.6	20.0
Debt investments at FVOCI	3.1	7.5	1.5	-	-	-	-	-
Debt investments AFS	-	-	-	-	2.4	8.9	2.5	-
Investments at AC	5.6	9.5	3.0	-	-	-	-	-
Investments HTM	-	-	-	-	5.3	9.7	2.7	-
Repurchase receivables relating to investments at AC	4.1	-	-	-	-	-	-	-
Repurchase receivables relating to investments HTM	-	-	-	-	6.4	-	-	-
Liabilities								
Due to other banks	3.1	6.1	0.2	1.1	2.2	6.9	0.3	1.4
Customer accounts								
Individuals								
- current and settlement accounts	0.3	3.9	0.1	0.0	0.2	2.1	0.1	0.0
- term deposits	2.4	6.5	0.1	0.0	2.1	7.0	1.0	0.0
Legal entities								
- current and settlement accounts	0.1	0.9	0.0	0.0	0.1	1.1	0.0	0.0
- term deposits	2.3	7.0	0.0	0.0	2.0	7.1	0.4	0.0
Debt securities issued	7.4	8.4	2.7	3.0	6.4	8.6	2.7	3.4
Loan from the SDIA	-	15.7	-	-	-	15.7	-	-
Subordinated debt	8.5	7.5	4.5	-	8.3	7.5	4.5	-

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

Geographical risk concentrations.

As at 31 December 2018 and 2017 majority of assets, liabilities and credit related commitments of the Group are concentrated in the Russian Federation. Also the Group has certain balances (mainly cash and cash equivalents, loans and advances to customers and debt securities) in Europe, USA and CIS. CIS represents the countries of the Commonwealth of Independent States, of which the Group's primary exposure is to the Ukraine, Kazakhstan and Belarus.

The majority of the Group's revenues are generated from counterparties domiciled in the Russian Federation as well as substantially all of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

32 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is a risk of incapacity of the credit institution to finance its activities, i.e., support the growth of assets and fulfil the obligations at maturity without incurring losses in amounts endangering the financial stability of the credit institution. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and from margin and other calls on derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Treasury Department and is monitored by ALCO of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customer deposits, debt securities in issue and due to other banks and maintain an adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans, monitoring liquidity ratios and liquidity factors against regulatory or Group risk-appetite requirements. Alfa-Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios are:

(i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;

(ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;

(iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year;

(iv) liquidity coverage ratio (PKL, N26), which is calculated as the ratio of highly liquid assets that will be received during the next calendar day without substantial loss in value to the amount of net expected outflow of funds on the operations of the bank for the next 30 calendar days;

(v) net stable funding ratio (NSFR, N29) in accordance with the internal and the CBRF requirements, different ratios of concentration of liabilities by groups of clients, covenants, deposits with rights of cancellation, etc.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks (including the CBRF and Federal Treasury for Russian Roubles and central banks for other currencies) and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

For regular stress-test purposes, the Treasury Department runs liquidity forecast models for different financial instruments on a daily basis. Different scenarios are tracked: including or disregarding projected new lending. Information on the level of delinquencies that result in late payments is regularly updated for the liquidity forecast. These liquidity forecast models are aggregated into liquidity position under the Crisis Scenario. The Crisis Scenario's liquidity position is calculated on a daily basis and additionally covers severe market conditions: crisis customer's outflows, defaults of loans, the CBRF facilities, etc. ALCO sets the limits as Survival Horizon (continuous number of days of positive liquidity under the Crisis Scenario) separately for local currency, foreign currency and total.

Liquidity risk-appetite ratios are reported on regular basis to the Management, ALCO and the Board of Directors.

The tables below show liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position because the amounts in the consolidated statement of financial position are based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amounts are determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

32 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities as at 31 December 2018 was as follows:

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	858	506	214	310	1 888
Customer accounts - individuals	10 922	2 176	2 363	1 274	16 735
Customer accounts - other	12 462	2 969	199	165	15 795
Debt securities issued	115	206	286	3 244	3 851
Loan from the SDIA	-	2	2	830	834
Subordinated debt	-	35	576	723	1 334
Other non-derivative financial liabilities	131	2	10	12	155
Gross settled swaps and forwards:					
- inflows	(1 433)	(1 579)	(224)	(1 456)	(4 692)
- outflows	1 408	1 470	234	1 422	4 534
Net settled derivatives	90	202	89	15	396
Unused credit cards limits	3 840	-	-	-	3 840
Import letters of credit	503	-	-	-	503
Corporate overdrafts	395	-	-	-	395
Financial guarantees	198	-	-	-	198
Total potential future payments for financial obligations	**29 489**	**5 989**	**3 749**	**6 539**	**45 766**

Payments in respect of gross settled forwards will be accompanied by related cash inflows as disclosed above. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The maturity analysis of undiscounted financial liabilities as at 31 December 2017 was as follows:

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	1 406	98	354	214	2 072
Customer accounts - individuals	9 567	3 074	2 017	574	15 232
Customer accounts - other	10 341	2 392	1 545	327	14 605
Debt securities issued	169	506	816	2 661	4 152
Loan from the SDIA	-	2	2	976	980
Subordinated debt	-	39	64	1 531	1 634
Other non-derivative financial liabilities	208	3	2	12	225
Gross settled swaps and forwards:					
- inflows	(6 596)	(1 609)	(170)	(983)	(9 358)
- outflows	6 638	1 642	183	955	9 418
Net settled derivatives	104	113	142	76	435
Unused credit cards limits	2 674	-	-	-	2 674
Import letters of credit	514	-	-	-	514
Corporate overdrafts	487				487
Financial guarantees	297	-	-	-	297
Total potential future payments for financial obligations	**25 809**	**6 260**	**4 955**	**6 343**	**43 367**

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Treasury Department monitors expected maturities.

32 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2018 by their expected maturities as determined by the management. This analysis was prepared on the basis of contractual maturities except for adjustments in relation to (i) trading securities and (ii) part of customer accounts. The entire portfolio of trading securities was classified within "demand and less than 1 month" based on the Management's assessment of the portfolio's realisability. Part of current/settlement/demand accounts was reallocated from "demand and less than 1 month" category to baskets with later maturities. On the basis of past experience Management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least part of these current/demand/settlement accounts would provide a long-term and stable source of funding for the Group.

In millions of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	4 333	-	-	-	-	4 333
Mandatory cash balances with central banks	336	-	-	-	-	336
Financial assets at FVTPL	634	19	-	210	-	863
Repurchase receivables relating to financial assets at FVTPL	8	-	-	-	-	8
Due from other banks	3 684	386	-	123	-	4 193
Loans and advances to customers	2 053	5 120	2 517	19 994	-	29 684
Investments	60	2 883	109	2 759	11	5 822
Repurchase receivables relating to investments	48	-	30	-	-	78
Other financial assets	279	391	164	146	-	980
Other assets	84	5	82	8	243	422
Premises and equipment	-	-	-	-	480	480
Total assets	**11 519**	**8 804**	**2 902**	**23 240**	**734**	**47 199**
Liabilities						
Due to other banks	857	503	209	303	-	1 872
Customer accounts	9 129	5 604	3 317	14 056	-	32 106
Debt securities issued	114	175	194	2 776	-	3 259
Loan from the SDIA	-	-	-	367	-	367
Subordinated debt	-	15	514	666	-	1 195
Other financial liabilities	245	230	92	81	-	648
Other liabilities	43	204	13	79	-	339
Deferred tax liability	-	-	-	-	215	215
Total liabilities	**10 388**	**6 731**	**4 339**	**18 328**	**215**	**40 001**
Net expected liquidity gap	**1 131**	**2 073**	**(1 437)**	**4 912**	**519**	**7 198**
Cumulative expected liquidity gap	**1 131**	**3 204**	**1 767**	**6 679**	**7 198**	

32 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2017 by their expected maturities as determined by the Group.

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	5 114	-	-	-	-	5 114
Mandatory cash balances with central banks	327	-	-	-	-	327
Trading securities	1 201	-	-	-	-	1 201
Repurchase receivables relating to trading securities	-	-	191	-	-	191
Due from other banks	3 637	336	78	24	-	4 075
Loans and advances to customers	2 171	3 507	2 560	19 504	-	27 742
Investments	837	158	209	3 148	22	4 374
Repurchase receivables relating to investments	-	115	-	-	-	115
Other financial assets	224	159	99	167	-	649
Other assets	77	107	-	3	212	399
Premises and equipment	-	-	-	-	541	541
Total assets	**13 588**	**4 382**	**3 137**	**22 846**	**775**	**44 728**
Liabilities						
Due to other banks	1 403	97	346	204	-	2 050
Customer accounts	6 551	6 043	4 206	12 752	-	29 552
Debt securities issued	163	385	804	2 272	-	3 624
Loan from the SDIA	-	-	-	388	-	388
Subordinated debt	-	24	-	1 333	-	1 357
Other financial liabilities	382	212	156	108	-	858
Other liabilities	79	360	-	70	-	509
Deferred tax liability	-	-	-	-	8	8
Total liabilities	**8 578**	**7 121**	**5 512**	**17 127**	**8**	**38 346**
Net expected liquidity gap	**5 010**	**(2 739)**	**(2 375)**	**5 719**	**767**	**6 382**
Cumulative expected liquidity gap	**5 010**	**2 271**	**(104)**	**5 615**	**6 382**	

Assets and liabilities disclosed as “no stated maturity” are expected to be recovered or settled after twelve months after the reporting period.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitments because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

32 Financial Risk Management (Continued)

Operational risk. Operational risk is defined as risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. The events that are included under this definition of operational risk are, mainly, losses from fraud, computer system failures, settlement errors, model errors or natural disasters.

The Group monitors its operational risk profile and material exposures to operational losses on a regular basis. The Group's system of regular reporting of information to senior management supports the proactive management of operational risk.

Activities of the Group's operational risk management includes: identification, assessment, monitoring and reporting, control and/or minimization of the Group's exposure to operational risk as well as the distribution of responsibilities and authorities to manage operational risk. Information on realised operational risks and losses are collected in the Group's own loss database system.

In order to identify and assess operational risks, the Group uses the following operational risk management tools:

- analysis of processes;
- internal loss data collection and analysis;
- external loss data collection and analysis;
- risk and control self-assessment (RCSA);
- key risk indicators (KRI);
- scenario analysis (stress-testing).

The main principles and instruments of operational risk minimisation are defined by the Group's Operational Risk Management Policy.

The Group regards active participation of its business divisions as a cornerstone for effective risk management. Each business division is primarily responsible for the identification and assessment of operational risk arising from its business operations. In circumstances where a business division considers it appropriate, operational risk is insured.

The Operational Risk Steering Committee ("ORSC"), which meets monthly, monitors the level of operational risk, coordinates the operational risk management across the departments and approves procedures for operational risk identification. ORSC takes part in carrying out operational risk analysis of new products and complex transactions, approval of internal documents regarding operational risk.

Each year, the Group obtains an international comprehensive banking risk insurance policy, also known as a "banker's blanket bond", which covers its professional activities world-wide and insures it against, among other things, forgery, electronic and computer crimes and employees' unlawful actions.

33 Management of Capital

The Group's main objectives when managing capital are: (i) to comply with the capital requirements set by the respective central banks and debt covenants, (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 of the Group based on Basel (International Convergence of Capital Management and Capital Standards dated July 1988 (as subsequently amended and updated)) of at least 8%.

The Group's policy of capital management is designated to maintain the capital base sufficient to comply with the regulatory requirements and to keep the confidence of investors, creditors, other market participants and to secure the future development of the Group. The CBRF establishes and monitors capital adequacy limits for Alfa-Bank and Baltiyskiy Bank. Capital adequacy limits for Amsterdam Trade Bank N.V. are established and monitored by the Dutch National Bank. Capital adequacy limits of Alfa Capital Holdings (Cyprus) Limited are monitored by the Cyprus Securities and Exchange Commission.

33 Management of Capital (Continued)

The Group plans its capital needs to be able to comply with both the regulators' requirements and Basel with a one year horizon. The Group performs medium and long term planning of growth in the asset side considering sufficiency of capital. When necessary, the Group develops and implements measures to increase its capital base.

The amount of the Group's total capital calculated in accordance with Basel III as at 31 December 2018 was USD 7 363 million (2017: USD 6 863 million), the amount of Tier 1 capital as at 31 December 2018 was USD 7 031 million (2017: USD 6 217 million). According to information provided internally to key management personnel, total capital adequacy ratio and Tier 1 capital adequacy ratio were 18.2% and 17.3%, respectively (2017: 17.4% and 15.7%) and the relevant Group entities complied with external capital adequacy requirements during 2018 and 2017.

34 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses exceeding provision of USD 2 million (2017: USD 27 million) recorded in these consolidated financial statements as at 31 December 2018 will be incurred in respect of claims against the Group.

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

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis.

The Russian legislation contains special rules for adjustment of transaction prices for tax purposes which includes transfer pricing rules as well as rules for securities and derivatives. The Group believes that no transactions performed in 2018 required tax adjustments, except for certain transactions (mainly related to securities and derivatives). It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may impact the financial position and/or some operations of the Group.

The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). CFC income is subject to a 20% tax rate if the CFC is controlled by a legal entity and a rate of 13% if it is controlled by an individual. As a result, management reassessed the Group's tax positions and concluded that this legislation does not result in additional material deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to.

As the Russian tax legislation does not provide definitive guidance in certain areas, the tax authorities may challenge the Group's interpretations of some uncertain areas. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

34 Contingencies and Commitments (Continued)

In addition to the aforementioned risks, the Group estimates that as at 31 December 2018 and 2017 it had no other material probable or possible tax exposures. The above exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

Regulatory compliance. The Group provides financial services through financial institutions registered in the Russian Federation, the Netherlands, Cyprus and other jurisdictions. Financial services are subject to regulation by authorities in connection with obtaining and renewing various licences and permits, as well as with ongoing compliance with existing laws and regulations and with the terms and conditions of the respective licences and permits. The failure to comply with the regulatory requirements may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of licences and permits or in requirements to limit certain business activities.

In the normal course of business, the Group must interpret and apply existing regulatory requirements to its activities. From time to time matters of actual or potential non-compliance with existing regulatory requirements may be identified. The Management is focused on the rectification of such matters as a matter of priority and believes that such matters will not result in significant operating restrictions or material financial losses.

Capital commitments. As at 31 December 2018 the Group had capital commitments of USD 43 million (2017: USD 47 million), of which USD 9 million (2017: USD 21 million) related to construction expenditure and modernisation of premises and USD 34 million (2017: USD 26 million) related to purchase and installation of new computer systems. Management has already allocated the necessary resources in respect of these commitments. Management believes that future income and funding will be sufficient to cover these and any similar commitments.

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

In millions of US Dollars	**2018**	**2017**
Not later than 1 year	42	45
Later than 1 year and not later than 5 years	86	93
Later than 5 years	3	11
Total operating lease commitments	**131**	**149**

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

In addition to credit related commitments, the Group issues performance guarantees. Performance guarantees are insurance contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

34 Contingencies and Commitments (Continued)

Outstanding credit related commitments and performance guarantees were as follows:

In millions of US Dollars	**2018**	**2017**
Unused credit cards limits	3 840	2 674
Import letters of credit	503	514
Corporate overdrafts	395	487
Financial guarantees	198	297
Export letters of credit	14	20
Total credit related commitments	**4 950**	**3 992**
Performance guarantees	1 450	1 992
Total credit related commitments and performance guarantees	**6 400**	**5 984**

As at 31 December 2018 the Group had USD 5 320 million (2017: USD 5 400 million) commitments to provide financial and performance guarantees.

The total outstanding contractual amount of credit related commitments and performance guarantees does not necessarily represent future cash requirements, as these instruments may expire or terminate without being funded. The fair value of credit related commitments and performance guarantees was USD 24 million as at 31 December 2018 (2017: USD 11 million).

Movements in the provision for losses on credit related commitments and performance guarantees were as follows:

In millions of US Dollars	**2018**	**2017**
Provision for losses as at 1 January	**11**	**35**
Provision for losses	10	(25)
Effect of translation to presentation currency	3	1
Provision for losses as at 31 December	**24**	**11**

Compliance with covenants. In accordance with agreements for attracting financing the Group should comply with financial and non-financial covenants. The most significant covenants are:

- to comply with the ratios and requirements of the CBRF;
- to maintain a minimum ratio of capital to risk-weighted assets calculated in accordance with Basel;
- to maintain a minimum level of net assets; and
- to ensure that all related party transactions are on an arm's length basis.

The Group was in compliance with these covenants during 2018 and 2017.

34 Contingencies and Commitments (Continued)

Assets pledged and restricted. The Group had the following assets pledged as collateral:

In millions of US Dollars	Notes	2018 Asset pledged	2018 Related liability	2017 Asset pledged	2017 Related liability
Trading securities classified as repurchase receivables	8, 15	8	8	191	156
Loans and advances to customers pledged to the CBRF	10, 15	116	110	86	81
Margin call deposits	9, 34	114	511	251	522
Investments at FVOCI classified as repurchase receivables	11, 15	45	43	-	-
Investments at AC classified as repurchase receivables	11, 15	33	31	-	-
HTM securities classified as repurchase receivables	11, 15	-	-	115	90
Total		**316**	**703**	**643**	**849**

As at 31 December 2018 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Notes 9 and 10), which the Group has the right to sell or re-pledge in the absence of default of the counterparty was USD 4 042 million (2017: USD 3 420 million). As at 31 December 2018 the fair value of such securities sold under sale and repurchase agreements with other banks and customers amounted to USD 156 million (2017: USD 163 million) (Notes 15 and 16).

Mandatory cash balances with central banks represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

35 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements include (1) amounts receivable under reverse repurchase agreements effectively collateralised by securities which are not recognized in the consolidated statement of financial position, (2) amounts payable under repurchase agreements which are collateralised by repurchase receivables relating to trading securities and investments, (3) derivative financial instruments which are collateralised by margin deposits, and (4) customer accounts, debt securities issued and other financial liabilities which are netted against loans and advances to customers and other financial assets with companies constituting a group .

The table below summarises assets and liabilities subject to offsetting as at 31 December 2018:

	Gross amounts before offsetting in the statement of financial position	**Gross amounts set off in the statement of financial position**	**Net amount after offsetting in the statement of financial position**	**Amounts subject to master netting and similar arrangements not set off in the statement of financial position**		**Net amount of exposure**
				Financial instru-ments	**Cash collateral received**	
In millions of US Dollars	**(a)**	**(b)**	**(c) = (a) - (b)**	**(d)**	**(e)**	**(c) - (d) - (e)**
Assets						
Trading securities classified as repurchase receivables	8	-	8	8	-	-
Due from other banks						
- Reverse sale and repurchase agreements with other banks	2 490	-	2 490	2 490	-	-
- Term placements	114	-	114	4	-	110
Loans and advances to customers						
- Corporate loans	125	9	116	110	-	6
- Reverse sale and repurchase agreements	946	-	946	946	-	-
Repurchase receivables relating to investments	78	-	78	74	-	4
Other financial assets						
- Derivative financial instruments	630	-	630	502	105	23
Total assets subject to offsetting, master netting and similar arrangement	**4 391**	**9**	**4 382**	**4 134**	**105**	**143**
Liabilities						
Due to other banks						
- Term placements	78	-	78	78	-	-
- Sale and repurchase agreements	159	-	159	159	-	-
- Loans received under a secured lending programme	110	-	110	110	-	-
Customer accounts	122	9	113	27	-	86
Other financial liabilities						
- Derivative financial instruments	511	-	511	502	4	5
Total liabilities subject to offsetting, master netting and similar arrangement	**980**	**9**	**971**	**876**	**4**	**91**

35 Offsetting Financial Assets and Financial Liabilities (Continued)

The table below summarises assets and liabilities subject to offsetting as at 31 December 2017:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru-ments	Cash collateral received	
In millions of US Dollars	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
Assets						
Trading securities classified as repurchase receivables	191	-	191	156	-	35
Due from other banks						
- Reverse sale and repurchase agreements with other banks	2 153	-	2 153	2 153	-	-
- Term placements	317	-	317	190	-	127
Loans and advances to customers						
- Corporate loans	167	81	86	81	-	5
- Reverse sale and repurchase agreements	673	-	673	673	-	-
HTM securities classified as repurchase receivables	115	-	115	90	-	25
Other financial assets						
- Derivative financial instruments	332	-	332	288	18	26
- Financial instruments at FVTPL	20	-	20	-	10	10
Total assets subject to offsetting, master netting and similar arrangement	**3 968**	**81**	**3 887**	**3 631**	**28**	**228**
Liabilities						
Due to other banks						
- Correspondent accounts	14	-	14	14	-	-
- Sale and repurchase agreements	281	-	281	281	-	-
- Loans received under a secured lending programme	81	-	81	81	-	-
Customer accounts	10	10	-	-	-	-
Debt securities issued	71	71	-	-	-	-
Other financial liabilities						
- Derivative financial instruments	522	-	522	288	215	19
Total liabilities subject to offsetting, master netting and similar arrangement	**979**	**81**	**898**	**664**	**215**	**19**

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

As at 31 December 2018 the Group placed margin call deposits in the amount of USD 114 million (2017: USD 317 million) and held margin call deposits in the amount of USD 191 million (2017: USD 276 million) as collateral under transactions with derivatives and operations with securities. Refer to Notes 9, 15 and 16. Margin call deposits are subject to potential offsetting.

36 Transfers of Financial Assets

Investment in JSC SB Alfa-Bank Kazakhstan. Alfa Bank legally owns 100% interest in JSC SB Alfa-Bank Kazakhstan. On 29 June 2009 the Group signed a call option agreement (with amendments) with ABHH (Note 1), whereby in exchange for an option premium of USD 63 million ABHH received a right to acquire for a fixed consideration, and at any time until 31 December 2019, shares representing a 100% interest in JSC SB Alfa-Bank Kazakhstan. This agreement effectively transferred to ABHH all potential voting rights and economic benefits relating to JSC SB Alfa-Bank Kazakhstan. The Group recorded disposal of its interest in JSC SB Alfa-Bank Kazakhstan on 29 June 2009. In 2009 ABHH transferred its rights relating to the call option agreement to its subsidiary.

The Group transferred financial assets in transactions that did not qualify for derecognition in the current and prior periods:

Sale and repurchase transactions. At 31 December 2018 the Group had trading securities and investments in the amount of USD 86 million (2017: USD 306 million) (Notes 8 and 11) that are subject to obligation to repurchase the securities for a fixed pre-determined price. As at 31 December 2018 the carrying value of the liabilities associated with these sale and repurchase transactions was USD 82 million (2017: USD 246 million) (Note 15). The estimated fair value of associated liabilities is approximately equal to their carrying value.

37 Interests in Structured Entities

The Group issued bonds through consolidated structured entities incorporated in European countries. These entities were consolidated as they were specifically set up for the purposes of the Group, and the Group has exposure to substantially all of their risks and rewards. These entities have debt securities issued with a nominal value of USD 2 913 million outstanding as at 31 December 2018 (2017: USD 3 607 million).

38 Derivative Financial Instruments

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The principal or agreed amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate contractual or principal amount of derivative financial instruments held and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments other than foreign exchange forward and swap contracts are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to respective reporting period.

38 Derivative Financial Instruments (Continued)

	2018			2017		
In millions of US Dollars	Principal or agreed amount	Assets Positive fair value	Liabilities Negative fair value	Principal or agreed amount	Assets Positive fair value	Liabilities Negative fair value
Deliverable forwards						
Securities						
- sale of securities	41	2	-	529	7	(33)
- purchase of securities	2	-	-	31	-	(1)
Non-deliverable forwards						
Precious metals						
- sale of precious metals	17	-	-	179	-	-
- purchase of precious metals	17	1	-	179	4	-
Futures						
- sale of other base assets	11	1	-	186	-	(54)
- purchase of other base assets	11	-	(1)	187	52	-
Call options						
Securities						
- written call options	-	-	-	32	-	(4)
- purchased call options	-	-	-	113	5	-
Commodities						
- written call options	-	-	-	11	-	-
- purchased call options	-	-	-	11	-	-
Foreign currency						
- written call options	62	-	(1)	78	-	(5)
- purchased call options	39	4	-	76	5	-
Interest rate (CAP)						
- written call options	18	-	-	9	-	-
- purchased call options	18	-	-	9	-	-
Index						
- written call options	90	-	(2)	29	-	(2)
- purchased call options	158	2	-	67	4	-
Put options						
Securities						
- written put options	-	-	-	7	-	-
- purchased put options	-	-	-	21	2	-
Foreign currency						
- written put options	4	-	(3)	23	-	-
- purchased put options	297	1	-	27	-	-
Swaps						
Interest rate swaps - pay fixed interest, receive floating interest	407	1	(3)	666	1	(20)
Interest rate swaps - receive fixed interest, pay floating interest	1 214	-	(20)	1 700	-	(21)
Total return swaps on securities - pay fixed interest, receive total return on securities	367	-	(10)	325	70	-
Credit default swaps	45	1	-	140	-	-
Total		**13**	**(40)**		**150**	**(140)**

38 Derivative Financial Instruments (Continued)

The table below sets out fair values, as at the end of the reporting period, of currencies receivable or payable under foreign exchange contracts and precious metals based contracts (excluding options) entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting dates.

	2018		2017	
In millions of US Dollars	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Deliverable forwards				
- USD receivable on settlement	1 950	114	1 006	5 658
- USD payable on settlement	(405)	(649)	(2 529)	(595)
- EUR receivable on settlement	359	247	2 149	136
- EUR payable on settlement	(13)	(69)	(66)	(2 489)
- RR receivable on settlement	3	377	236	135
- RR payable on settlement	(1 823)	-	(439)	(3 065)
- Other currencies receivable on settlement	50	11	347	576
- Other currencies payable on settlement	(27)	(54)	(658)	(476)
Non-deliverable forwards				
- USD receivable on settlement	8 896	2 635	612	8 285
- USD payable on settlement	(2 363)	(7 362)	(7 112)	(854)
- EUR receivable on settlement	1 844	233	2 305	111
- EUR payable on settlement	(245)	(1 733)	(95)	(1 684)
- RR receivable on settlement	136	7 037	4 497	417
- RR payable on settlement	(8 590)	(274)	(363)	(6 364)
- Other currencies receivable on settlement	1 092	197	1 034	694
- Other currencies payable on settlement	(237)	(1 106)	(669)	(935)
Deliverable swaps				
- USD receivable on settlement	727	15	170	348
- USD payable on settlement	(188)	(337)	(303)	(113)
- RR receivable on settlement	2	279	119	-
- RR payable on settlement	(572)	(15)	(106)	(371)
- Other currencies receivable on settlement	191	-	200	91
Net fair value of foreign exchange derivatives	**787**	**(454)**	**335**	**(495)**

As at 31 December 2018 derivative financial instruments included currency forwards with a contractual amount of USD 5 821 million (2017: USD 6 143 million) which were designated and qualified as a hedge of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency. The total amount of the effective portion of the foreign currency exchange gains or losses recorded during 2018 on these hedging instruments amounted to gain of USD 1 106 million (2017: loss of USD 269 million). No ineffectiveness was recorded in the profit or loss for 2018 and 2017 in respect of the hedge. As at 31 December 2018 the positive fair value of these hedging instruments amounted to USD 600 million (2017: negative USD 105 million). No amounts were reclassified from other comprehensive income during 2018 and 2017, as there were no disposals of hedge subsidiaries, which the hedge relate to.

38 Derivative Financial Instruments (Continued)

Forward positions in securities are summarised below. As at 31 December 2018 and 2017 the respective securities' long balance sheet positions, partially reduced risks related to the securities' short forward positions. Refer to Note 8.

	2018		2017	
	Principal or agreed amount		Principal or agreed amount	
In millions of US Dollars	Sale	Purchase	Sale	Purchase
Corporate Eurobonds	24	1	191	-
ADRs and GDRs	8	-	62	26
Corporate shares	5	1	34	5
Eurobonds and bonds of other states	2	-	7	-
Corporate bonds	1	-	233	-
Russian Federation Eurobonds	1		2	-
Total	**41**	**2**	**529**	**31**

39 Fair Value Disclosures

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

Recurring fair value measurements

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

39 Fair Value Disclosures (Continued)

In millions of US Dollars	2018 Level 1	2018 Level 2	2018 Level 3	2017 Level 1	2017 Level 2	2017 Level 3
Assets at fair value						
Financial assets						
Trading securities	***194***	***421***	***-***	***717***	***484***	***-***
- Corporate Eurobonds	52	390	-	143	484	-
- Corporate bonds	120	-	-	392	-	-
- Russian Federation bonds and Eurobonds	4	5	-	81	-	-
- ADRs and GDRs	8	-	-	62	-	-
- Corporate shares	7	-	-	35	-	-
- Eurobonds and bonds of other states	3	26	-	4	-	-
Repurchase receivables relating to trading securities	***1***	***7***	***-***	***46***	***145***	***-***
- Corporate Eurobonds	-	7	-	40	145	-
- Eurobonds and bonds of other states	1	-	-	3	-	-
- Corporate shares	-	-	-	3	-	-
Other financial instruments mandatorily measured at FVTPL	***-***	***-***	***248***	***-***	***-***	***-***
Debt investments at FVOCI	***3 388***	***-***	***-***	***-***	***-***	***-***
- Russian Federation bonds and Eurobonds	2 963	-	-	-	-	-
- Bonds of other states	425	-	-	-	-	-
Repurchase receivables relating to investments at FVOCI	***45***	***-***	***-***	***-***	***-***	***-***
Equity investments at FVOCI	***-***	***-***	***10***	***-***	***-***	***-***
Debt investments AFS	***-***	***-***	***-***	***1 657***	***-***	***-***
- Russian Federation bonds and Eurobonds	-	-	-	1 248	-	-
- Bonds of other states	-	-	-	409	-	-
Equity investments at FVTPL	***-***	***-***	***-***	***-***	***-***	***15***
Equity investments AFS	***-***	***-***	***-***	***-***	***-***	***7***
Other financial assets	***1***	***851***	***-***	***4***	***589***	***-***
- Foreign exchange derivatives	-	787	-	-	335	-
- Receivables on operation with securities and derivatives	-	52	-	-	88	-
- Financial instruments at FVTPL	-	-	-	-	20	-
- Other financial derivatives	1	12	-	4	146	-
Non-financial assets	**-**	**-**	**364**	**-**	**-**	**385**
- Premises	-	-	277	-	-	337
- Investment properties	-	-	87	-	-	48
Total assets recurring fair value measurements	**3 629**	**1 279**	**622**	**2 424**	**1 218**	**407**
Liabilities at fair value						
Financial liabilities						
Other financial liabilities	**-**	**506**	**-**	**34**	**659**	**-**
- Foreign exchange derivatives	-	454	-	-	495	-
- Other derivative financial instruments	-	40	-	34	106	-
- Payables on operations with securities	-	12	-	-	58	-
Total liabilities recurring fair value measurements	**-**	**506**	**-**	**34**	**659**	**-**

39 Fair Value Disclosures (Continued)

Methods and assumptions for valuation of financial assets included in Level 2 and Level 3 of the fair valuation hierarchy

Level 2. The fair value of financial derivatives allocated to Level 2 was determined based on the discounted cash flows (DCF) models with all significant inputs observable in the market (LIBOR, EURIBOR, Mosprime, the CBRF rates for foreign currencies). The fair value of securities with insignificant trading volumes was based on quotes provided by reputable brokerage houses.

Level 3. Equity investments available for sale and equity investments at fair value through profit or loss allocated to Level 3 represent investments in funds and have been valued using the net assets values reported to the Group. The fair value of financial instruments at fair value through profit or loss was based on the discounted cash flows (DCF) models and credit value adjustment which reflects the probability of default of counterparty and debit value adjustment which reflects the possibility of the Group's default.

Refer to Note 14 for the information on revaluation of premises.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2018 was as follows:

In millions of US Dollars	**Equity investments FVOCI**	**Equity investments at FVTPL**	**Financial instruments mandatorily measured at FVTPL**
Fair value at 1 January 2018	**7**	**15**	**-**
Gains or losses recognised in profit or loss	-	-	(5)
Gains or losses recognised in other comprehensive income	5	-	-
Acquisition	-	-	253
Disposals	-	(15)	-
Effect of translation to presentation currency	(2)	-	-
Fair value at 31 December 2018	**10**	**-**	**248**
Revaluation gains less losses recognised in profit or loss for the year for assets held at 31 December 2018	-	**-**	**(5)**
Revaluation gains less losses recognised in other comprehensive income for the year for assets held at 31 December 2018	**5**	**-**	**-**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2017 was as follows:

In millions of US Dollars	**Equity investments AFS**	**Equity investments at FVTPL**	**Financial instruments at FVTPL**
Fair value at 1 January 2017	**5**	**15**	**462**
Gains or losses recognised in profit or loss	-	-	14
Gains or losses recognised in other comprehensive income	2	-	-
Acquisition	-	8	-
Disposals	-	(8)	(476)
Fair value at 31 December 2017	**7**	**15**	**-**
Revaluation gains less losses recognised in profit or loss for the year for assets held at 31 December 2017	**-**	**-**	**14**
Revaluation gains less losses recognised in other comprehensive income for the year for assets held at 31 December 2017	**2**	**-**	**-**

39 Fair Value Disclosures (Continued)

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

	2018				2017			
In millions of US Dollars	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Assets								
Cash and cash equivalents	***906***	***3 427***	***-***	***4 333***	***1 118***	***3 996***	***-***	***5 114***
- Cash on hand	906	-	-	906	1 118	-	-	1 118
- Cash balances with central banks (other than mandatory cash balances)	-	1 237	-	1 237	-	1 979	-	1 979
- Correspondent and settlement accounts with banks and financial institutions	-	1 360	-	1 360	-	1 125	-	1 125
- Overnight placements with other banks	-	830	-	830	-	892	-	892
Mandatory cash balances with central banks	**-**	**336**	**-**	**336**	**-**	**327**	**-**	**327**
Due from other banks	***-***	***4 193***	***-***	***4 193***	***-***	***4 075***	***-***	***4 075***
- Reverse sale and repurchase agreements with other banks	-	2 490	-	2 490	-	2 153	-	2 153
- Term placements with other banks	-	1 703	-	1 703	-	1 922	-	1 922
Loans and advances to customers	***-***	***-***	***29 645***	***29 684***	***-***	***-***	***28 071***	***27 742***
- Corporate borrowers	-	-	21 771	21 780	-	-	22 392	22 087
- Finance lease receivables	-	-	1 169	1 209	-	-	835	810
- Reverse sale and repurchase receivables	-	-	911	911	-	-	638	638
- Advances on lease operations	-	-	19	20	-	-	33	31
- Personal instalment loans	-	-	3 060	3 060	-	-	2 000	2 002
- Credit cards	-	-	2 038	2 038	-	-	1 329	1 329
- Mortgage loans	-	-	524	513	-	-	193	193
- Consumer (POS) loans	-	-	118	118	-	-	616	617
- Reverse sale and repurchase receivables (individuals)	-	-	35	35	-	-	35	35
Investment securities at AC/HTM	***1 882***	***523***	***-***	***2 423***	***2 325***	***427***	***-***	***2 695***
- Corporate Eurobonds	848	523	-	1 400	918	427	-	1 312
- Corporate bonds	917	-	-	934	1 255	-	-	1 233
- Bonds of other states	117	-	-	89	152	-	-	150
Repurchase receivables relating to investments at AC/HTM	***33***	***-***	***-***	***33***	***113***	***-***	***-***	***115***
- Bonds of other states	30	-	-	30	-	-	-	-
- Corporate Eurobonds	3	-	-	3	113	-	-	115
Other financial assets	***-***	***-***	***83***	***83***	***-***	***-***	***56***	***56***
Total	**2 821**	**8 479**	**29 728**	**41 085**	**3 556**	**8 825**	**28 127**	**40 124**

39 Fair Value Disclosures (Continued)

In millions of US Dollars	2018 Level 1	2018 Level 2	2018 Level 3	2018 Carrying value	2017 Level 1	2017 Level 2	2017 Level 3	2017 Carrying value
Liabilities								
Due to other banks	**-**	***1 872***	**-**	***1 872***	**-**	***2 050***	**-**	***2 050***
- Correspondent accounts and overnight placements of other banks	-	436	-	436	-	809	-	809
- Term placements of other banks	-	1 161	-	1 161	-	870	-	870
- Sale and repurchase agreements with other banks	-	159	-	159	-	281	-	281
- Loans received under a secured lending programme	-	110	-	110	-	81	-	81
- Term deposits with the CBRF	-	6	-	6	-	9	-	9
Customer accounts	**-**	***32 212***	**-**	***32 106***	**-**	***29 576***	**-**	***29 552***
Commercial organisations								
- Current/settlement accounts	-	6 041	-	6 041	-	5 694	-	5 694
- Term deposits	-	5 981	-	5 974	-	7 272	-	7 252
Individuals								
- Current/demand accounts	-	9 989	-	9 989	-	8 686	-	8 686
- Term deposits	-	6 551	-	6 459	-	6 410	-	6 410
State and public organisations								
- Current/settlement accounts	-	146	-	146	-	116	-	116
- Term deposits	-	3 504	-	3 497	-	1 398	-	1 394
Debt securities issued	**2 802**	**342**	**120**	**3 259**	**3 351**	**322**	**151**	**3 624**
- Notes	1 664	-	-	1 633	2 327	30	-	2 215
- Rouble denominated bonds	1 115	-	-	1 119	1 011	-	-	963
- Promissory notes	-	342	-	367	-	292	-	283
- Euro Commercial Paper Notes	-	-	120	120	-	-	151	151
- Euro denominated bonds	13	-	-	12	13	-	-	12
- US Dollars denominated bonds	10	-	-	8	-	-	-	-
Loan from the SDIA	**-**	**367**	**-**	**367**	**-**	**388**	**-**	**388**
Subordinated debt	**610**	**553**	**40**	**1 195**	**719**	**656**	**43**	**1 357**
- Subordinated loan from VEB maturing in 2020	-	405	-	405	-	480	-	480
- Subordinated notes maturing in 2019	381	-	-	373	460	-	-	421
- Subordinated notes maturing in 2020	229	-	-	229	259	-	-	237
- Subordinated loan from VEB maturing in 2019	-	148	-	148	-	176	-	176
Subordinated loan maturing in 2023	-	-	40	40	-	-	43	43
Other financial liabilities	**-**	**-**	***142***	***142***	**-**	**-**	***167***	***167***
- Trade creditors	-	-	41	41	-	-	33	33
- Provision for losses on credit related and other commitments	-	-	27	27	-	-	44	44
- Plastic card and other settlements with clients	-	-	10	10	-	-	32	32
- Other	-	-	64	64	-	-	58	58
Total	**3 412**	**35 346**	**302**	**38 941**	**4 070**	**32 992**	**361**	**37 138**

39 Fair Value Disclosures (Continued)

Cash and cash equivalents are carried at AC which approximates current fair value.

Loans and receivables carried at AC. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new similar instruments with similar credit risk and remaining maturity.

Investments at AC. The fair value of investments at AC has been determined by reference to published price quotations.

Investments HTM. The fair value of investments HTM has been determined by reference to published price quotations.

Due to banks and customer accounts carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used were consistent with the credit risk of the individual entities depending on currency and maturity of the instrument.

Debt securities issued. The fair value of traded securities has been determined by reference to published price quotations. The fair value of the rest of the debt was estimated on the basis of discounted cash flows using interest rates for similar instruments.

Subordinated debt. The fair value of traded subordinated debt has been determined by reference to published price quotations. The fair value of the rest of the debt was estimated on the basis of discounted cash flows using interest rates for similar instruments.

40 Related Party Transactions

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions.

In the tables below amounts related to the caption “other related parties” are represented by associates and joint ventures of the Group.

40 Related Party Transactions (Continued)

As at 31 December 2018 the outstanding balances with related parties were as follows:

	31 December 2018				
In millions of US Dollars	**The Shareholders**	**ABHH**	**Subsidiaries of ABHH**	**Key management**	**Other related parties**
Correspondent accounts with other banks	**-**	**-**	**2**	**-**	**-**
Loans and advances to customers (gross)	**50**	**-**	**17**	**12**	**-**
USD, effective contractual rate of 6.0% - 8.9%	50	-	17	2	-
EUR, effective contractual rate of 2.8% - 6.0%	-	-	-	10	-
Receivables	**-**	**-**	**33**	**-**	**-**
Correspondent accounts of other banks	**-**	**-**	**13**	**-**	**-**
Customer accounts	**103**	**-**	**121**	**20**	**16**
Current/settlement accounts	**72**	**-**	**15**	**18**	**2**
RUR, effective contractual rate of 0.0% - 2.0%	4	-	14	2	2
USD, effective contractual rate of 0.0% - 0.8%	20	-	1	12	-
EUR, effective contractual rate of 0.0% - 5.5%	48	-	-	4	-
Term deposits	**31**	**-**	**106**	**2**	**14**
RUR, effective contractual rate of 6.5% - 8.2%	1	-	106	1	9
USD, effective contractual rate of 1.7% - 3.9%	19	-	-	1	5
EUR, effective contractual rate of 0.4%	11	-	-	-	-
Subordinated loan	**-**	**40**	**-**	**-**	**-**
Payables	**-**	**-**	**8**	**17**	**-**
Guarantees issued	**-**	**-**	**27**	**-**	**-**

For the year ended 31 December 2018 income and expense items with related parties were as follows:

	Year ended 31 December 2018				
In millions of US Dollars	**The Shareholders**	**ABHH**	**Subsidiaries of ABHH**	**Key management**	**Other related parties**
Interest income	4	-	-	-	-
Interest expense	(1)	(2)	(8)	-	(1)
Fee and commission income	-	-	135	-	-
Fee and commission expense	-	-	(2)	-	-
Other expenses	-	-	-	(18)	(12)

40 Related Party Transactions (Continued)

As at 31 December 2017 the outstanding balances with related parties were as follows:

	31 December 2017				
In millions of US Dollars	**The Shareholders**	**ABHH**	**Subsidiaries of ABHH**	**Key management**	**Other related parties**
Correspondent accounts with other banks	**-**	**-**	**2**	**-**	**-**
Term placements with other banks	**-**	**-**	**33**	**-**	**-**
USD, effective contractual rate of 3.5%	-	-	15	-	-
EUR, effective contractual rate of 2.8%	-	-	18	-	-
Loans and advances to customers (before provision for impairment)	**100**	**-**	**5**	**1**	**-**
USD, effective contractual rate of 6.1% - 7.8%	100	-	3	1	-
EUR, effective contractual rate of 4.7% - 6.0%	-	-	2	-	-
Receivables	**-**	**-**	**27**	**-**	**-**
Correspondent accounts of other banks	**-**	**-**	**14**	**-**	**-**
Customer accounts	**113**	**-**	**1**	**13**	**14**
Current/settlement accounts	**80**	**-**	**1**	**13**	**1**
RUR, effective contractual rate of 0.0% - 2.0%	1	-	1	-	1
USD, effective contractual rate of 0.0% - 0.2%	60	-	-	5	-
EUR, effective contractual rate of 0.0% - 5.5%	18	-	-	1	-
Other, effective contractual rate of 0.0%	1	-	-	7	-
Term deposits	**33**	**-**	**-**	**-**	**13**
RUR, effective contractual rate of 7.1%	-	-	-	-	10
USD, effective contractual rate of 0.9% - 2.0%	29	-	-	-	3
EUR, effective contractual rate of 0.0% - 1.1%	4	-	-	-	-
Subordinated loan	**-**	**42**	**-**	**-**	**-**
Payables	**-**	**-**	**-**	**27**	**-**
Guarantees issued	**-**	**-**	**23**	**-**	**-**

40 Related Party Transactions (Continued)

For the year ended 31 December 2017 income and expense items with related parties were as follows:

	Year ended 31 December 2017				
In millions of US Dollars	**The Shareholders**	**ABHH**	**Subsidiaries of ABHH**	**Key management**	**Other related parties**
Interest income	5	-	-	-	-
Interest expense	(1)	(2)	-	-	(1)
Other expenses	-	(13)	-	(20)	(12)

Key management of the Group represents members of the Board of Directors and the Executive Board of Alfa-Bank and the Board of Directors the Company. Key management compensation is presented below:

In millions of US Dollars	**2018**	**2017**
Key management compensation accrued as at the reporting date	**17**	**27**
- short-term bonuses	6	8
- long-term bonuses	11	19
Key management compensation expense for the year	**18**	**20**
- salaries	7	10
- short-term bonuses	5	4
- long-term bonuses	6	6

The long-term bonuses are settled within three years period following date of granting. Refer to Note 23 for the information on distributions made by the Company. Refer to Note 36 for other information on transactions with related parties.

41 Subsequent Events

In February 2019 the Group issued RR 10 000 million (equivalent of USD 152 million) Rouble denominated eurobonds with maturity date on 6 August 2022 and coupon rate of 9.35% p.a.

42 Accounting Policies Applicable before 1 January 2018

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

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price which management considers is the most representative of fair value was used to measure fair value.

42 Accounting Policies Applicable before 1 January 2018 (Continued)

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. 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 38.

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 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 write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the 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 net 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.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within three months.

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities, calculated using the effective interest method, is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

42 Accounting Policies Applicable before 1 January 2018 (Continued)

Impairment of financial assets carried at amortised cost. The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets are impaired. 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. This assessment is carried out individually on financial assets that are considered individually significant, or collectively for financial assets that are not individually significant. 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 for collective assessment. The primary factors that the Group considers whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- delinquency in contractual payments of principal and interest except delay caused by the settlement systems;
- breach of loan covenants or conditions;
- the borrower experiences significant financial difficulty as evidenced by the borrower's financial information that Management obtains;
- initiation of bankruptcy proceedings or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- there are significant changes in the borrower's management structure which is likely to cause late payment or no payment;
- third party actions: legal and/or tax claims against the borrower (guarantor, underwriter), arrest or seizure of the borrower's (guarantor's, underwriter's) property including property pledged with the Group;
- any encumbrance of the borrower's property (pledge, rent, trust management, etc.) without the Group's written approval, where required;
- damage or loss of collateral obtained;
- disablement or death of the borrower (guarantor, underwriter) or business owner (more than 50% of share capital);
- change of the borrower's (guarantor's, underwriter's) place of residence and/or place of work without written notice sent to the Group;
- there is reliable information that the borrower (guarantor, underwriter) or business owner (more than 50% of share capital) is missing or has been abroad for more than 1 year;
- the borrower (guarantor, underwriter) or business owner (more than 50% of share capital) is imprisoned or arrested;
- termination or change of the borrower's commercial activity.

The estimated period between a loss occurring and its identification is determined by Management for each identified portfolio, based on analysis of historical data. For the purposes of a collective impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

42 Accounting Policies Applicable before 1 January 2018 (Continued)

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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

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

Uncollectible assets including accrued interest are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Necessary procedures to recover the asset include: (i) sending a notification on the repayment of debt to the borrower and the surety, (ii) negotiations with the borrower's management and owners, (iii) analysing liquidity of the borrower's assets, which can be foreclosed to settle the debt, (iv) review condition of the pledged property, (v) submitting legal claims through the courts, and (vi) sale of foreclosed property. Loans to individuals are written off after 540 days of non-payment.

Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in profit or loss for the year.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer does not meet its obligations to third parties and carry the same credit risk as loans. Credit related 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 the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

Investments AFS. This classification includes investments 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 market prices. The Group classifies investments as available for sale at the time of purchase.

Investments available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or 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. 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 removed from other comprehensive income to profit or loss for the year.

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. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss - is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

42 Accounting Policies Applicable before 1 January 2018 (Continued)

Investments designated at FVTPL at inception. Investments at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Management.

Investment securities HTM. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the 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 fair value through profit or loss.

Insurance agency commissions represent commissions earned by the Group on the effective commencement dates of the related insurance policies. The purchase of insurance policy by clients is not a precondition of loan origination, does not affect terms of the loan, and, therefore, insurance agency commissions are not part of the loan effective interest rate and are accounted for as commission income.

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

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

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