

CREDIT BANK OF MOSCOW
(public joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2019

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Independent Auditors' Report

To the Shareholders and Supervisory Board of CREDIT BANK OF MOSCOW (public joint-stock company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements

Audited entity: CREDIT BANK OF MOSCOW (public joint-stock company)

Registration No. in the Unified State Register of Legal Entities
1027739555282

Moscow, Russian Federation

Independent auditor: JSC "KPMG" a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Registration No. in the Unified State Register of Legal Entities 1027700125628

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations No. 12006020351

as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses ('ECL') for loans to customers

Please refer to Notes 4 and 14 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Loans to customers represent 33% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used.</p> <p>Due to the significant volume of loans to customers and the related estimation uncertainty, this area is a key audit matter.</p>	<p>We analyzed the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9, including with the involvement of our own specialists in financial risks management.</p> <p>To analyze adequacy of professional judgement and assumptions made by the management in relation to allowance for ECL estimate, we performed the following procedures:</p> <ul style="list-style-type: none"> • For loans to corporate clients we assessed and tested the design and operating effectiveness of the controls over allocation of loans into Stages. • For a sample of loans to corporate clients, we tested whether Stages are correctly assigned by the Group by analyzing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. • For a sample of loans to corporate clients, we tested the correctness of data inputs for PD calculation. • For a sample of Stage 3 loans to corporate clients, where ECL are assessed individually we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realizable collateral and their expected disposal terms based on our understanding and publicly available market information. • For loans to individuals we tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into Stages. We agreed input data to supporting documents on a sample basis. • We assessed predictive capability of the Group's methodology by analyzing models validation results. <p>We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.</p>



Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report for the year ended 31 December 2019 but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

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

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

Responsibilities of Management and 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report of findings from procedures performed in accordance with the requirements of Federal Law No. 395-1, dated 2 December 1990, On Banks and Banking Activity

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No. 395-1, dated 2 December 1990 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2020 established by the Bank of Russia; and
- whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment, and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios, as at 1 January 2020, were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of 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.

- Based on our procedures with respect to whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia, we found that:
 - as at 31 December 2019, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;
 - the Bank's internal documentation, effective on 31 December 2019, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;
 - as at 31 December 2019, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
 - the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2019, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included

observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;

- as at 31 December 2019, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2019, the Supervisory Board and Executive Management of the Bank periodically discussed the reports prepared by the risk management and internal audit functions, and considered the proposed corrective actions.

Procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:



Tatarinova E.V.

JSC "KPMG"

Moscow, Russian Federation

18 March 2020

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2019
(in millions of Russian Roubles unless otherwise stated)

	Notes	2019	2018
Interest income calculated using the effective interest method	5	142 484	133 287
Other interest income	5	4 868	4 646
Interest expense	5	<u>(102 069)</u>	<u>(89 518)</u>
Net interest income	5	45 283	48 415
Charge for credit losses on debt financial assets	11,12, 14,15	<u>(6 821)</u>	<u>(2 221)</u>
Net interest income after credit losses on debt financial assets		38 462	46 194
Fee and commission income	6	15 398	15 829
Fee and commission expense	6	(3 864)	(3 483)
Net gain or (loss) on loans to customers at FVTPL		(1 590)	(5 611)
Net gain or (loss) on financial assets at FVTPL		793	(189)
Net gain or (loss) from sale and redemption of Investment financial assets at FVOCI		(272)	(251)
Net realised gain or (loss) on Investment financial assets at amortised cost		200	-
Net gain or (loss) on derecognition of financial instruments measured at amortised cost	14	295	-
Net foreign exchange gains or (losses)	9	(13 252)	2 723
Net gain on change in financial liabilities measured at fair value through profit or loss		162	-
Impairment gain or (loss) on other non-financial assets, credit gain or (losses) on other financial assets and credit related commitments and other provisions	8	3 318	(2 895)
State deposit insurance scheme contributions		(2 691)	(1 906)
Operating lease income		44	81
Net gain from disposal of subsidiaries		-	637
Other net operating income or (expense)		<u>(665)</u>	<u>3 366</u>
Non-interest income or (expense)		(2 124)	8 301
Operating income		36 338	54 495
Salaries and employment benefits	7	(14 167)	(12 290)
Administrative expenses	7	(5 155)	(6 085)
Depreciation of premises and equipment and right-of-use assets		<u>(1 903)</u>	<u>(1 051)</u>
Operating expense		(21 225)	(19 426)
Profit before income taxes		15 113	35 069
Income tax	10	<u>(3 156)</u>	<u>(7 845)</u>
Profit for the year		11 957	27 224

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2019
(in millions of Russian Roubles unless otherwise stated)

	Notes	2019	2018
Profit for the year		<u>11 957</u>	<u>27 224</u>
Other comprehensive income or (loss)			
Items that will not be reclassified subsequently to profit or loss:			
- revaluation of buildings		(104)	(115)
- income tax for revaluation of buildings		21	23
Items that are or may be reclassified subsequently to profit or loss:			
<i>Movement in fair value reserve (debt instruments):</i>			
- net change in fair value		4 429	(3 818)
- net amount transferred to profit or loss		(704)	(160)
- income tax related to movement in fair value reserve		(745)	796
<i>Change in fair value of financial liability attributable to changes in credit risk</i>		80	-
<i>Income tax related to change in fair value of financial liability attributable to changes in credit risk</i>		(16)	-
Other comprehensive income or (loss) for the year, net of income tax		<u>2 961</u>	<u>(3 274)</u>
Total comprehensive income for the year		<u>14 918</u>	<u>23 950</u>
Basic and diluted earnings per share (in RUB per share)	33	<u>0.32</u>	<u>0.89</u>

Chairman of the Management Board

Chief Accountant



Vladimir A. Chubar

Svetlana V. Sass

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Financial Position as at 31 December 2019
(in millions of Russian Roubles unless otherwise stated)

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	11	953 645	1 162 779
Obligatory reserves with the Central bank of the Russian Federation		16 944	13 065
Due from credit and other financial institutions	12	348 794	13 183
Trading financial assets	13	38 550	15 665
- <i>held by the Group</i>	13	37 920	12 909
- <i>pledged under sale and repurchase agreements</i>	13	630	2 756
Loans to customers	14	788 655	709 045
- <i>loans to corporate clients</i>	14	685 372	617 911
- <i>loans to individuals</i>	14	103 283	91 134
Investment financial assets	15	258 168	214 481
- <i>held by the Group</i>		206 844	84 703
- <i>pledged under sale and repurchase agreements</i>		51 324	129 778
Investments in associates		2 350	2 275
Property and equipment	16	9 515	7 182
Deferred tax asset		113	113
Other assets	17	6 763	8 139
Total assets		2 423 497	2 145 927
LIABILITIES AND EQUITY			
Due to credit institutions	18	677 936	552 930
Due to customers	19	1 339 535	1 272 175
- <i>due to corporate customers</i>	19	853 353	897 099
- <i>due to individuals</i>	19	486 182	375 076
Financial liabilities measured at fair value through profit or loss	22	9 874	6 329
Debt securities issued	20	168 549	105 305
Deferred tax liability		3 370	4 248
Other liabilities	21	13 801	13 767
Total liabilities		2 213 065	1 954 754
Equity			
Share capital	23	30 692	27 942
Additional paid-in capital		58 210	46 247
Perpetual debt issued	23	37 871	46 691
Revaluation surplus for buildings		407	490
Fair value reserve for securities		1 146	(1 834)
Change in fair value of financial liability attributable to changes in the credit risk		64	-
Retained earnings		82 042	71 637
Total equity		210 432	191 173
Total liabilities and equity		2 423 497	2 145 927

Chairman of the Management Board

Chief Accountant



(Handwritten signature in blue ink)

Vladimir A. Chubar

Svetlana V. Sass

The consolidated statement of financial position is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Cash Flows for the year ended 31 December 2019
(in millions of Russian Roubles unless otherwise stated)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		140 587	140 326
Interest payments		(91 004)	(84 526)
Fees and commission receipts		15 868	15 568
Fees and commission payments		(3 378)	(3 272)
Net receipts (payments) from operations with securities		342	(217)
Net (payments) receipts from foreign exchange		(29 366)	22 428
State deposit insurance scheme contributions payments		(2 497)	(1 742)
Net other operating (expense) income (payments) receipts		(841)	3 099
Operating leases income receipts		44	81
Salaries and employment benefits paid		(13 711)	(11 446)
Administrative expenses paid		(4 859)	(5 063)
Income tax paid		(1 457)	(2 021)
Operating cash flows before changes in operating assets and liabilities		9 728	73 215
(Increase) decrease in operating assets			
Obligatory reserves with the Central bank of the Russian Federation		(3 879)	(4 181)
Due from credit and other financial institutions		(351 545)	3 928
Trading financial assets		(19 722)	(9 608)
Loans to customers		(125 032)	71 306
Other assets		(445)	2 561
Increase (decrease) in operating liabilities			
Due to credit institutions except syndicated and subordinated loans		151 903	(119 684)
Due to customers except subordinated loans		109 103	278 038
Other liabilities		(3 210)	2 217
Net cash (used in) from operations		(233 099)	297 792
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment financial assets		(397 043)	(294 562)
Proceeds from disposal and redemption of investment financial assets		363 891	191 279
Net disposal of subsidiary		-	847
Purchase of property and equipment and intangible assets		(1 511)	(1 345)
Sale of property and equipment and intangible assets		169	557
Sale of investment property		113	-
Purchase of associates		-	(2 275)
Net cash used in investing activities		(34 381)	(105 499)

The consolidated statement of cash flows is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Cash Flows for the year ended 31 December 2019
(in millions of Russian Roubles unless otherwise stated)

	Notes	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital	23	14 713	-
Proceeds from placement and issuance of perpetual debt		403	4 996
Repayment and redemption of perpetual debt issued		(3 452)	(6 144)
Interest on perpetual debt paid		(3 872)	(3 872)
Proceeds from syndicated borrowings		28 120	376
Repayments of syndicated borrowings		(19 920)	(11 452)
Proceeds from placement and issuance of subordinated bonds		8 658	356
Partial redemption of subordinated bonds		(16 102)	(13 718)
Proceeds from placement and issuance of other bonds		135 659	42 421
Repayments of other bonds		(50 120)	(53 726)
Cash outflow from lease liabilities		(891)	-
Dividends paid	23	(2 979)	-
Net cash from (used in) financing activities		90 217	(40 763)
Effect of exchange rates changes on cash and cash equivalents		(31 592)	78 514
Effect of changes in ECL on cash and cash equivalents	11	(279)	(626)
Change in cash and cash equivalents		(209 134)	229 418
Cash and cash equivalents, beginning of the year		1 162 779	933 361
Cash and cash equivalents, end of the year	11	953 645	1 162 779

Chairman of the Management Board



Chief Accountant

Vladimir A. Chubar

Svetlana V. Sass

The consolidated statement of cash flows is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Changes in Equity for the year ended 31 December 2019
(in millions of Russian Roubles unless otherwise stated)

	Share capital	Additional paid-in capital	Perpetual debt issued	Revaluation surplus for buildings	Fair value reserve for securities	Change in fair value of financial liability attributable to changes in the credit risk	Retained earnings	Total equity
Balance as at 1 January 2018	27 942	46 247	40 320	582	1 348	-	53 431	169 870
Total comprehensive income for the year	-	-	-	(92)	(3 182)	-	27 224	23 950
Perpetual debt redemption	-	-	(5 897)	-	-	-	-	(5 897)
Issuance of perpetual debt	-	-	5 049	-	-	-	-	5 049
Interest paid on perpetual debt issued	-	-	-	-	-	-	(3 872)	(3 872)
Foreign exchange translation of perpetual debt issued	-	-	7 219	-	-	-	(7 465)	(246)
Transaction costs on perpetual debt issued	-	-	-	-	-	-	(54)	(54)
Tax effect on perpetual debt issued	-	-	-	-	-	-	2 373	2 373
Balance as at 31 December 2018	<u>27 942</u>	<u>46 247</u>	<u>46 691</u>	<u>490</u>	<u>(1 834)</u>	<u>-</u>	<u>71 637</u>	<u>191 173</u>
Balance as at 1 January 2019	27 942	46 247	46 691	490	(1 834)	-	71 637	191 173
Total comprehensive income for the year	-	-	-	(83)	2 980	64	11 957	14 918
Issue of share capital	2 750	11 963	-	-	-	-	-	14 713
Perpetual debt redemption	-	-	(4 825)	-	-	-	1 373	(3 452)
Issuance of perpetual debt	-	-	403	-	-	-	-	403
Interest paid on perpetual debt issued	-	-	-	-	-	-	(3 872)	(3 872)
Foreign exchange translation of perpetual debt issued	-	-	(4 398)	-	-	-	4 398	-
Tax effect on perpetual debt issued	-	-	-	-	-	-	(472)	(472)
Dividends paid	-	-	-	-	-	-	(2 979)	(2 979)
Balance as at 31 December 2019	<u>30 692</u>	<u>58 210</u>	<u>37 871</u>	<u>407</u>	<u>1 146</u>	<u>64</u>	<u>82 042</u>	<u>210 432</u>

Chairman of the Management Board



Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

The consolidated statement of changes in equity is to be read in conjunction with the Notes, forming an integral part of consolidated financial statements.

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganised as an open joint-stock company. On 16 May 2016 the Bank was re-registered as a public joint-stock company under the legislation of the Russian Federation. The Bank's registered legal address is 2 (bldg. 1), Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 10 largest banks in Russia by assets and conducts its business in Russia with a branch network comprising 130 branches, 1 131 ATMs and 6 815 payment terminals.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activities	Degree of control, %	
			31 December 2019	31 December 2018
"CBOM Finance p.l.c."	Ireland	Raising finance	100%	100%
JSC NCO "INKAKHRAN"	Russia	Cash handling	100%	100%
LLC "Inkakhra-Servis"	Russia	Cash handling	100%	100%
LLC "MKB-Invest"	Russia	Transactions with securities	100%	100%
LLC "Bank SKS"	Russia	Investment banking	100%	100%
CJSC "Mortgage Agent MKB"	Russia	Raising finance	100%	100%
LLC "Mortgage Agent MKB 2"	Russia	Raising finance	100%	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", LLC "MKB Invest", CJSC "Mortgage Agent MKB" and LLC "Mortgage Agent MKB 2". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. "MKB Invest" is controlled by the Group through an option agreement. CJSC "Mortgage Agent MKB" was established for the purposes of the mortgage loans securitisation program launched by the Bank in 2014. LLC "Mortgage Agent MKB 2" was established for the purposes of the mortgage loans securitisation program launched by the Bank in 2016.

Shareholders

The Bank's shareholders as at 31 December 2019 are:

- LLC Concern Rossium – 59,64%*
- Region FinanceResurs JSC – 8,56%
- LLC IC Algoritm – 5,75%
- Other shareholders – 26,05%

The majority participant of LLC Concern Rossium, is Roman I. Avdeev, who is the ultimate controlling party of the Group.

Related party transactions are detailed in Note 27.

* The ownership share of PJSC "CREDIT BANK OF MOSCOW", which includes the direct ownership share of LLC Concern Rossium for 56,07% and the ownership share of the Company's subsidiaries for 3,57%

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial risks in the markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities, including banks, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a depreciation of the Russian Rouble. These developments are further increasing the level of uncertainty in the Russian business environment. The Group is in the process of estimating the impact of the facts and circumstances described above on the financial statements.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

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

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and through other comprehensive income are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest million.

Foreign currencies, particularly USD, play significant role in determination of economic parameters for many business operations conducted in the Russian Federation. The table below sets out exchange rates for USD against RUB, defined by the CBR:

	31 December 2019	31 December 2018
USD	61,9057	69,4706

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In preparing these consolidated financial statements the critical judgments made by management in applying the accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following Note:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3.
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following Note:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information in the measurement of ECL – Note 4.
- estimates of fair values of financial assets and liabilities – Note 32.
- building revaluation estimates – Note 16.

Changes in accounting policies and presentation

The Group has initially adopted IFRS 16 '*Leases*' from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 '*Determining Whether an Arrangement Contains a Lease*'. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

As a lessee

The Group leases many assets, including properties and vehicles. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in ‘property and equipment’, the same line item as it presents underlying assets of the same nature that it owns.

The Group presents lease liabilities in ‘other liabilities’ in the consolidated statement of financial position.

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. Transition

Previously, the Group classified property leases as operating leases under IAS 17. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a number of items of vehicles. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

As a lessor

The Group does not lease out any investment property, including right-of-use assets.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component. The Group sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. The sub-lease contracts are classified as operating leases under IFRS 16.

Impacts on financial statements

i. Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities with no impact on retained earnings. The impact on transition is summarised below.

	1 January 2019
Right-of-use assets presented in property and equipment	3 001
Lease liabilities presented in other liabilities	2 942

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8,86%.

	1 January 2019
Operating lease commitments as at 31 December 2018 as disclosed in the consolidated financial statements of the Group	3 508
Discounted using the incremental borrowing rate at 1 January 2019	2 261
Finance lease liabilities recognised as at 31 December 2018	31
Recognition exemption for leases of low-value assets, for leases with less than 12 month lease term at transition and other contracts	(131)
Extension options reasonably certain to be exercised	781
Lease liabilities recognised at 1 January 2019	2 942

ii. Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RUB 3 001 million of right-of-use assets and RUB 2 942 million of lease liabilities as at 1 January 2019. Also in relation to those leases under IFRS 16, the Group recognised depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognised RUB 893 million of depreciation charges and RUB 259 million of interest costs from these leases. For the impact of IFRS 16 on segment information see Note 29.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements, except as explained in Note 2, which addresses changes in accounting policies.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows:

(i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The ‘gross carrying amount of a financial asset’ measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the consolidated statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

Interest expense presented in the consolidated statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost.

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Bank's contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognised in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer's decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss, however, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income:

- an investment in equity securities designated as at FVOCI (2017: available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss)).

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group includes cash and the correspondent account with the Central bank of the Russian Federation, nostro accounts with other banks and deposits in credit and other financial institutions with initial maturity of less than one month in cash and cash equivalents. The obligatory reserves with the Central bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets and non-compliant with SPPI-criteria debt financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management’s strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group’s continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group has fixed rate bank loans for which the banks have the option to revise the interest rate following the change of key rate set by the CBR. The Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group considers these loans as in essence floating rate loans.

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and;
- other fees are included in profit or loss as part of the gain or loss on derecognition.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

As part of credit risk management activities, the Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'). If the Group plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Group concludes that modification of financial assets modified as part of the Group's forbearance policy is not substantial, the Group performs qualitative evaluation of whether the modification is substantial.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment 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 per cent different from the discounted present value of the remaining cash flows of the original financial liability. 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.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The Group should reclassify financial assets if the Group changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. Accordingly, a change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by the Central bank of the Russian Federation and deposits by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognised in the profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within cash and cash equivalents and deposits in credit and other financial institutions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards related to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards related to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards related to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

Loans to customers

‘Loans to customers’ caption in the consolidated statement of financial position include:

- loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans to customers mandatorily measured at FVTPL due to non-compliance with the SPPI-criterion; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

Investment securities

The ‘investment financial assets’ caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at FVTPL.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised as other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	10-50
Furniture and other property	1-20
Computers and office equipment	1-5
Vehicles	3-7

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group has adopted a component based depreciation accounting model for certain groups of its assets (such as aircrafts). Under this approach, depreciation of certain parts of the relevant assets with a cost that is significant in relation to the total cost of such assets is calculated separately. Useful life of these parts may differ from the overall useful life of the relevant assets. The Group estimates depreciation of certain components based on their actual utilisation (not useful life) whenever this depreciation method allows for a more accurate estimate of the pattern of consumption of the future economic benefits embodied in such components. The Group reviews its assumptions on useful life and/or utilisation on a regular basis.

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

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, typically between 1 and 5 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal groups, are measured at the lower of their carrying amount and fair value less cost to sell.

Leases (accounting policy applicable until January 1, 2019)

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of an arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's consolidated statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Impairment

Financial instruments and contract assets

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI;
- financial guarantee contracts issued; and
- loan commitments issued.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group’s contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group’s exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Group recognises a loss allowance.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Perpetual instruments

Perpetual non-redeemable debt instruments issued by the Group which carry no mandatory interest payments are classified as equity.

Taxation

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Segment reporting

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

Comparative information

In order to enhance presentation the Group transferred Financial liabilities measured at fair value through profit or loss from Other liabilities to separate line in the consolidated statement of financial position. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect on the consolidated statement of financial position is disclosed below:

	31 December 2018 Before reclassification	Reclassification	31 December 2018 After reclassification
Other liabilities	20 096	(6 329)	13 767
Financial liabilities measured at fair value through profit or loss	-	6 329	6 329

New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

4 Financial risk review

This Note presents information about the Group's exposure to financial risks.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposure	All exposures (corporate and retail exposures)
<ul style="list-style-type: none"> • Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities 	<ul style="list-style-type: none"> • Payment record – this includes overdue status as well as a range of variables about payment ratios • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth.

The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Quantitative criteria for significant changes in credit risk includes rating downgrade of 3 or more notches in relation to the rating for this requirement on initial recognition, if the rating on initial recognition is higher than C1; rating downgrade by 2 or more notches in relation to the rating for this requirement on initial recognition, if the rating on initial recognition is lower or equal to C1.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined taking into account grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

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

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous

experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3)/in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporating of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information.

The Group has identified and documented key drivers of credit risk and credit losses, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP forecasts.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial

guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- date of initial recognition;
- remaining term to maturity.

Credit quality analysis

Credit quality is based on the following scale developed internally by the Group:

- “Low credit risk” – assets with counterparties with low probability of default with high ability to fulfil financial obligations in time.
- “Moderate credit risk” – assets with counterparties with average probability of default and with moderate ability to fulfil financial obligations in time; more detailed consideration is required during monitoring.
- “High credit risk” – assets with higher probability of default; specific attention is required during monitoring.
- “Distressed assets” – assets that are qualified as defaulted considering all available signs of impairment.

Explanation of the terms: 12-month ECL, lifetime ECL, credit-impaired and purchased or originated credit impaired are included in Note 3.

5 Net interest income

	2019	2018
Interest income calculated using the effective interest method		
Financial assets measured at amortised cost		
Loans to customers	61 814	65 515
Due from credit and other financial institutions and the CBR	66 958	58 086
Other financial assets	1 653	1 010
Debt financial assets measured at FVOCI	12 059	8 676
Interest income calculated using the effective interest method	142 484	133 287
Loans to customers at FVTPL	3 791	3 397
Other financial instruments at fair value through profit or loss	1 077	1 249
Other interest income	4 868	4 646
	147 352	137 933
Interest expense		
Due to customers	(67 116)	(48 636)
Due to credit institutions	(25 260)	(32 064)
Debt securities issued	(9 434)	(8 811)
Lease liabilities	(259)	(7)
	(102 069)	(89 518)
Net interest income	45 283	48 415

6 Net fee and commission income

	2019	2018
Fee and commission income		
Plastic cards	2 926	3 161
Other cash operations	2 741	2 392
Guarantees and letters of credit	2 348	2 177
Insurance contracts processing	2 250	2 324
Settlements and wire transfers	1 892	2 329
Cash handling	1 564	1 954
Currency exchange and brokerage commission	1 039	976
Opening and maintenance of bank accounts	481	303
Other	157	213
	15 398	15 829
Fee and commission expense		
Plastic cards	(2 767)	(2 819)
Guarantees and other credit related facilities received	(390)	(37)
Settlements and wire transfers	(546)	(226)
Other	(161)	(401)
	(3 864)	(3 483)
Net fee and commission income	11 534	12 346

Depending on the type of the service commission income when not an integral part of the effective interest rate on a financial asset or liability is recognized either at a point of time or over time according to the pattern the Group fulfills a performance obligation under the contract:

- commission fee for settlement transactions and wire transfers, cash operations, plastic cards, insurance contracts processing, cash handling, currency exchange and brokerage commission, opening and maintenance of bank accounts commission are charged for the execution of payment order in accordance with tariffs depending on the type of the transaction and recognised as income at the moment of the transaction execution;
- commission fee on guarantees and letters of credit issued is paid in advance and is recognized as income over the time of the relevant guarantee or letter of credit.

7 Salaries, employment benefits and administrative expenses

	2019	2018
Salaries	11 760	9 873
Social security costs	2 407	2 417
Salaries and employment benefits	14 167	12 290
Advertising and business development	1 144	1 335
Operating taxes	864	589
Property maintenance	765	749
Security	534	557
Legal and consulting services	341	313
Communications	412	298
Write-off of low-value fixed assets	253	265
Computer maintenance and software expenses	226	187
Occupancy	219	1 185
Insurance	146	141
Transport	126	151
Loss on revaluation of buildings	89	279
Other	36	36
Administrative expenses	5 155	6 085

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

8 Impairment gain or (loss) on other non-financial assets, credit gain or (losses) on other financial assets and credit related commitments and other provisions

Movements in the impairment allowance and credit loss allowance for the year ended 31 December 2019 are as follows:

	Other financial assets	Non- financial assets	Provisions for financial guarantees and credit related commitments	Provisions for claims and other provisions	Total
Balance at the beginning of the year	457	55	173	5 969	6 654
Net charge or (recovery)	301	410	452	(4 481)	(3 318)
Net foreign exchange gain	-	-	(29)	(2)	(31)
Write-offs	-	(281)	-	(6)	(287)
Balance at the end of the year	758	184	596	1 480	3 018

The Group revised historical losses for non-financial guarantees and adjusted provision rate accordingly in 2019. The Group also obtained collateral for significant non-financial guarantee in 2019. Provisions for claims and other provisions as at year ended 31 December 2019 would be RUB 3 589 million higher without the described changes.

Movements in the impairment allowance for the year ended 31 December 2018 are as follows:

	Other financial assets	Non- financial assets	Provisions for financial guarantees and credit related commitments	Provisions for claims and other provisions	Total
Balance at the beginning of the year	514	231	3 175	247	4 167
Net charge or (recovery)	214	(100)	(3 002)	5 783	2 895
Write-offs	(229)	(41)	-	(61)	(331)
Disposal of subsidiary	(42)	(35)	-	-	(77)
Balance at the end of the year	457	55	173	5 969	6 654

9 Net foreign exchange gains or (losses)

Net foreign exchange losses for the year 2019 include realized loss from derivatives transactions in the amount of RUB 29 217 million, profit from unrealized derivatives transactions in the amount of RUB 324 million and profit from revaluation of foreign currency balances in the amount of RUB 15 641 million.

10 Income tax

	2019	2018
Current tax charge	5 798	3 025
Deferred taxation	(2 642)	4 820
Income tax (recovery) expense	3 156	7 845

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate is 20% in 2019 and 2018.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	2019	%	2018	%
Income before tax	15 113		35 069	
Income tax using the applicable tax rate	3 023	20,00%	7 014	20,00%
Income taxed at lower rates	(527)	(3,50)%	(431)	(1,20)%
Net non-deductible costs	660	4,40%	1 262	3,60%
Income tax expense	3 156	20,90%	7 845	22,40%

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Movements in temporary differences during the years ended 31 December 2019 and 2018 are presented as follows:

	Balance at 31 December 2018	Impact of adopting IFRS 16	Balance at 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income and equity	Recognised directly in equity	Balance at 31 December 2019
Cash and cash equivalents	(265)	-	(265)	(76)	-	-	(341)
Due from credit and other financial institutions	(21)	-	(21)	(3)	-	-	(24)
Trading financial assets	876	-	876	628	-	-	1 504
Loans to customers	3 663	-	3 663	(390)	-	-	3 273
Investment financial assets	2 604	-	2 604	(3 311)	745	-	38
Property and equipment	249	600	849	431	(21)	-	1 259
Other assets	(569)	(12)	(581)	531	-	-	(50)
Due to customers	72	-	72	(52)	-	-	20
Financial liabilities at fair value through profit or loss	(1 248)	-	(1 248)	72	16	-	(1 160)
Debt securities issued	238	-	238	(1 064)	-	1 024	198
Other liabilities	(1 464)	(588)	(2 052)	592	-	-	(1 460)
Total net deferred tax liabilities (assets)	4 135	-	4 135	(2 642)	740	1 024	3 257

	Balance at 31 December 2017	Impact of adopting IFRS 9	Balance at 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income and equity	Recognised directly in equity	Disposal of subsidiaries	Balance at 31 December 2018
Cash and cash equivalents	-	(134)	(134)	(131)	-	-	-	(265)
Due from credit and other financial institutions	12	(33)	(21)	-	-	-	-	(21)
Trading financial assets	8 708	244	8 952	(8 076)	-	-	-	876
Loans to customers	3 774	(1 368)	2 406	1 293	-	-	(36)	3 663
Investment financial assets	(959)	(278)	(1 237)	4 637	(796)	-	-	2 604
Property and equipment	257	-	257	15	(23)	-	-	249
Other assets	(393)	(26)	(419)	(160)	-	-	10	(569)
Due to customers	(7 286)	-	(7 286)	7 358	-	-	-	72
Debt securities issued	364	-	364	1 317	-	(1 443)	-	238
Financial liabilities at fair value through profit or loss	(310)	-	(310)	(938)	-	-	-	(1 248)
Other liabilities	(669)	(332)	(1 001)	(495)	-	-	32	(1 464)
Total net deferred tax liabilities (assets)	3 498	(1 927)	1 571	4 820	(819)	(1 443)	6	4 135

Income tax recognised in other comprehensive income (loss)

The tax effects relating to components of other comprehensive income (loss) comprise the following:

	2019			2018		
	Amount before tax	Tax benefit / (expense)	Amount net-of-tax	Amount before tax	Tax benefit / (expense)	Amount net-of-tax
Revaluation surplus for buildings	(104)	21	(83)	(115)	23	(92)
Fair value reserve for securities	3 725	(745)	2 980	(3 978)	796	(3 182)
Own credit risk of financial liabilities	80	(16)	64	-	-	-
Other comprehensive loss	3 701	(740)	2 961	(4 093)	819	(3 274)

11 Cash and cash equivalents

	31 December 2019	31 December 2018
Cash on hand	17 478	18 655
Correspondent account with the Central bank of the Russian Federation	85 001	56 103
Nostro accounts with other banks		
rated from AA+ to AA-	5 289	7 562
rated from A+ to A-	1 529	1 467
rated from BBB+ to BBB-	3 006	3 291
rated from BB+ to BB-	515	853
rated from B+ to B-	-	109
not rated	1 093	983
Total nostro accounts with other banks	11 432	14 265
Deposits in credit and other financial institutions with maturity of less than 1 month		
Deposits with the Central bank of the Russian Federation	1 510	2 219
rated from AA+ to AA-	9 285	-
rated from A+ to A-	-	12 416
rated from BBB+ to BBB-	33 790	6 520
rated from BB+ to BB-	19 256	-
rated from B+ to B-	51 509	49 560
not rated	725 961	1 004 339
Total deposits in credit and other financial institutions with maturity of less than 1 month	841 311	1 075 054
Total gross cash and cash equivalents	955 222	1 164 077
Credit loss allowance	(1 577)	(1 298)
Total net cash and cash equivalents	953 645	1 162 779

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

The correspondent account with the Central bank of the Russian Federation represents balances held with the Central bank of the Russian Federation related to settlement activity, and was available for withdrawal at the period end.

As at 31 December 2019, not rated Cash and cash equivalents include counterparties with ratings equivalent to Low credit risk for amount of RUB 418 million (31 December 2018: RUB 876 million), counterparties with ratings equivalent to Moderate credit risk for amount of RUB 726 636 million (31 December 2018: RUB 1 004 446 million).

As at 31 December 2019, deposits in not rated credit and other financial institutions with maturity of less than 1 month include term deposits in the amount of RUB 725 958 million secured by liquid securities under agreements to resell (reverse repo): bonds with rating from BB- to BBB (85,8 %), stocks (10,7%), global depositary receipts (3,0%) and American depositary receipts (0,5%).

As at 31 December 2018, deposits in not rated credit and other financial institutions with maturity of less than 1 month include term deposits in the amount of RUB 1 004 339 million secured by liquid securities under agreements to resell (reverse repo): bonds with rating from B- to BBB- (96,3%) and stocks (3,7%).

As at 31 December 2019, receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 824 634 million (31 December 2018: RUB 1 058 970 million).

As at 31 December 2019, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 919 322 million (31 December 2018: RUB 1 152 996 million).

As at 31 December 2019, Cash and cash equivalents for which external benchmark information represents a significant input into measurement of ECL are RUB 189 185 million (31 December 2018: RUB 137 689 million).

As at 31 December 2019, the total gross amount of cash and cash equivalents to the top twenty counterparties (or groups of related counterparties) was RUB 848 981 million or 88,9% (31 December 2018: RUB 1 143 863 million or 98,3%) of the Group's total gross amount of cash and cash equivalents.

Movements in cash and cash equivalents credit loss allowance for the year ended 31 December 2019 and year ended 31 December 2018 are as follows:

	2019	2018
Balance at the beginning of the year	1 298	673
Net (recovery) charge	279	626
Write-offs	-	(1)
Balance at the end of the year	1 577	1 298

As at 31 December 2019 and 31 December 2018 the Group recognises expected loss allowance in the amount of 12-month expected credit losses.

Information about the currency and maturity and effective interest rates of cash and cash equivalents is presented in Note 30.

12 Due from credit and other financial institutions

	31 December 2019	31 December 2018
Term deposits		
rated from AA+ to AA-	73	-
rated from A+ to A-	670	-
rated from BBB+ to BBB-	2 816	2 619
rated from BB+ to BB-	1 965	-
rated from B+ to B-	2 304	4 047
not rated	341 274	6 652
Total gross due from credit and other financial institutions	349 102	13 318
Credit loss allowance	(308)	(135)
Total net due from credit and other financial institutions	348 794	13 183

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

As at 31 December 2019, not rated due from credit and other financial institutions include counterparties with ratings equivalent to Moderate credit risk for amount of RUB 341 274 million (31 December 2018: RUB 6 632 million), there are no Distressed assets (31 December 2018: RUB 20 million).

As at 31 December 2019, deposits included in not rated credit and other financial institutions are receivables in the amount of RUB 341 274 million secured by liquid securities under agreements to resell (reverse repo): bonds with investment grade rating (95,9%), stocks (3%) and American depositary receipts (1,1%).

As at 31 December 2018, deposits included in not rated credit and other financial institutions are receivables in the amount of RUB 3 679 million secured by stocks under agreements to resell (reverse repo).

As at 31 December 2019, receivables under reverse sale and repurchase agreements included in due from credit and other financial institutions are RUB 344 025 million (31 December 2018: RUB 7 762 million).

As at 31 December 2019, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 378 289 million (31 December 2018: RUB 10 417 million).

As at 31 December 2019, Deposits from credit and other financial institutions for which external benchmark information represents a significant input into measurement of ECL are RUB 7 155 million (31 December 2018: RUB 6 669 million).

As at 31 December 2019, the total amount of due from credit and other financial institutions was attributable to fifteen counterparties (31 December 2018: seven counterparties) or groups of related counterparties.

Movements in due from credit and other financial institutions credit loss allowance for the year ended 31 December 2019 and year ended 31 December 2018 are as follows:

	2019	2018
Balance at the beginning of the period	135	166
Net charge (recovery)	203	(31)
Write-offs	(30)	-
Balance at the end of the period	308	135

As at 31 December 2019 and 31 December 2018 the Group recognises expected loss allowance in the amount of 12-month expected credit losses.

Information about the currency and maturity and effective interest rates on deposits from credit and other financial institutions is presented in Note 30.

13 Trading financial assets

	31 December 2019	31 December 2018
<u>Held by the Group</u>		
Government and municipal bonds		
Russian Government Federal bonds	-	1 418
Russian Government Eurobonds	-	470
Regional authorities and municipal bonds	205	65
Corporate bonds		
rated from A+ to A-	87	-
rated from AA+ to AA-	22	-
rated from BBB+ to BBB-	8 610	3 109
rated from BB+ to BB-	6 846	2 955
rated from B+ to B-	817	127
not rated	12 870	129
Equity investments		
rated from AA+ to AA-	704	-
Derivative financial instruments	7 759	4 636
Total held by the Group	37 920	12 909

	31 December 2019	31 December 2018
Pledged under sale and repurchase agreements		
Corporate bonds		
rated from BBB+ to BBB-	547	2 606
rated from BB+ to BB-	83	150
Total pledged under sale and repurchase agreements	630	2 756
Total trading financial assets	38 550	15 665

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

As at 31 December 2019, trading financial assets in the amount of RUB 1 399 million (31 December 2018: RUB 5 639 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

14 Loans to customers

	31 December 2019	31 December 2018
Loans to customers at amortised cost		
Loans to corporate clients	642 179	580 146
Credit loss allowance	(33 982)	(25 618)
Total loans to corporate clients at amortised cost, net	608 197	554 528
Loans to individuals		
Cash loans	82 402	72 219
Mortgage loans	23 692	20 679
Credit card loans	3 713	3 585
Auto loans	34	119
Credit loss allowance	(6 558)	(5 468)
Total loans to individuals, net	103 283	91 134
Total gross loans to customers at amortised cost	752 020	676 748
Credit loss allowance	(40 540)	(31 086)
Total net loans to customers at amortised cost	711 480	645 662
Loans to customers at FVTPL		
Loans to corporate clients	77 175	63 383
Total loans to customers at amortised cost and FVTPL	788 655	709 045

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Loans to customers		
- Not past due	795 445	705 067
- Overdue less than 31 days	2 905	18 257
- Overdue 31-60 days	581	3 614
- Overdue 61-90 days	592	1 239
- Overdue 91-180 days	2 194	2 793
- Overdue 181-360 days	12 485	4 803
- Overdue more than 360 days	14 993	4 358
Total gross loans to customers	829 195	740 131
Credit loss allowance	(40 540)	(31 086)
Total net loans to customers	788 655	709 045

As at 31 December 2019, the gross amount of overdue loans with payments that are overdue at least for one day totals RUB 33 750 million, which represents 4.1% of the gross loan portfolio (31 December 2018: RUB 35 064 million and 4.7%, respectively).

As at 31 December 2019, non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 29 672 million or 3.6% of the gross loan portfolio (31 December 2018: RUB 11 954 million and 1.6%, respectively).

As at 31 December 2019, the ratio of total credit loss allowance to overdue loans equals 120.1%, the ratio of total credit loss allowance to NPLs equals 136.6% (31 December 2018: 88.7%, 260.0%, respectively).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Loans to corporate clients		
- Not past due	693 660	614 542
- Overdue less than 31 days	-	17 149
- Overdue 31-60 days	-	3 131
- Overdue 61-90 days	-	901
- Overdue 91-180 days	1 195	1 811
- Overdue 181-360 days	10 425	2 912
- Overdue more than 360 days	14 074	3 083
Total gross loans to corporate clients	719 354	643 529
Credit loss allowance	(33 982)	(25 618)
Total net loans to corporate clients	685 372	617 911

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate and other property, equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Real estate and other property	141 618	129 339
Claims for contract receivables	22 547	56 403
Securities	29 752	35 022
Equipment and motor vehicles	16 823	12 297
Goods in turnover	4 919	7 013
Guaranteed deposits	11 167	89
Bank's own debt securities	493	13
Corporate guarantees and no collateral	458 053	377 735
	685 372	617 911

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

As at 31 December 2019, there was one loan for which no ECL was recognised because of collateral (31 December 2018: no such loans).

As at 31 December 2019, there were no loans written-off for which collection procedures were still in process (31 December 2018: no such loans).

As at 31 December 2019 net carrying amount of credit-impaired corporate loans amounted to RUB 14 112 million (2018: RUB 15 079 million), and the value of collateral (mainly commercial real estate) available for these loans amounted to RUB 10 015 million (2018: RUB 3 186 million). The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Collateral obtained

During the year ended 31 December 2019, the Group did not obtain assets by taking possession of collateral for loans to corporate customers (during the year ended 31 December 2018: no collateral obtained). The Group's policy is to sell such assets as soon as it is practicable.

Credit quality analysis

	31 December 2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Originated credit- impaired	Total
<u>Loans to corporate clients at amortised cost</u>					
Low credit risk	217 622	-	-	-	217 622
Moderate credit risk	327 506	-	-	-	327 506
High credit risk	48 312	13 722	-	-	62 034
Distressed assets	-	-	29 788	5 229	35 017
Total	593 440	13 722	29 788	5 229	642 179
Credit loss allowance	(10 610)	(2 468)	(20 904)	-	(33 982)
Carrying amount	582 830	11 254	8 884	5 229	608 197
<u>Loan commitments</u>					
	8 662	104	-	-	8 766
Credit loss allowance	(16)	-	-	-	(16)
Carrying amount	(16)	-	-	-	(16)
<u>Financial guarantee contracts</u>					
Low credit risk	8 558	-	-	-	8 558
Moderate credit risk	18 653	-	6 416	-	25 069
High credit risk	2 131	70	175	-	2 376
Total	29 342	70	6 591	-	36 003
Credit loss allowance	(442)	(20)	(105)	-	(567)
Carrying amount	(599)	(20)	(160)	-	(779)

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31 December 2018					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Originated credit- impaired	Total
<u>Loans to corporate clients at amortised cost</u>					
Low credit risk	141 051	-	-	-	141 051
Moderate credit risk	347 017	25 732	-	5 348	378 097
High credit risk	28 040	13 835	-	7 343	49 218
Distressed assets	-	-	11 780	-	11 780
Total	516 108	39 567	11 780	12 691	580 146
Credit loss allowance	(10 289)	(5 937)	(9 392)	-	(25 618)
Carrying amount	505 819	33 630	2 388	12 691	554 528
<u>Loan commitments</u>					
	59 544	15	-	-	59 559
Credit loss allowance	(46)	-	-	-	(46)
Carrying amount	(46)	-	-	-	(46)
<u>Financial guarantee contracts</u>					
Low credit risk	127	-	-	-	127
Moderate credit risk	3 660	500	-	-	4 160
High credit risk	-	-	15	-	15
Total	3 787	500	15	-	4 302
Credit loss allowance	(85)	(40)	(2)	-	(127)
Carrying amount	(109)	(40)	(2)	-	(151)

As at 31 December 2019, Loans to customers for which external benchmark information represents a significant input into measurement of ECL are RUB 36 885 million (31 December 2018: RUB 36 763 million).

Analysis of movements in the credit loss allowance

Movements in the credit loss allowance for loans to corporate clients by three ECL stages¹ for the year ended 31 December 2019 and 31 December 2018 are as follows:

Year ended 31 December 2019					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Originated credit-impaired	Total
<u>Loans to corporate clients</u>					
Balance at the beginning of the period	10 289	5 937	9 392	-	25 618
Transfer to 12-month ECL	505	(505)	-	-	-
Transfer to lifetime ECL not credit-impaired	(99)	99	-	-	-
Transfer to lifetime ECL credit-impaired	(162)	(3 307)	3 469	-	-
Net remeasurement of loss allowance	(960)	1 447	7 137	(7 633)	(9)
New financial assets originated or purchased	6 815	-	1 386	-	8 201
Financial assets that have been fully repaid	(4 418)	(799)	(19)	-	(5 236)
Financial assets that have been derecognised due to modification	(839)	-	-	-	(839)
Write-offs	(155)	(404)	(958)	-	(1 517)

¹ The estimated amount of ECL allowance includes ECL on loan commitments for certain corporate clients.

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Year ended 31 December 2019					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Originated credit-impaired	Total
Recoveries of amounts previously written-off	-	-	465	-	465
Unwinding of discount	-	-	865	-	865
Foreign exchange and other movements	(366)	-	(833)	-	(1 199)
Repayment of originated credit-impaired assets in the amount exceeding expected cash flows including ECL at origination	-	-	-	7 633	7 633
Balance at the end of the period	10 610	2 468	20 904	-	33 982

During the year ended 31 December 2019 the Group recognised loss on initial recognition of purchased or originated credit impaired loans in the amount of RUB 46 million.

During the year ended 31 December 2019 the Group recognised loss on significant modification in the amount of RUB 2 210 million and gain on significant modification in amount of RUB 2 505 million.

ECL recovery on repayment of purchased or originated credit impaired loans is RUB 7 633 million.

Year ended 31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
<i>Loans to corporate clients</i>				
Balance at the beginning of the period	7 796	1 285	35 318	44 399
Transfer to 12-month ECL	207	(207)	-	-
Transfer to lifetime ECL not credit-impaired	(300)	300	-	-
Transfer to lifetime ECL credit-impaired	(106)	(5)	111	-
Net remeasurement of loss allowance	(1 155)	1 304	(1 775)	(1 626)
New financial assets originated or purchased	7 316	3 707	286	11 309
Financial assets that have been derecognised (full repayment)	(3 683)	(465)	(5 137)	(9 285)
Transfer to assets held for sale	-	-	(7 700)	(7 700)
Write-offs	-	-	(12 492)	(12 492)
Recoveries of amounts previously written-off	-	-	294	294
Unwinding of discount	-	-	1 029	1 029
Disposal of subsidiary	(93)	(103)	(572)	(768)
Foreign exchange and other movements	307	121	30	458
Balance at the end of the period	10 289	5 937	9 392	25 618

Significant changes in the gross carrying amount of loans to corporate clients during the year that contributed to changes in loss allowance were as follows:

Repayment of loans to corporate clients in the amount of RUB 320 633 million during year ended 31 December 2019 (31 December 2018: RUB 354 630 million) resulted in decrease of ECL in the amount of RUB 5 236million (31 December 2018: RUB 9 285 million).

Write-offs and sale of loans to corporate clients in the amount of RUB 10 133 million during year ended 31 December 2019 (31 December 2018: RUB 112 486 million) resulted in decrease of ECL in the amount of RUB 1 517 million (31 December 2018: RUB 20 192 million).

Transfers from 12-month ECL to lifetime ECL not credit-impaired and to lifetime ECL credit-impaired in the amount of RUB 11 840 million during year ended 31 December 2019 (31 December 2018: RUB 5 062 million) resulted in increase of ECL in the amount of RUB 3 956 million (31 December 2018: RUB 3 003 million).

Transfers from lifetime ECL not credit-impaired to lifetime ECL credit-impaired in the amount of RUB 10 818 million during year ended 31 December 2019 (31 December 2018: no such transfers) resulted in increase of ECL in the amount of RUB 3 411 million (31 December 2018: no such ECL increase).

Issuance of corporate loans in the amount of RUB 430 688 million during year ended 31 December 2019 (31 December 2018: RUB 411 872 million) during the year resulted in increase of ECL in the amount of RUB 8 202 million (31 December 2018: RUB 11 309 million).

Credit quality of loans to individuals

The following tables provide information on the credit quality of loans to individuals as at 31 December 2019:

	31 December 2019				
	Cash loans	Mortgage loans	Credit card loans	Auto loans	Total
Loans to individuals					
- Not past due	75 334	22 993	3 428	30	101 785
- Overdue less than 31 days	2 686	219	-	-	2 905
- Overdue 31-60 days	530	17	34	-	581
- Overdue 61-90 days	529	30	32	1	592
- Overdue 91-180 days	890	44	65	-	999
- Overdue 181-360 days	1 778	172	107	3	2 060
- Overdue more than 360 days	655	217	47	-	919
Gross loans to individuals	82 402	23 692	3 713	34	109 841
Credit loss allowance	(6 030)	(219)	(307)	(2)	(6 558)
Net loans to individuals	76 372	23 473	3 406	32	103 283

	31 December 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
<i>Loans to individual clients at amortised cost</i>				
- Not past due	97 923	3 721	141	101 785
- Overdue less than 31 days	802	2 103	-	2 905
- Overdue 31-60 days	-	581	-	581
- Overdue 61-90 days	-	555	37	592
- Overdue 91-180 days	-	-	999	999
- Overdue 181-360 days	-	-	2 060	2 060
- Overdue more than 360 days	-	-	919	919
Total	98 725	6 960	4 156	109 841
Credit loss allowance	(1 157)	(1 925)	(3 476)	(6 558)
Carrying amount	97 568	5 035	680	103 283

The following tables provide information on the credit quality of loans to individuals as at 31 December 2018:

31 December 2018					
	Cash loans	Mortgage loans	Credit card loans	Auto loans	Total
Loans to individuals					
- Not past due	67 455	19 605	3 356	109	90 525
- Overdue less than 31 days	883	222	-	3	1 108
- Overdue 31-60 days	400	54	28	1	483
- Overdue 61-90 days	295	18	25	-	338
- Overdue 91-180 days	722	208	49	3	982
- Overdue 181-360 days	1 646	160	83	2	1 891
- Overdue more than 360 days	818	412	44	1	1 275
Gross loans to individuals	72 219	20 679	3 585	119	96 602
Credit loss allowance	(4 927)	(294)	(243)	(4)	(5 468)
Net loans to individuals	67 292	20 385	3 342	115	91 134

31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
<u>Loans to individual clients at amortised cost</u>				
- Not past due	87 898	2 454	172	90 524
- Overdue less than 31 days	181	890	37	1 108
- Overdue 31-60 days	-	465	18	483
- Overdue 61-90 days	-	307	31	338
- Overdue 91-180 days	-	-	981	981
- Overdue 181-360 days	-	-	1 891	1 891
- Overdue more than 360 days	-	-	1 277	1 277
Total	88 079	4 116	4 407	96 602
Credit loss allowance	(1 102)	(950)	(3 416)	(5 468)
Carrying amount	86 977	3 166	991	91 134

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience.

As at 31 December 2019, impaired mortgage loans in the gross amount of RUB 699 million are secured by collateral with a fair value of RUB 517 million (31 December 2018: RUB 1 074 million and RUB 764 million, respectively).

During the year ended 31 December 2019, the Group obtained assets by taking possession of collateral for loans to individuals in the amount of RUB 156 million (during the year ended 31 December 2018: RUB 56 million). The Group's policy is to sell such assets as soon as it is practicable.

Analysis of movements in the credit loss allowance

Movements in the credit loss allowance by classes of loans to individuals and by three ECL stages for the year ended 31 December 2019 are as follows:

Year ended 31 December 2019

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	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
Cash loans				
Balance at the beginning of the period	1 011	884	3 032	4 927
Transfer to 12-month ECL	225	(157)	(68)	-
Transfer to lifetime ECL not credit-impaired	(106)	135	(29)	-
Transfer to lifetime ECL credit-impaired	(84)	(388)	472	-
Net remeasurement of loss allowance	(363)	989	2 544	3 170
New financial assets originated or purchased	567	485	363	1 415
Financial assets that have been fully repaid	(197)	(79)	(349)	(625)
Write-offs	-	(32)	(4 262)	(4 294)
Recoveries of amounts previously written-off	-	-	1 048	1 048
Unwinding of discount	-	-	390	390
Foreign exchange and other movements	(1)	-	-	(1)
Balance at the end of the period	1 052	1 837	3 141	6 030
Mortgage loans				
Balance at the beginning of the period	52	15	227	294
Transfer to 12-month ECL	25	(3)	(22)	-
Transfer to lifetime ECL not credit-impaired	(2)	2	-	-
Transfer to lifetime ECL credit-impaired	-	(5)	5	-
Net remeasurement of loss allowance	(48)	12	(105)	(141)
New financial assets originated or purchased	39	1	19	59
Financial assets that have been fully repaid	(9)	(2)	(51)	(62)
Write-offs	-	-	(191)	(191)
Recoveries of amounts previously written-off	-	-	248	248
Unwinding of discount	-	-	12	12
Foreign exchange and other movements	-	-	-	-
Balance at the end of the period	57	20	142	219
Credit card loans				
Balance at the beginning of the period	40	50	153	243
Transfer to 12-month ECL	10	(10)	-	-
Transfer to lifetime ECL not credit-impaired	(3)	3	-	-
Transfer to lifetime ECL credit-impaired	(2)	(18)	20	-
Net remeasurement of loss allowance	(1)	47	146	192
New financial assets originated or purchased	15	13	16	44
Financial assets that have been fully repaid	(10)	(18)	(19)	(47)
Write-offs	-	-	(211)	(211)
Recoveries of amounts previously written-off	-	-	56	56
Unwinding of discount	-	-	32	32
Foreign exchange and other movements	(1)	-	(1)	(2)
Balance at the end of the period	48	67	192	307

Year ended 31 December 2019

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
Auto loans				
Balance at the beginning of the period	-	1	3	4
Net remeasurement of loss allowance	-	-	(18)	(18)
Financial assets that have been fully repaid	-	-	(1)	(1)

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Write-offs	-	-	(7)	(7)
Recoveries of amounts previously written-off	-	-	24	24
Balance at the end of the period	-	1	1	2

Movements in the credit loss allowance by classes of loans to individuals and by three ECL stages for the year ended 31 December 2018 are as follows:

	Year ended 31 December 2018			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	
<i>Cash loans</i>				
Balance at the beginning of the period	1 294	933	3 880	6 107
Transfer to 12-month ECL	477	(178)	(299)	-
Transfer to lifetime ECL not credit-impaired	(117)	229	(112)	-
Transfer to lifetime ECL credit-impaired	(138)	(505)	643	-
Net remeasurement of loss allowance	(734)	335	1 433	1 034
New financial assets originated or purchased	506	210	268	984
Financial assets that have been derecognised (full repayment)	(304)	(145)	(273)	(722)
Write-offs	-	-	(3 529)	(3 529)
Recoveries of amounts previously written-off	27	5	475	507
Unwinding of discount	-	-	546	546
Balance at the end of the period	1 011	884	3 032	4 927
<i>Mortgage loans</i>				
Balance at the beginning of the period	79	39	565	683
Transfer to 12-month ECL	23	(9)	(14)	-
Transfer to lifetime ECL not credit-impaired	(1)	3	(2)	-
Transfer to lifetime ECL credit-impaired	(2)	(16)	18	-
Net remeasurement of loss allowance	(64)	12	26	(26)
New financial assets originated or purchased	29	-	48	77
Financial assets that have been derecognised (full repayment)	(15)	(14)	(82)	(111)
Write-offs	-	-	(631)	(631)
Recoveries of amounts previously written-off	-	-	269	269
Unwinding of discount	-	-	27	27
Foreign exchange and other movements	3	-	4	7
Balance at the end of the period	52	15	228	295

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Year ended 31 December 2018

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
<i>Credit card loans</i>				
Balance at the beginning of the period	51	82	177	310
Transfer to 12-month ECL	17	(17)	-	-
Transfer to lifetime ECL not credit-impaired	(3)	3	-	-
Transfer to lifetime ECL credit-impaired	(2)	(22)	24	-
Net remeasurement of loss allowance	(20)	31	48	59
New financial assets originated or purchased	11	10	36	57
Financial assets that have been derecognised (full repayment)	(14)	(37)	(20)	(71)
Write-offs	-	-	(183)	(183)
Recoveries of amounts previously written-off	-	-	36	36
Unwinding of discount	-	-	35	35
Balance at the end of the period	40	50	153	243
<i>Auto loans</i>				
Balance at the beginning of the period	2	1	19	22
Net remeasurement of loss allowance	(1)	-	(7)	(8)
Financial assets that have been derecognised (full repayment)	(1)	-	(4)	(5)
Write-offs	-	-	(24)	(24)
Recoveries of amounts previously written-off	-	-	19	19
Balance at the end of the period	-	1	3	4

As at 31 December 2019, the total gross amount of loans to the top ten borrowers (or groups of related borrowers) was RUB 365 717 million (31 December 2018: RUB 335 850 million) or 44.1% (31 December 2018: 45.4%) of the Group's total gross amount of loans to customers.

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2019	31 December 2018
Loans to individuals	109 841	96 603
Crude oil production and trading	246 425	175 881
Petroleum refining / production and trading	104 248	140 819
Residential and commercial construction and development	67 131	55 230
Property rental	67 161	50 961
Automotive, motorcycles and spare parts	54 948	51 457
Equipment leasing	37 224	33 360
Industrial chemicals	24 393	30 558
Financial companies	24 009	17 920
Food and farm products	18 889	18 567
Services	18 270	13 739
Metallurgical	16 949	24 783
Electric utility	13 217	-
Industrial equipment and machinery	7 078	7 023
Consumer electronics, appliances and computers	6 044	8 424
Clothing, shoes, textiles and sporting goods	4 967	5 268
Transport infrastructure contractors	2 148	1 968
Industrial and infrastructure construction	1 898	1 271
Consumer chemicals, perfumes and hygiene products	1 669	3 485
Construction and decorative materials, furniture	1 649	1 492
Paper, stationery and packaging products	914	915
Books, video, print and copy	95	32
Banking	1	-
Telecommunications	-	69
Government and municipal bodies	-	90
Pharmaceutical and medical products	-	35
Products for home, gifts, jewelry and business accessories	-	57
Other	27	124
Total gross loans to customers	829 195	740 131
Credit loss allowance	(40 540)	(31 086)
Net loans to customers	788 655	709 045

Loan maturities

Information about the currency, maturity and effective interest rates of loans to customers is presented in Note 30.

15 Investment financial assets

	31 December 2019	31 December 2018
Investment financial assets measured at fair value through other comprehensive income – debt instruments, including pledged under repurchase agreements	207 785	174 960
Investment financial assets measured at amortized cost, including pledged under repurchase agreements	34 235	39 401
Investment financial assets at fair value through profit or loss	16 148	120
Total investment financial assets	258 168	214 481

As at 31 December 2019, Investment financial assets in the amount of RUB 195 333 million are qualified to be pledged against borrowings from the Central bank of the Russian Federation (31 December 2018: RUB 166 447 million).

Investment financial assets measured at fair value through other comprehensive income - debt instruments

	31 December 2019	31 December 2018
<u>Held by the Group</u>		
Russian Government Federal bonds (OFZ)	20 718	18 891
Russian Government eurobonds	16 984	7 671
Regional authorities and municipal bonds	-	1 367
Central Bank of the Russian Federation bonds	106 896	-
Corporate bonds	37 627	41 825
Corporate eurobonds	873	2 525
Total held by the Group	183 098	72 279
<u>Pledged under sale and repurchase agreements</u>		
Russian Government Federal bonds (OFZ)	3 355	5 374
Russian Government eurobonds	-	61 112
Corporate bonds	18 881	27 103
Corporate eurobonds	2 451	9 092
Total pledged under sale and repurchase agreements	24 687	102 681
Total investment financial assets measured at fair value through other comprehensive income – debt instruments	207 785	174 960

Investment financial assets measured at amortised cost

	31 December 2019	31 December 2018
<u>Held by the Group</u>		
Corporate eurobonds	7 255	7 885
Corporate bonds	387	4 337
Promissory notes	450	450
Total held by the Group	8 092	12 672
<u>Pledged under sale and repurchase agreements</u>		
Corporate eurobonds	20 612	24 086
Corporate bonds	6 111	3 088
Total pledged under sale and repurchase agreements	26 723	27 174
Credit loss allowance	(580)	(445)
Investment financial assets measured at amortized cost	34 235	39 401

Investment financial assets designated as at fair value through profit or loss

	31 December 2019	31 December 2018
Equity investments	16 148	120
Total investment financial assets designated as at fair value through profit or loss	16 148	120

During 12 months ended 31 December 2019 the acquisition of shares designated at FVTPL in the amount of RUB 15 875 million was a non-monetary transaction (31 December 2018: none).

Movements in the credit loss allowance of investment financial assets measured at fair value through other comprehensive income by three ECL stages for the year ended 31 December 2019 and 31 December 2018 are as follows:

	2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	
Investment financial assets measured at fair value through other comprehensive income - debt instruments				
Balance at the beginning of the period	618	-	-	618
Net recovery	(239)	-	-	(239)
Balance at the end of the period	379	-	-	379
2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
Investment financial assets measured at fair value through other comprehensive income - debt instruments				
Balance at the beginning of the period	805	-	-	805
Net recovery	(187)	-	-	(187)
Balance at the end of the period	618	-	-	618

Movements in the credit loss allowance of investment financial assets measured at amortised cost by three ECL stages for the year ended 31 December 2019 and 31 December 2018 are as follows:

	2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	
Investment financial assets measured at amortized cost				
Balance at the beginning of the period	175	-	270	445
Net recovery	(45)	-	180	135
Balance at the end of the period	130	-	450	580
2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
Investment financial assets measured at amortized cost				
Balance at the beginning of the period	21	7	270	298
Net charge (recovery)	154	(7)	-	147
Balance at the end of the period	175	-	270	445

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments as at 31 December 2019.

	31 December 2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	
<u>Debt investment securities at amortised cost</u>				
rated from BBB+ to BBB-	24 585	-	-	24 585
rated from BB+ to BB-	9 724	-	-	9 724
rated from B+ to B-	56	-	-	56
not rated	-	-	450	450
Total	34 365	-	450	34 815
Credit loss allowance	(130)	-	(450)	(580)
Carrying amount	34 235	-	-	34 235
<u>Debt investment securities at FVOCI</u>				
rated from BBB+ to BBB-	176 313	-	-	176 313
rated from BB+ to BB-	15 938	-	-	15 938
rated from B+ to B-	1 702	-	-	1 702
not rated	13 832	-	-	13 832
Total	207 785	-	-	207 785
Credit loss allowance	(379)	-	-	(379)
Gross carrying amount	206 732	-	-	206 732
Carrying amount – fair value	207 785	-	-	207 785
<u>31 December 2018</u>				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
<u>Debt investment securities at amortised cost</u>				
rated from BBB+ to BBB-	30 435	-	-	30 435
rated from BB+ to BB-	2 525	-	-	2 525
rated from B+ to B-	165	-	-	165
not rated	6 271	-	450	6 721
Total	39 396	-	450	39 846
Credit loss allowance	(175)	-	(270)	(445)
Carrying amount	39 221	-	180	39 401
<u>Debt investment securities at FVOCI</u>				
rated from A+ to A-	123	-	-	123
rated from BBB+ to BBB-	133 775	-	-	133 775
rated from BB+ to BB-	16 170	-	-	16 170
rated from B+ to B-	8 241	-	-	8 241
from CCC+ to CCC-	258	-	-	258
not rated	16 393	-	-	16 393
Total	174 960	-	-	174 960
Credit loss allowance	(618)	-	-	(618)
Gross carrying amount	177 870	-	-	177 870
Carrying amount – fair value	174 960	-	-	174 960

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

As at 31 December 2019 included in not rated Debt investment securities at amortised cost are not counterparties (31 December 2018: Moderate credit risk category RUB 3 516 million, Low credit risk category RUB 2 755 million).

As at 31 December 2019 included in not rated Debt investment securities at FVOCI are counterparties with credit ratings equivalent to Low credit risk category in the amount of RUB 4 153 million (31 December 2018: RUB 2 058 million), to Moderate credit risk category RUB 9 679 million (31 December 2018: RUB 14 335 million).

As at 31 December 2019 Investment financial assets balances for ECL calculation for which external benchmark information represents a significant input into measurement of ECL are RUB 154 694 million (31 December 2018: RUB 96 429 million).

16 Property and equipment

The movement in property and equipment for the year ended 31 December 2019 is presented in the table below:

	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Right- of-use assets	Total
Cost/revalued amount							
At 31 December 2018	4 471	1 447	1 704	3 266	53	-	10 941
Recognition of right-of-use asset on initial application of IFRS 16	-	(94)	-	-	-	3 095	3 001
At 1 January 2019	4 471	1 353	1 704	3 266	53	3 095	13 942
Additions	9	45	93	178	611	436	1 372
Modification	-	-	-	-	-	136	136
Disposals	(4)	(15)	(20)	(151)	(34)	(21)	(245)
Transfers	-	21	1	34	(60)	-	(4)
Revaluation	(186)	-	-	-	-	-	(186)
Impairment	-	-	-	(6)	-	-	(6)
Elimination of accumulated depreciation on revalued buildings	(93)	-	-	-	-	-	(93)
At 31 December 2019	4 197	1 404	1 778	3 321	570	3 646	14 916
Accumulated depreciation							
At 31 December 2018	-	732	905	2 122	-	-	3 759
Recognition of right-of-use asset on initial application of IFRS 16	-	(46)	-	-	-	46	-
At 1 January 2019	-	686	905	2 122	-	46	3 759
Depreciation charge	106	152	398	354	-	893	1 903
Disposals	-	(13)	(19)	(116)	-	(20)	(168)
Transfers	-	-	-	-	-	-	-
Elimination of accumulated depreciation on revalued buildings	(93)	-	-	-	-	-	(93)
At 31 December 2019	13	825	1 284	2 360	-	919	5 401
Carrying value							
At 31 December 2019	4 184	579	494	961	570	2 727	9 515

The movement in property and equipment for the year ended 31 December 2018 is presented in the table below:

	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2018	5 524	1 101	1 138	2 981	64	10 808
Additions	4	400	547	321	49	1 321
Reclassification	(3)	(21)	-	-	-	(24)
Disposals	(544)	(23)	(3)	(58)	-	(628)
Disposal of subsidiary	-	(15)	(1)	(8)	-	(24)
Transfers	-	6	23	31	(60)	-
Revaluation	(392)	-	-	-	-	(392)
Impairment	-	(1)	-	(1)	-	(2)
Elimination of accumulated depreciation on revalued buildings	(118)	-	-	-	-	(118)
At 31 December 2018	4 471	1 447	1 704	3 266	53	10 941
Accumulated depreciation						
At 1 January 2018	-	594	524	1 824	-	2 942
Depreciation charge	126	185	385	354	-	1 050
Disposals	(8)	(24)	(3)	(54)	-	(89)
Disposal of subsidiary	-	(2)	(1)	(2)	-	(5)
Transfers	-	(21)	-	-	-	(21)
Elimination of accumulated depreciation on revalued buildings	(118)	-	-	-	-	(118)
At 31 December 2018	-	732	905	2 122	-	3 759
Carrying value						
At 31 December 2018	4 471	715	799	1 144	53	7 182

Revalued assets

The buildings were independently valued at 31 December 2019. The valuation was carried out by an independent firm of appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the income capitalisation and comparative sales and/or offer approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales and/or offers of similar buildings. Final fair value was calculated based on integrated analysis of both approaches. Thus, these buildings were classified to Level 3 of the fair value hierarchy.

The following key assumptions are used in applying the income capitalisation approach:

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses;
- vacancy losses as a percentage of potential gross rent income are estimated in the range of 7,6% to 13,0%;
- buildings maintenance and general administrative expenses are estimated in the range from 5,8% to 32,6% of effective gross rent income;
- capitalisation rate in the range from 9,8% to 11,2% is applied to capitalise net income for the base year.

For the comparative sales and/or offers approach the most significant assumption made is a negotiation discount in the range from 8,8% to 11,5% implicit in advertised market prices.

Changes in these estimates could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2019 would be RUB 420 million (31 December 2018: RUB 447 million) higher/lower.

The carrying value of buildings as of 31 December 2019, if the buildings would not have been revalued, would be RUB 3 873 million (31 December 2018: RUB 3 963 million).

17 Other assets

	31 December 2019	31 December 2018
Receivables and settlements with counterparties	1 230	2 140
Receivables for commissions	896	672
Receivables under cession agreements	515	528
Impairment allowance	(758)	(457)
Total other financial assets	1 883	2 883
Current tax assets	1 422	2 314
Assets held for sale	1 177	609
Intangible assets	750	417
Repossessed collateral	323	735
Advances issued	303	258
Investment property	279	428
Deferred expenses	230	59
Other	580	491
Impairment allowance	(184)	(55)
Total other non-financial assets	4 880	5 256
Total other assets	6 763	8 139

Included in assets held for sale is real estate in Moscow and Moscow region, obtained by taking control over collateral for impaired loans.

18 Due to credit institutions

	31 December 2019	31 December 2018
Payables under repurchase agreements	629 853	487 959
Term deposits	10 005	15 827
Syndicated debt	26 783	21 799
Current accounts	11 295	27 345
Total due to credit institutions	677 936	552 930

As at 31 December 2019, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 705 410 million (31 December 2018: RUB 551 204 million).

As at 31 December 2019, the fair value of securities received as collateral under reverse repo deals being pledged for direct repo deals is RUB 651 008 million (31 December 2018: 429 174 RUB).

As of 31 December 2019, the total gross amount of due to credit institutions to the top twenty counterparties (or groups of related counterparties) was RUB 661 269 million or 97,6% (31 December 2018: RUB 539 015 million or 97,5%) of the Group's total gross amount of due to credit institutions.

Information about the currency and maturity and effective interest rates on due to credit institutions is presented in Note 30.

19 Due to customers

	31 December 2019	31 December 2018
Corporate customers		
Term and demand deposits	711 043	789 711
Current accounts	99 426	33 086
Subordinated debt	41 292	43 571
Payables under repurchase agreements	-	30 065
Term notes	1 592	666
Total corporate customers	853 353	897 099
Individuals		
Term and demand deposits	425 737	355 277
Current accounts	60 445	19 799
Total individuals	486 182	375 076
Total due to customers	1 339 535	1 272 175

As at 31 December 2019, there are no sale and repurchase agreements (31 December 2018: the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 33 838 million).

As at 31 December 2019, there are no securities received as collateral under reverse repo deals being pledged for direct repo deals (31 December 2018: RUB 23 334 million).

As of 31 December 2019, the total gross amount of due to customers to the top ten counterparties (or groups of related counterparties) was RUB 658 282 million or 49,1% (31 December 2018: RUB 769 258 million or 60,5%) of the Group's total gross amount of due to customers.

Information about the currency and maturity and effective interest rates on due to customers is presented in Note 30.

20 Debt securities issued

	31 December 2019	31 December 2018
Bonds	136 013	61 134
Subordinated bonds	32 536	44 171
Total debt securities issued	168 549	105 305

The table below provides a summary of bonds issued as at 31 December 2019 and 31 December 2018:

	Nominal amount of the initial issue RUB'mln / USD'mln	Amount of the issue outstanding		Issue date	Maturity date	Coupon rate
		31 December 2019	31 December 2018			
USD denominated subordinated Eurobonds issue	600	27 472	39 109	05.04.2017	05.10.2027	7,50%
USD denominated Eurobonds issue	500	30 708	26 352	14.02.2018	14.02.2023	5,55%
USD denominated Eurobonds issue	500	25 138	25 757	07.11.2016	07.11.2021	5,88%
RUB denominated subordinated Eurobonds issue	5 000	5 065	5 062	26.11.2014	26.05.2025	16,50%
RUB denominated bonds issue BO-11	15 000	-	4 933	10.07.2014	10.07.2019	9,15%
RUB denominated bonds issue BO-09	3 000	3 013	2 882	25.03.2015	25.03.2020	10,25%
Mortgage-backed bonds	3 328	600	1 153	02.12.2016	07.12.2043	10,15%
RUB denominated bonds issue BO-10	5 000	-	57	10.07.2014	10.07.2019	11,00%
RUB denominated bonds issue 001P-02	7 000	7 041	-	03.12.2019	30.11.2021	7,75%
RUB denominated bonds issue 001P-01	10 000	10 243	-	31.10.2019	30.09.2022	8,35%
USD denominated Eurobonds issue	500	26 400	-	18.03.2019	25.06.2024	7,12%
EUR denominated Eurobonds issue	500	32 869	-	12.02.2019	20.02.2024	5,15%
		168 549	105 305			

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

Coupon payments are made semi-annually or quarterly, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

In November 2019 the Bank optimized its capital structure with a partial redemption of USD 600 million 7,50% p. a. Subordinated Loan Participation Notes due 2027. As a result of the partial redemption of the Loan Participation Notes and cancellation of equivalent amounts of the Loan Participation Notes, USD 440 million of the CBOM'27 bonds remained outstanding.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in Note 30.

21 Other liabilities

	31 December 2019	31 December 2018
Lease commitments	2 762	-
Payable to employees	1 869	1 413
Payables to suppliers and other creditors	389	438
Other liabilities	750	1 623
Payables under cession agreements	-	1 514
Cash collection payables	-	601
Total other financial liabilities	5 770	5 589
Current tax liabilities	3 104	208
Allowance for credit related commitments	1 974	4 758
Deferred income	1 432	601
Taxes payable	737	686
Payables to Deposit Insurance Agency	681	487
Allowance for other commitments	102	1 385
Other liabilities	1	53
Total other non-financial liabilities	8 031	8 178
Total other liabilities	13 801	13 767

22 Financial liabilities measured at fair value through profit or loss

	31 December 2019	31 December 2018
Structured bonds issued	3 487	-
Other financial liabilities	6 387	6 329
Total financial liabilities measured at fair value through profit or loss	9 874	6 329

23 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital at 31 December 2019 comprises 27 486 559 181 shares (31 December 2018: 27 079 709 866 shares) with par value of 1 RUB per share. In addition, at 31 December 2019 the Bank has 6 446 448 142 authorised but unissued ordinary shares with an aggregate nominal value of RUB 6 446 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 862 million.

In July 2018 the Bank issued domestic perpetual subordinated bonds in the total amount of RUB 5 billion and a coupon rate of 12.00% per annum during the 1-11 coupon periods. The bonds are callable after 5.5 years of the placement date and then every 5 years. The coupon is paid on semi-year basis and the coupon rate is fixed. Coupon rate is reset every 10 coupon periods. The coupon payment is not cumulative and may be cancelled at the discretion of the Group.

In October 2018 the Group optimised its capital structure with a partial redemption of USD 700 million 8.875% per annum subordinated perpetual Eurobonds at par. Upon the partial redemption of this subordinated perpetual Eurobonds and cancellation of equivalent amounts USD 670 million of the subordinated perpetual Eurobonds remained outstanding.

In October 2019 the Bank issued 2 750 000 000 additional ordinary shares with a par value of 1 RUB per share under secondary public offering. The Bank raised RUB 14 713 million during this offering. In December 2019 the CBR registered the Bank's share capital increase.

As the Group has discretion in relation to coupon and principal repayment, the Group classified subordinated perpetual Eurobonds and bonds as equity instruments in the consolidated statement of financial position. The CBR approved the inclusion of the perpetual subordinated Eurobonds and bonds in the calculation of statutory capital adequacy ratio. The Eurobonds and bonds are Basel-III compliant and eligible for inclusion into the Group's Additional Tier 1 capital upon receiving approval from the CBR (Note 28).

The USD denominated subordinated perpetual Eurobonds are translated to its RUB equivalent at the period-end exchange rate with exchange differences recorded in retained earnings when incurred. Issuance costs are also recorded in retained earnings when incurred.

24 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the

reporting date if counterparties failed completely to perform as contracted.

	31 December 2019	31 December 2018
Guarantees and letters of credit	216 402	152 507
Undrawn loan commitments	23 153	34 027
Other contingent liabilities	3 431	4 886
	242 986	191 420

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

25 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, 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.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

26 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

27 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	Amount	Average effective interest rate	Amount	Average effective interest rate
Cash and cash equivalents				
Associated company	585	-	-	
Total cash and cash equivalents	585		-	
Due from credit and other financial institutions				
Under control of principal beneficiary	3 618	0,0%	814	0,1%
Total due from credit and other financial institutions	3 618		814	
Trading financial assets				
Under control of principal beneficiary	89		23	
Total trading financial assets	89		23	
Loans to customers				
Under control of principal beneficiary	15 691	10,1%	24 314	12,2%
Associated company	748	9,8%	-	
Management	612	8,0%	686	8,5%
Total loans to customers	17 051		25 000	
Due to credit institutions				
Associated company	1 297	0,6%	-	
Under control of principal beneficiary	1 029	-	-	
Total due to credit institutions	2 326		-	
Due to customers				
Term deposits by customers				
Under control of majority shareholder	15 929	6,3%	9 277	7,3%
Majority shareholder	384	6,3%	1 122	2,9%
Management	187	3,2%	388	5,4%
Parent company	-		9 999	6,7%
Total term deposits by customers	16 500		20 786	
Current accounts by customers				
Parent company	10 210		26	
Management	893		42	
Under control of principal beneficiary	802		1 840	
Principal beneficiary	611		4	
Associated company	6		-	
Total current accounts by customers	12 522		1 912	
Total due to customers	29 022		22 698	
Financial liabilities measured at fair value through profit or loss				
Under control of principal beneficiary	39		802	
Total financial liabilities measured at fair value through profit or loss	39		802	

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	31 December 2019		31 December 2018	
	Amount	Average effective interest rate	Amount	Average effective interest rate
Debt securities issued				
Under control of principal beneficiary	15 359	9,9%	5 712	9,5%
Total debts securities issued	<u>15 359</u>		<u>5 712</u>	
Guarantees issued				
Under control of principal beneficiary	91		90	
Associated company	<u>55</u>		<u>-</u>	
Total guarantees issued	146		90	

As at 31 December 2019, the company under control of principal beneficiary has an investment in perpetual debt issued in the amount of RUB 9 072 million (31 December 2018: RUB 4 458 million).

During the year ended 31 December 2019 the company under control of principal beneficiary received coupon payments on perpetual debt issued from the Group in the amount of RUB 270million (year ended 31 December 2018: 339 million).

As at 31 December 2019, the undrawn loan commitments under credit line agreements for principal beneficiary and for management are RUB 30 million (31 December 2018: RUB 111 million).

Amounts included in profit or loss and other comprehensive income for the year ended 31 December 2019 and 31 December 2018 in relation to transactions with related parties are as follows:

	2019	2018
Interest income		
Under control of principal beneficiary	3 329	3 177
Associated company	75	-
Management	51	34
Parent company	-	41
Principal beneficiary	-	2
Total interest income	<u>3 455</u>	<u>3 254</u>
Interest expense		
Under control of principal beneficiary	(2 191)	(1 639)
Parent company	(345)	(140)
Principal beneficiary	(45)	(47)
Management	(19)	(19)
Associated company	(8)	-
Total interest expense	<u>(2 608)</u>	<u>(1 845)</u>
Commission income		
Under control of principal beneficiary	182	364
Associated company	51	1
Parent company	41	45
Total commission income	<u>274</u>	<u>410</u>
Commission expense		
Associated company	(211)	-
Management	(1)	-
Total commission expense	<u>(212)</u>	<u>-</u>
Net foreign exchange gain or (loss)		
Under control of principal beneficiary	7 379	(8 389)
Parent company	(68)	(1)
Total net foreign exchange gain or (loss)	<u>7 311</u>	<u>(8 390)</u>

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the year ended 31 December 2019 and 31 December 2018 (refer to Note 6) is as follows:

	2019	2018
Board Members of the Management Board	(739)	(543)
Members of the Supervisory Board	(98)	(90)
	(837)	(633)

28 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for banking groups. Since 1 January 2016 the Group calculated amount of capital in accordance with Provision of the CBR dated 3 December 2016 No. 509-P 'On Calculation of Amount of Own Funds (Capital), Economic Ratios and Amounts (Limits) of Open Currency Positions of Banking Groups'. As at 31 December 2019 and 31 December 2018, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 4,5%, 6,0% and 8,0%, accordingly.

Starting from 1 January 2016 the Group should comply with capital mark-ups: capital conservation mark-up, countercycle mark-up and mark-up for systematical importance. Management believes that the Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR office that supervises the Bank with information on mandatory ratios in accordance with regulatory requirements. The Accounting Department controls on a daily basis compliance with capital adequacy ratios.

In case capital adequacy ratios become close to limits set by the CBR and the Group's internal limits this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 31 December 2019 and 31 December 2018.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the IFRS financial statements as at 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019	31 December 2018
Tier 1 capital		
Share capital and additional paid-in capital	88 902	74 189
Retained earnings	82 042	71 637
Intangible assets	(750)	(417)
Core tier 1 capital	170 194	145 409
Additional capital		
Perpetual debt issued	37 871	46 691
Total tier 1 capital	208 065	192 100
Tier 2 capital		
Revaluation surplus for buildings	407	490
Fair value reserve for securities	1 146	(1 834)
Subordinated debt		
Subordinated loans	61 154	63 072
Subordinated bonds	32 112	43 563
Total tier 2 capital	94 819	105 291
Total capital	302 884	297 391

	31 December 2019	31 December 2018
Risk-weighted assets		
Banking book	1 063 429	922 193
Trading book	262 540	322 582
Operational risk	105 231	113 602
Total risk weighted assets	1 431 200	1 358 377
Total core tier 1 capital expressed as a percentage of risk-weighted assets (core tier 1 capital ratio) (%)	11,9	10,7
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	14,5	14,1
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	21,2	21,9

In June 2015 the State Corporation “Deposit Insurance Agency” provided a subordinated loan of RUB 20 231 million to the Bank in a form of federal loan bonds (OFZ). The Bank has an obligation to return securities received back to the lender at the maturity of the agreement. The Bank pays charges equal to coupons on the bonds transferred plus a fixed margin. The contract also includes certain restrictions on ability of the Bank to sell or pledge securities received. The arrangement is a securities lending transaction.

The Group does not recognise securities received and a subordinated obligation to return them to the lender in the consolidated statement of financial position of the Group. The obligation to return securities received to the State Corporation “Deposit Insurance Agency” is subordinated to other ordinary obligations of the Group and the terms of the loan satisfy the criteria for inclusion of the loan into the regulatory capital of the Bank in accordance with Russian banking legislation. As such, the Bank includes the amount of the subordinated loan described above into its tier 2 capital for the purpose of statutory regulatory capital and capital calculated for capital management purposes in accordance with Basel III.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees.

29 Analysis by segment

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate business comprises corporate lending, overdraft lending, factoring, financial and operating leasing, letters of credit, guarantees, corporate deposit services, settlements and money transfers
- Retail banking comprises retail demand and term deposit services; retail lending, including cashloans, car loans and mortgages, money transfers and private banking services; banking card products, settlements and money transfers
- Investment comprises securities trading and brokerage in securities, repo transactions, foreign exchange services
- Treasury comprises interbank lending and borrowings from banks, issuance of domestic bonds and promissory notes
- Cash operations comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on consolidated financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm’s length basis.

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In 2019 the Group revised its approach to allocation of assets, liabilities and financial results between reportable segments. Comparative information was revised accordingly.

The segment breakdown of assets and liabilities is set out below:

	31 December 2019	31 December 2018
ASSETS		
Corporate banking	728 691	635 463
Retail banking	123 809	114 242
Investment	1 430 515	1 291 626
Treasury	129 370	94 948
Cash operations	11 112	9 648
Total assets	2 423 497	2 145 927
LIABILITIES		
Corporate banking	861 222	879 386
Retail banking	488 852	377 747
Investment	648 607	535 036
Treasury	208 244	156 376
Cash operations	6 140	6 209
Total liabilities	2 213 065	1 954 754

Segment information for the main reportable segments for the year ended 31 December 2019 is set below:

	Corporate banking	Retail banking	Investment	Treasury	Cash operations	Total
Interest income	50 703	15 320	80 152	1 058	119	147 352
Interest expense	(39 452)	(27 982)	(22 619)	(11 991)	(25)	(102 069)
Net interest income	11 251	(12 662)	57 533	(10 933)	94	45 283
Recovery or (charge for) of credit losses on debt financial assets	(2 401)	(3 986)	(385)	(43)	(6)	(6 821)
Net interest income after credit losses on debt financial assets	8 850	(16 648)	57 148	(10 976)	88	38 462
Fee and commission income	5 756	5 632	-	377	3 633	15 398
Fee and commission expense	(76)	(2 952)	-	(802)	(34)	(3 864)
Net gain or (loss) on loans to customers at FVTPL	(1 590)	-	-	-	-	(1 590)
Net gain or (loss) on financial assets at FVTPL	161	-	934	(302)	-	793
Net loss from sale and redemption of Investment financial assets at FVOCI	-	-	(273)	1	-	(272)
Net realised gain or (loss) on Investment financial assets at amortised cost	1	-	199	-	-	200
Net gain or (loss) on derecognition of financial instruments measured at amortised cost	295	-	-	-	-	295
Net foreign exchange gains or (losses)	-	108	1 562	(14 922)	-	(13 252)
Net gain on change in financial liabilities measured at fair value through profit or loss	-	-	-	162	-	162
Impairment gain or (loss) on other non-financial assets, credit gain or (losses) on other financial assets and credit related commitments and other provisions	3 532	(267)	-	38	15	3 318

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	Corporate banking	Retail banking	Investment	Treasury	Cash operations	Total
Other net operating income or (expense)	(50)	(48)	(244)	(110)	(169)	(621)
Operating income	16 879	(14 175)	59 326	(26 534)	3 533	39 029
General administrative and other expenses	(5 176)	(10 517)	(1 183)	(2 184)	(4 856)	(23 916)
Profit before income taxes	11 703	(24 692)	58 143	(28 718)	(1 323)	15 113
Transfer income / (expense)	(3 765)	27 924	(49 348)	24 675	514	-
Segment result before income taxes	7 938	3 232	8 795	(4 043)	(809)	15 113

Segment information for the main reportable segments for the 31 December 2018 is set below:

	Corporate banking	Retail banking	Investment	Treasury	Cash operations	Total
Interest income	55 132	13 814	68 179	722	86	137 933
Interest expense	(28 016)	(20 934)	(32 023)	(8 542)	(3)	(89 518)
Net interest income	27 116	(7 120)	36 156	(7 820)	83	48 415
Recovery or (charge for) of credit losses on debt financial assets	(366)	(1 265)	(599)	9	-	(2 221)
Net interest income after credit losses on debt financial assets	26 750	(8 385)	35 557	(7 811)	83	46 194
Fee and commission income	5 758	6 302	-	635	3 134	15 829
Fee and commission expense	(3)	(2 963)	-	(502)	(15)	(3 483)
Net gain or (loss) on loans to customers at FVTPL	(5 611)	-	-	-	-	(5 611)
Net gain or (loss) on financial assets at FVTPL	-	-	(507)	318	-	(189)
Net loss from sale and redemption of Investment financial assets at FVOCI	-	-	(253)	2	-	(251)
Net foreign exchange gains or (losses)	709	-	1 326	688	-	2 723
Impairment gain or (loss) on other non-financial assets, credit gain or (losses) on other financial assets and credit related commitments and other provisions	(2 591)	(84)	-	(134)	(86)	(2 895)
Other net operating income or (expense)	2 092	257	-	1 794	(59)	4 084
Operating income	27 104	(4 873)	36 123	(5 010)	3 057	56 401
General administrative and other expenses	(4 460)	(10 116)	(907)	(1 039)	(4 810)	(21 332)
Profit before income taxes	22 644	(14 989)	35 216	(6 049)	(1 753)	35 069
Transfer income / (expense)	(5 719)	15 922	(24 400)	13 230	967	-
Segment result before income taxes	16 925	933	10 816	7 181	(786)	35 069

Impact IFRS 16

The impact of the first application of IFRS 16 as at 31 December 2019 and during the year ended 31 December 2019:

	Corporate business	Retail banking	Investment	Treasury	Cash operations	Total
ASSETS and LIABILITIES						
Right-of-use assets	510	2 372	29	-	90	3 001
Lease liabilities presented in other liabilities	500	2 325	29	-	88	2 942
Statement of profit or loss and other comprehensive income						
Depreciation charges	(152)	(704)	(10)	-	(27)	(893)
Interest expenses	(44)	(205)	(2)	-	(8)	(259)
Profit before income taxes	(196)	(909)	(12)	-	(35)	(1 152)

30 Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an public joint-stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2019, the Supervisory Board includes:

- William F. Owens – Chairman

Members:

- Roman I. Avdeev
- Andrew S. Gazitua
- Thomas G. Grasse
- Vladimir A. Chubar
- Sergey Y. Menzhinskiy
- Alexey A. Stepanenko
- Lord Peter H. Dursbery
- Andreas Klinggen
- Ilkka S. Salonen.

During 2019, there were no changes in the Supervisory Board.

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2019, the Management Board includes:

- Vladimir A. Chubar – Chairman of the Management Board
- Mikhail V. Polunin – First Deputy Chairman of the Management Board
- Kamil R. Yusupov – Deputy Chairman of the Management Board
- Alexey V. Kosyakov – Deputy Chairman of the Management Board
- Svetlana V. Sass – Chief Accountant, Member of the Management Board
- Anton O. Viritchev – Head of the Risk Management, Member of the Management Board
- Oleg A. Borunov – Deputy Chairman of the Management Board
- Alexander N. Kaznacheev – Deputy Chairman of the Management Board
- Sergey E. Putyatinskiy – Deputy Chairman of the Management Board

During the year ended 31 December 2019 the following changes occurred in the composition of the Management Board:

- Sergey E. Putyatinskiy – new member
- Pavel B. Shevchuk – resigned
- Elena V. Shved – resigned
- Alexey A. Stepanenko – resigned

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentating of controls and procedures
- requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards, and
- risk mitigation, including insurance where this is effective.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Provision of the Central bank of Russian Federation dated 16 December 2003 No. 242-P ‘*On the Organisation of Internal Control in Credit Organisations and Banking Groups*’ sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

The main functions of the Internal Audit Service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping of the Bank's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of the internal control service and the risk management service.

The Internal Control Service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of the Internal Control (Compliance) Service include the following:

- identification of compliance risks and regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation in design of measures to decrease regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients' complaints
- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organised organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the Internal Audit Service. The Internal Audit Service is independent from management and reports directly to the Supervisory Board. The results of the Internal Audit Service reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 '*On Banks and Banking Activity*', Direction of the CBR dated 1 April 2014 No. 3223-U '*On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation*', establish the professional qualifications, business reputation and other requirements for members of the Supervisory Board, Management Board, Heads of the Internal Audit Service, Internal Control Service and Risk Management Service and other key management personnel. All members of the Bank's Risks Division meet these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the Internal Audit and Control function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their

obligation to the Group. The Group has policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk in relation to assets recognised at 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019	31 December 2018
ASSETS		
Cash and cash equivalents excluding cash on hand	936 167	1 144 124
Obligatory reserves with the Central bank of the Russian Federation	16 944	13 065
Due from credit and other financial institutions	348 794	13 183
Trading financial assets	38 550	15 665
Investment financial assets	258 168	214 481
Loans to customers	788 655	709 045
Other financial assets	1 883	2 883
Total maximum exposure to credit risk on statement of financial position	<u>2 389 161</u>	<u>2 112 446</u>

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 14.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in Note 24.

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, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates the Bank's credit risk in respect of a borrower or group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2019

and 31 December 2018, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank was in compliance with limits set by the CBR as at 31 December 2019 and 31 December 2018.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds (capital).

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds (capital).

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Provision of the CBR dated 3 December 2016 No. 509-P 'Calculation of Own Funds (Capital), Mandatory Ratios and Open Currency Position Limits for Banking Groups' and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2019 and 31 December 2018.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

These ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019:

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Types of financial assets/liabilities	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial liabilities/assets offset in the consolidated statement of financial position	Gross amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts subject to offset under specific conditions		
				Financial instruments	Cash collateral received	Net amount
Reverse sale and repurchase agreements	1 168 659	-	1 168 659	1 168 659	-	1 168 659
Total financial assets	1 168 659	-	1 168 659	1 168 659	-	1 168 659
Sale and repurchase agreements	629 853	-	629 853	629 853	-	629 853
Total financial liabilities	629 853	-	629 853	629 853	-	629 853

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

Types of financial assets/liabilities	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial liabilities/assets offset in the consolidated statement of financial position	Gross amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts subject to offset under specific conditions		
				Financial instruments	Cash collateral received	Net amount
Reverse sale and repurchase agreements	1 066 732	-	1 066 732	1 066 732	-	1 066 732
Total financial assets	1 066 732	-	1 066 732	1 066 732	-	1 066 732
Sale and repurchase agreements	518 024	-	518 024	518 024	-	518 024
Total financial liabilities	518 024	-	518 024	518 024	-	518 024

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2019:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Line item in the consolidated statement of financial position	Gross amount in the consolidated statement of financial position	Financial assets/liabilities not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	824 634	Cash and cash equivalents	955 222	130 588	11
	344 025	Deposits in credit and other financial institutions	349 102	5 077	12
Sale and repurchase agreements	629 853	Due to credit institutions	677 811	47 958	18
	-	Due to customers	1 339 535	1 339 535	19

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of

financial position as at 31 December 2018:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Line item in the consolidated statement of financial position	Gross amount in the consolidated statement of financial position	Financial assets/liabilities not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	1 058 970	Cash and cash equivalents	1 164 077	105 107	11
	7 762	Deposits in credit and other financial institutions	13 318	5 556	12
Sale and repurchase agreements	487 959	Due to credit institutions	552 930	64 971	18
	30 065	Due to customers	1 272 175	1 242 110	19

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group is exposed to several types of operational risk, including unauthorised transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that the Group will be used for money laundering and financing of terrorist activities.

The Group's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognised principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organizational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

The Group established an Operational Risk Unit as a part of the Internal Control Division. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Operational Risk Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of the Internal Control Service on important developments and issues. The Head of the Internal Control Service reports directly to the Chairman of the Management Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements 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.

The Group was in compliance with these ratios as at 31 December 2019 and 31 December 2018.

The following tables as at 31 December 2019 and 31 December 2018 show the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. Debt securities issued are shown in accordance with their early redemption dates. These expected cash flows can vary significantly from the actual future cash flows. Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2019	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
Liabilities						
Due to credit institutions	310 791	365 256	900	5 292	682 239	677 936
Due to customers	457 125	262 498	171 491	636 904	1 528 018	1 339 535
Financial liabilities measured at fair value through profit or loss	-	14	94	3 914	4 022	3 486
Net settled derivative financial instruments	944	25	(8)	11	973	946
Gross settled derivative financial instruments	139	2 493	4 877	4 494	12 004	5 442
- inflow	(16 756)	(8 898)	(69 151)	(24 933)	(119 738)	
- outflow	16 895	11 392	74 028	29 427	131 741	
Debt securities issued	-	14 339	4 220	182 786	201 345	168 549
Other financial liabilities	420	1 840	1 151	2 359	5 770	5 770
Total contractual future payments for financial obligations	<u>769 420</u>	<u>646 466</u>	<u>182 725</u>	<u>835 760</u>	<u>2 434 370</u>	<u>2 201 664</u>
Guarantees and letters of credit	216 402				216 402	
Credit related commitments	23 153				23 153	
31 December 2018	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
Liabilities						
Due to credit institutions	424 158	129 290	732	1 523	555 703	552 930
Due to customers	375 757	436 478	238 859	373 880	1 424 974	1 272 175
Net settled derivative financial instruments	1 049	2 008	498	112	3 667	5 786
Gross settled derivative financial instruments	511	115	55	221	902	543
- inflow	(284 993)	(19 515)	(84)	(336)	(304 928)	
- outflow	285 504	19 630	139	557	305 830	
Debt securities issued	221	2 858	7 868	115 101	126 048	105 305
Other financial liabilities	1 701	2 122	1 585	181	5 589	5 589
Total contractual future payments for financial obligations	<u>803 397</u>	<u>572 871</u>	<u>249 597</u>	<u>491 018</u>	<u>2 116 883</u>	<u>1 942 328</u>
Guarantees and letters of credit	152 507				152 507	
Credit related commitments	34 027				34 027	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

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	31 December 2019	31 December 2018
Demand and less than 1 month	50 797	35 703
From 1 to 6 months	147 202	171 484
From 6 to 12 months	148 847	115 711
More than 1 year	78 891	32 379
	425 737	355 277

In accordance with terms of issuance of bonds the holders are entitled to demand early redemption of bonds at their nominal value at certain dates. Management believes based on the past experience that it can manage amounts that are claimed for early redemption by changing coupon rates on bonds, thus classifying bonds in accordance with their stated final maturity dates. Maturity based on early redemption dates as at 31 December 2019 and 31 December 2018 is shown in the tables below:

31 December 2019	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Debt securities issued	-	3 013	5 065	70 493	89 978	-	168 549

31 December 2018	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Debt securities issued	-	-	4 991	33 701	66 613	-	105 305

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position.

Securities included in trading financial assets and investment financial assets that qualify as collateral for borrowing from the Central bank of the Russian Federation are shown in the category “Less than 1 month” as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs, if necessary. Liquid securities included in the Lombard list of the Central bank of the Russian Federation pledged as collateral are presented in accordance with maturity of related repo transactions.

As at 31 December 2019 and 31 December 2018 the contractual maturities of all instruments included in trading financial assets and investment financial assets were as follows:

31 December 2019	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Total
Trading financial assets	1 577	4 183	556	14 641	5 572	11 317	704	38 550
Investment financial assets	18 877	96 194	47	46 367	22 836	57 699	16 148	258 168

31 December 2018	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Total
Trading financial assets	1 468	3 009	729	1 275	3 443	5 741	-	15 665
Investment financial assets	602	10 814	2 718	25 827	39 969	134 431	120	214 481

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31 December 2019	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
Assets												
Cash and cash equivalents	953 645	-	-	-	-	-	-	-	-	-	-	953 645
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	16 944	-	16 944
Due from credit and other financial institutions	3 687	188 745	150 883	3 941	1 515	23	-	-	-	-	-	348 794
Trading financial assets	2 976	3 381	792	340	216	7 150	7 478	4 589	10 924	704	-	38 550
Loans to customers	58 115	100 780	84 633	36 383	46 621	100 604	89 703	160 105	102 560	-	9 151	788 655
Investment financial assets	195 541	100	244	-	-	6 339	18 745	15 939	5 112	16 148	-	258 168
Investments in associates	-	-	-	-	-	-	-	-	-	2 350	-	2 350
Property and equipment	-	-	-	-	-	-	-	-	-	9 515	-	9 515
Deferred tax assets	-	-	-	-	-	-	-	-	-	113	-	113
Other assets	718	310	1 933	464	509	24	27	219	2	2 557	-	6 763
	1 214 682	293 316	238 485	41 128	48 861	114 140	115 953	180 852	118 598	48 331	9 151	2 423 497
Liabilities												
Due to credit institutions	310 414	274 137	87 419	-	878	4 831	257	-	-	-	-	677 936
Due to customers	448 854	176 497	82 131	84 822	78 839	99 667	26 018	60 350	282 357	-	-	1 339 535
Financial liabilities measured at fair value through profit or loss	1 041	19	128	3 330	-	250	3 489	1 617	-	-	-	9 874
Debt securities issued	-	3 013	5 065	-	-	32 178	38 315	89 978	-	-	-	168 549
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	3 370	-	3 370
Other liabilities	1 291	3 781	2 481	1 165	1 001	2 206	882	644	350	-	-	13 801
	761 600	457 447	177 224	89 317	80 718	139 132	68 961	152 589	282 707	3 370	-	2 213 065
Net position	453 082	(164 131)	61 261	(48 189)	(31 857)	(24 992)	46 992	28 263	(164 109)	44 961	9 151	210 432
Cumulative position	453 082	288 951	350 212	302 023	270 166	245 174	292 166	320 429	156 320	201 281	210 432	

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Management of the Group in its liquidity forecasts estimates that the liquidity gaps in the table above will be sufficiently covered by planned prolongations and planned funding raised from usual sources of financing and by ability to sell quickly or pledge into a repo transaction securities received under reverse repurchase agreements, which are liquid assets, as well as by the undrawn credit line facilities from the CBR and other financial institutions.

31 December 2018	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
Assets												
Cash and cash equivalents	1 162 779	-	-	-	-	-	-	-	-	-	-	1 162 779
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	13 065	-	13 065
Due from credit and other financial institutions	3 433	3 679	-	4 030	2 041	-	-	-	-	-	-	13 183
Trading financial assets	7 091	13	2 823	728	-	230	784	2 407	1 589	-	-	15 665
Loans to customers	47 420	44 272	121 229	75 420	40 032	124 186	56 901	99 371	92 838	-	7 376	709 045
Investment financial assets	166 848	524	491	330	1 860	1 715	11 273	20 463	10 857	120	-	214 481
Investments in associates	-	-	-	-	-	-	-	-	-	2 275	-	2 275
Property and equipment	-	-	-	-	-	-	-	-	-	7 182	-	7 182
Deferred tax assets	-	-	-	-	-	-	-	-	-	113	-	113
Other assets	581	523	827	725	726	6	2 319	240	-	2 192	-	8 139
	1 388 152	49 011	125 370	81 233	44 659	126 137	71 277	122 481	105 284	24 947	7 376	2 145 927
Liabilities												
Due to credit institutions	423 502	89 632	38 068	-	704	114	646	264	-	-	-	552 930
Due to customers	374 578	329 450	102 403	143 027	87 037	38 785	39 078	114 246	43 571	-	-	1 272 175
Financial liabilities measured at fair value through profit or loss	1 410	1 199	2 752	665	138	-	165	-	-	-	-	6 329
Debt securities issued	-	-	-	4 991	-	2 882	25 757	26 352	45 323	-	-	105 305
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	4 248	-	4 248
Other liabilities	7 503	-	558	1 551	1 577	2 401	86	88	3	-	-	13 767
	806 993	420 281	143 781	150 234	89 456	44 182	65 732	140 950	88 897	4 248	-	1 954 754
Net position	581 159	(371 270)	(18 411)	(69 001)	(44 797)	81 955	5 545	(18 469)	16 387	20 699	7 376	191 173
Cumulative position	581 159	209 889	191 478	122 477	77 680	159 635	165 180	146 711	163 098	183 797	191 173	

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate currency and equity financial instruments which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or the ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

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

	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
31 December 2019						
Interest-bearing assets	923 546	625 417	89 064	611 426	9 151	2 258 604
Interest-bearing liabilities	440 344	725 317	383 493	411 463	-	1 960 617
Net interest sensitivity gap as at 31 December 2019	483 202	(99 900)	(294 429)	199 963	9 151	297 987
31 December 2018						
Interest-bearing assets	1 124 310	180 743	124 241	596 848	7 376	2 033 518
Interest-bearing liabilities	717 850	559 553	235 759	337 018	-	1 850 180
Net interest sensitivity gap as at 31 December 2018	406 460	(378 810)	(111 518)	259 830	7 376	183 338

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 31 December 2018 is as follows:

	2019		2018	
	Profit or loss	Equity	Profit or loss	Equity
200 bp parallel rise	6 394	6 394	4 264	4 264
200 bp parallel fall	(6 394)	(6 394)	(4 264)	(4 264)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of trading financial assets and investment financial assets due to changes in the interest rates based on positions existing as at 31 December 2019 and 31 December 2018 and a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves is as follows:

	2019		2018	
	Profit or loss	Equity	Profit or loss	Equity
200 bp parallel rise	2 525	9 296	749	18 449
200 bp parallel fall	(2 525)	(9 296)	(749)	(18 449)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2019 and 31 December 2018 and a simplified scenario of a 20% change in USD to RUB exchange rates is as follows:

	2019		2018	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against RUB	8 490	8 490	6 709	6 709
20% depreciation of USD against RUB	(8 490)	(8 490)	(6 709)	(6 709)

Equity price risk

Price risk is the risk that the value of an equity financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in an equity financial instrument.

Equity price risk is not significant.

Interest rate analysis

The interest rate policy is reviewed and approved by the ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	2019			2018		
	RUB	USD	Other foreign currencies	RUB	USD	Other foreign currencies
Interest bearing assets						
Cash and cash equivalents	8,50%	3,80%	2,20%	8,30%	3,80%	0,10%
Deposits in credit and other financial institutions	6,80%	3,90%	0,10%	10,50%	6,20%	1,80%
Trading financial assets						
– government and municipal bonds	6,79%	-	-	9,10%	4,00%	2,90%
– corporate bonds	7,76%	4,45%	-	7,30%	7,00%	3,00%
Loans to customers	9,90%	5,82%	4,25%	11,50%	6,30%	4,10%

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	2019			2018		
	RUB	USD	Other foreign currencies	RUB	USD	Other foreign currencies
Investment financial assets						
– government and municipal bonds	6,75%	3,19%	-	7,50%	4,60%	-
– corporate bonds	7,94%	2,93%	2,62%	6,00%	4,40%	2,70%
Interest bearing liabilities						
Due to credit institutions						
– term deposits	6,50%	2,10%	0,10%	8,00%	3,60%	0,10%
– syndicated debt	-	3,90%	1,60%	-	4,70%	1,50%
Due to customers						
– term deposits	6,80%	3,70%	1,00%	7,40%	3,90%	0,70%
– subordinated debt	8,75%	4,90%	-	8,80%	4,90%	-
Debt securities issued	10,00%	6,50%	5,10%	12,10%	6,50%	-

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

31 December 2019	RUB	USD	Other currencies	Total
Assets				
Cash and cash equivalents	757 223	190 556	5 866	953 645
Obligatory reserves with the CBR	16 944	-	-	16 944
Due from credit and other financial institutions	55 132	292 863	799	348 794
Trading financial assets	28 351	9 110	1 089	38 550
Loans to customers	562 785	176 512	49 358	788 655
Investment financial assets	203 680	49 234	5 254	258 168
Investments in associates	2 350	-	-	2 350
Property and equipment	9 515	-	-	9 515
Deferred tax assets	113	-	-	113
Other assets	6 458	119	186	6 763
	1 642 551	718 394	62 552	2 423 497
Liabilities				
Due to credit institutions	312 299	345 396	20 241	677 936
Due to customers	840 871	467 693	30 971	1 339 535
Financial liabilities measured at fair value through profit or loss	9 741	35	98	9 874
Debt securities issued	25 962	109 718	32 869	168 549
Deferred tax liabilities	3 370	-	-	3 370
Other liabilities	13 677	60	64	13 801
	1 205 920	922 902	84 243	2 213 065
Net position before hedging	436 631	(204 508)	(21 691)	210 432
Derivative financial instruments	(288 006)	257 569	30 437	-
Net position	148 625	53 061	8 746	210 432

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31 December 2018	RUB	USD	Other currencies	Total
Assets				
Cash and cash equivalents	654 680	504 921	3 178	1 162 779
Obligatory reserves with the CBR	13 065	-	-	13 065
Due from credit and other financial institutions	4 029	5 475	3 679	13 183
Trading financial assets	12 623	1 904	1 138	15 665
Loans to customers	403 778	236 051	69 216	709 045
Investment financial assets	103 044	101 301	10 136	214 481
Investments in associates	2 275	-	-	2 275
Property and equipment	7 182	-	-	7 182
Deferred tax assets	113	-	-	113
Other assets	7 351	772	16	8 139
	1 208 140	850 424	87 363	2 145 927
Liabilities				
Due to credit institutions	235 299	295 208	22 423	552 930
Due to customers	681 525	525 006	65 644	1 272 175
Financial liabilities measured at fair value through profit or loss	5 055	304	970	6 329
Debt securities issued	14 087	91 218	-	105 305
Deferred tax liabilities	4 248	-	-	4 248
Other liabilities	8 925	4 779	63	13 767
	949 139	916 515	89 100	1 954 754
Net position before hedging	259 001	(66 091)	(1 737)	191 173
Derivative financial instruments	(110 064)	108 021	2 043	-
Net position	148 937	41 930	306	191 173

As at 31 December 2019 and 31 December 2018 the Group's significant open currency position in USD is due to the fact that perpetual debt issued in USD is reflected in equity and is not included in the table above.

Geographical risk

The geographical risk is the risk due to political, economic or social instability in the respective country.

The geographical concentration of major financial assets and liabilities as at 31 December 2019 and 31 December 2018 is disclosed in the table below:

31 December 2019	Russia	OECD	Other non- OECD	Total
Assets				
Cash and cash equivalents	865 855	15 244	72 546	953 645
Obligatory reserves with the CBR	16 944	-	-	16 944
Due from credit and other financial institutions	333 123	4 361	11 310	348 794
Trading financial assets	31 944	4 508	2 098	38 550
Investment financial assets	227 102	31 066	-	258 168
Loans to customers	569 269	95 800	123 586	788 655
Investments in associates	2 350	-	-	2 350
	2 046 587	150 979	209 540	2 407 106
Liabilities				
Due to credit institutions	647 072	20 417	10 447	677 936
Due to customers	1 306 235	21 352	11 948	1 339 535
Financial liabilities measured at fair value through profit or loss	8 000	1 609	265	9 874
Debt securities issued	20 897	147 652	-	168 549
	1 982 204	191 030	22 660	2 195 894
Net position	64 383	(40 051)	186 880	211 212

31 December 2018	Russia	OECD	non-OECD	Total
Assets				
Cash and cash equivalents	1 093 983	19 330	49 466	1 162 779
Obligatory reserves with the CBR	13 065	-	-	13 065
Due from credit and other financial institutions	4 661	814	7 708	13 183
Trading financial assets	12 468	3 140	57	15 665
Investment financial assets	170 938	42 773	770	214 481
Loans to customers	458 374	127 983	122 688	709 045
Investments in associates	2 275	-	-	2 275
	1 755 764	194 040	180 689	2 130 493
Liabilities				
Due to credit institutions	478 839	48 222	25 869	552 930
Due to customers	1 253 324	14 283	4 568	1 272 175
Financial liabilities measured at fair value through profit or loss	4 222	2 096	11	6 329
Debt securities issued	9 026	96 279	-	105 305
	1 745 411	160 880	30 448	1 936 739
Net position	10 353	33 160	150 241	193 754

The majority of non-financial assets and liabilities is located in Russia.

31 Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

	Trading financial assets	Investment financial assets
2019		
Carrying amount of assets	630	51 324
Carrying amount of associated liabilities	555	45 134
2018		
Carrying amount of assets	2 756	129 778
Carrying amount of associated liabilities	2 276	108 264

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. A part of securities that serve as collateral under reverse repurchase agreements has been pledged under sale and repurchase agreements by the Group. The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in Notes 13 and 15. The cash received is recognised as a financial liability for the obligation to repay the purchase price for this collateral, and is included in due to credit institutions and due to customers (Notes 18 and 19). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

These transactions are conducted under terms that are usual and customary to standard lending activities, as well as the requirements determined by exchanges where the Group acts as intermediary.

32 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019:

	FVTPL	Amortised cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	-	953 645	-	953 645	953 645
Obligatory reserves with the CBR	-	16 944	-	16 944	16 944
Due from credit and other financial	-	348 794	-	348 794	348 794
Trading financial assets	38 550	-	-	38 550	38 550
Loans to customers	77 175	711 480	-	788 655	807 888
Investment financial assets	16 148	34 235	207 785	258 168	260 371
Other financial assets	-	1 883	-	1 883	1 883
	131 873	2 066 981	207 785	2 406 639	2 428 075
Due to credit institutions	-	677 936	-	677 936	677 936
Due to customers	-	1 339 535	-	1 339 535	1 374 091
Debt securities issued	-	168 549	-	168 549	174 850
Financial liabilities measured at fair value through profit or loss	9 874	-	-	9 874	9 874
Other financial liabilities	-	5 770	-	5 770	5 770
	9 874	2 191 790	-	2 201 664	2 242 521

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2019 are:

- discount rates from 6,9% to 11,9% (roubles) and from 3,0% to 7,1% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 9,2% to 25,3% (roubles) and from 5,8% to 10,3% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5,8% to 6,1% (roubles) and from 1,3% to 2,1% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 4,7% to 6,3% (roubles) and from 0,8% to 1,3% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

	FVTPL	Amortised cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	-	1 162 779	-	1 162 779	1 162 779
Obligatory reserves with the CBR	-	13 065	-	13 065	13 065
Due from credit and other financial institutions	-	13 183	-	13 183	13 183
Trading financial assets	15 665	-	-	15 665	15 665
Loans to customers	63 383	645 662	-	709 045	717 280
Investment financial assets	120	39 401	174 960	214 481	213 148
Assets for sale	-	609	-	609	609
Other financial assets	-	2 883	-	2 883	2 883
	79 168	1 877 582	174 960	2 131 710	2 138 612
Due to credit institutions	-	552 930	-	552 930	552 930
Due to customers	-	1 272 175	-	1 272 175	1 281 946
Debt securities issued	-	105 305	-	105 305	95 046
Financial liabilities measured at fair value through profit or loss	6 329	-	-	6 329	6 329
Other financial liabilities	-	5 589	-	5 589	5 589
	6 329	1 935 999	-	1 942 328	1 941 840

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2018 are:

- discount rates from 9,9% to 12,8% (roubles) and from 4,0% to 8,2% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 9,8% to 26,2% (roubles) and from 6,5% to 9,9% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 6,0% to 7,3% (roubles) and from 1,7% to 3,3% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 5,8% to 6,1% (roubles) and from 1,5% to 2,8% (foreign currency) are used for discounting future cash flows from retail deposits.

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist, Monte Carlo and polynomial-option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

Fair value hierarchy

The Group measures fair values for financial instruments recorded in the consolidated financial statements of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following tables show an analysis of financial instruments recorded at fair value and financial instruments recorded at amortised cost for which fair value does not approximate their carrying amount as at 31 December 2019 and 31 December 2018:

31 December 2019	Level 1	Level 2	Level 3	Total
Trading financial assets	21 837	16 713		38 550
Loans to customers			807 888	807 888
Investment financial assets	256 290	3 970	111	260 371
Due to customers		1 374 091		1 374 091
Financial liabilities measured at fair value through profit or loss	-	9 874	-	9 874
Debt securities issued	174 851			174 851
31 December 2018	Level 1	Level 2	Level 3	Total
Trading financial assets	11 029	4 636	-	15 665
Loans to customers	-	-	717 280	717 280
Investment financial assets	212 848	120	180	213 148
Due to customers	-	1 281 946	-	1 281 946
Financial liabilities measured at fair value through profit or loss	-	6 239	-	6 239
Debt securities issued	95 046	-	-	95 046

During the year ended 31 December 2019 there was no transfer of assets between Level 1 and Level 3 (31 December 2018: RUB 180 million).

A reconciliation of movements in fair value of loans to customers at FVTPL for the year ended 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019	31 December 2018
Fair value as at 1 January	63 383	32 714
Loan issues	27 504	39 618
Loan repayments	(10 709)	(12 429)
Interest income recognised	4 613	3 397
Changes in fair value measurement	(667)	(5 611)
Write-offs	(291)	(1 909)
Net foreign exchange (loss) gain	(6 658)	7 603
Fair value as at 31 December	77 175	63 383

The table below sets out information about significant unobservable inputs used in the measuring of financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2019:

Type of instrument	Fair values	Valuation technique	Significant unobservable input	Unobservable inputs used
Loans to customers at FVTPL	77 175	Discounted cash flow from operating activities	Risk-adjusted discount rate	RUB: 6.5% - 29.7% USD: 4.5% - 7.1% EUR: 2.7%

The table below sets out information about significant unobservable inputs used in the measuring of financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2018:

Type of instrument	Fair values	Valuation technique	Significant unobservable input	Unobservable inputs used
Loans to customers at FVTPL	63 383	Discounted cash flow from operating activities	Risk-adjusted discount rate	RUB: 8.43% - 33.8% USD: 5.2% - 7.1% EUR: 3.7%

If discount rates differ by plus/minus one percent, fair values of these instruments would be RUB 76 822 million and RUB 78 150 million respectively (31 December 2018: RUB 61 531 million – RUB 64 358 million).

33 Earnings per share

Basic earnings per share are calculated by dividing (loss) profit for the year ended 31 December 2019 by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share are calculated as follows:

	2019	2018
Profit for the period	11 957	27 224
Interest paid on perpetual debt issue, net of tax	(3 098)	(3 098)
Total profit for the period	8 859	24 126
Weighted average number of ordinary shares in issue	27 486 559 181	27 079 709 866
Basic and diluted earnings per share (in RUB per share)	0,32	0,89

34 Changing in liabilities arising from financing activities

Changes in liabilities arising from financing activities during the years ended 31 December 2019 and 31 December 2018 are presented as follows:

	Total amount as at 31 December 2018	Effect of adopting IFRS 16	Cash flow changes arising from financing activities	Non-cash flow changes arising from financing activities	Non-cash flow changes arising from operating activities			Total amount as at 31 December 2019
				The effect of changes in foreign exchange rates	The effect of changes in foreign exchange rates	New lease liabilities recognised during reporting period	Changes in the amount of accrued interest	
Syndicated loans in								
Due to credit institutions	21 799	-	8 200	(3 181)	(23)	-	(12)	26 783
Subordinated debt in								
Due to customers	43 571	-	-	(2 269)	(8)	-	(2)	41 292
Bonds in Debt securities issued	61 134	-	85 539	(8 564)	(197)	-	1 800	139 712
Subordinated bonds in Debt securities issued	44 171	-	(7 444)	(4 006)	(45)	-	(140)	32 536
Lease liabilities	-	2 960	(891)	-	-	436	257	2 762
Total	170 675	2 960	85 404	(18 020)	(273)	436	1 903	243 085

	Total amount as at 31 December 2017	Cash flow changes arising from financing activities	Non-cash flow changes arising from financing activities	Cash flow changes arising from investing activities	Non-cash flow changes arising from operating activities		Total amount as at 31 December 2018
			The effect of changes in foreign exchange rates	Net cash inflow (outflow) on disposal of subsidiary	The effect of changes in foreign exchange rates	Changes in the amount of accrued interest	
Syndicated loans in							
Due to credit institutions	29 487	(11 076)	3 408	-	19	(39)	21 799
Subordinated debt in							
Due to customers	39 842	-	3 561	-	38	130	43 571
Bonds in Debt securities issued	66 649	(11 305)	9 190	(3 024)	74	(450)	61 134
Subordinated bonds in Debt securities issued	49 631	(13 362)	7 690	-	79	133	44 171
Total	185 609	(35 743)	23 849	(3 024)	210	(226)	170 675

35 Events subsequent to the reporting date

In January 2020 the Bank attracted syndicated loan from large regional banks of China in the amount up to RMB 2 bln.

In January 2020 the Bank paid out the 3rd coupon in the amount of RUB 299.2 million or RUB 59.84 per bond on perpetual subordinated bonds series 15. The issue was originally placed on 24 July 2018. The nominal value of the issue is RUB 5 billion.

In January 2020 the Bank placed senior Loan Participation Notes in the total amount of USD 600 million at par with a fixed coupon rate of 4.7% p.a. and maturity of 5 years.

In February 2020 the Group paid out the coupon in the amount of USD 12.0 million on perpetual subordinated Loan Participation Notes with the nominal value of USD 700 million.

In February 2020 the Group paid out the coupon in the amount of USD 13.9 million on 5-year Loan Participation Notes due 2023 with the nominal value of USD 500 million.

In February 2020 the Group paid out the coupon in the amount of EUR 25.8 million on 5-year Loan Participation Notes due 2024 with the nominal value of EUR 500 million.