Independent auditor's report
on the separate financial statements of
Absolut Bank (PAO)
for 2019

March 2020

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Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the Shareholders and Board of Directors of
Absolut Bank (PAO)

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Absolut Bank (PAO) (hereinafter, the "Bank"), which comprise the separate statement of financial position as at 31 December 2019, and the separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for 2019, and notes to the separate financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Совершенствуя бизнес, улучшаем мир

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on loans to customers	
The estimation of the allowance for expected credit losses on loans to customers is a key area of judgment for the Bank's management. The identification of indications of a significant increase in credit risk, assessment of the probability of a borrower's default and estimation of the allowance require analysis of various factors, including the identification of change in the risk of default during the remaining life of the financial instrument, the identification of default and estimation of its probability, the measurement of the expected cash shortfalls. Analysis of these factors is based on significant use of professional judgments and assumptions. The use of different models and assumptions and selection of thresholds indicating the significant increase in credit risk (e.g., a borrower's credit rating deterioration level) may significantly affect the amount of the allowance for expected credit losses on loans to customers. Due to the significance of loans to customers, which account for 59% of the total assets of the Bank as at 31 December 2019, and due to the significant use of judgment, the estimation of the allowance for expected credit losses on loans to customers was a key audit matter. The information on the allowance for expected credit losses on loans to customers and the approach of the Bank's management to assessing and managing credit risk is provided in Notes 10 and 30 to the separate financial statements.	Our audit procedures included an analysis of the methodology for assessing expected credit losses on loans to customers. We reviewed the assessment of the probability of default and loss given default on a selective basis. We paid attention to loans, for which credit risk has increased significantly since the date of initial recognition. We analyzed whether criteria of a significant increase in credit risk, such as an increase in the probability of default and overdue amounts in relation to selected borrowers, were met. We reviewed the allowance for loans to customers designated to Stage 3 of impairment. We performed procedures with respect to the information on the allowance for expected credit losses disclosed in the notes to the separate financial statements.
Testing of investment property impairment	
Due to the significant carrying amount of the investment property, and considering the significant impact of the assumptions used in the analysis of investment property for impairment (including in selecting comparables), we classified measurement of the carrying amount of investment property as a key audit matter.	In course of our audit procedures, we tested the assessment of investment property impairment performed by the Bank on the basis of reports prepared by independent appraisers. We analyzed judgments and assumptions used with the involvement of our property valuation experts. We analyzed information on investment property disclosed in Note 13 to the separate financial statements.

Other information included in the 2019 Annual Report

Other information consists of the information included in 2019 Annual Report, other than the separate financial statements and our auditor's report thereon. Management is responsible for the other information. The 2019 Annual Report is expected to be presented to us after the date of this auditor's report.

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

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

Responsibilities of management and Board of Directors for the separate financial statements

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

In preparing the separate financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Board of Directors are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Board of Directors 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 Board of Directors 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 Board of Directors, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report in accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 Concerning Banks and Banking Activities of 2 December 1990

Management of the Bank is responsible for the compliance of the Bank with the mandatory prudential ratios established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia") and for the conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 Concerning Banks and Banking Activities of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's separate financial statements for the year ended 31 December 2019, we determined:

1) Whether the Bank complied as at 1 January 2020 with the obligatory ratios established by the Bank of Russia;
2) Whether internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
   - subordination of the risk management departments;
   - the existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
   - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
   - oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

Compliance by the Bank with the obligatory ratios established by the Bank of Russia

We found that the values of the obligatory ratios of the Bank as of 1 January 2020 were within the limits established by the Bank of Russia.

We have not performed any procedures in respect of accounting data of the Bank, except for those procedures we considered necessary to express our opinion on the fair presentation of the Bank's separate financial statements.

Conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2019, the Bank's internal audit division was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- We found that the Bank's internal documents effective as at 31 December 2019 that establish the methodologies for detecting and managing credit, market, operational, interest rate and liquidity risks that are significant to the Bank, and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December

2019, the Bank had a reporting system pertaining to credit, market, operational, interest rate and liquidity risks that were significant to the Bank and pertaining to its equity (capital).

- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2019 with regard to the management of credit, market, operational, interest rate and liquidity risks of the Bank complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies.

- We found that, as at 31 December 2019, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and equity (capital) adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2019, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Bank, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

The partner in charge of the audit resulting in this independent auditor's report is A.M. Vinogradova.

A.M. Vinogradova
Partner
Ernst & Young LLC

31 March 2020

Details of the audited entity

Name: Absolut Bank (PAO)
Record made in the State Register of Legal Entities on 12 July 2002, State Registration Number 1027700024560.
Address: Russia 127051, Moscow, Tsvetnoy boulevard, 18.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo". Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Separate statement of financial position

as at 31 December 2019

(Millions of Russian rubles)

	Notes	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	7	10,437	16,220
Mandatory cash balances with the CBR		1,859	1,722
Trading securities	8	493	470
Trading securities pledged under repurchase agreements	8	–	36
Due from other banks	9	45,870	54,996
Loans to customers	10	139,060	136,603
Investment securities	11	19,867	14,613
Investment securities pledged under repurchase agreements	11	–	10,575
Investments in subsidiaries	12	7,027	6,009
Investment property	13	1,263	1,287
Property and equipment and right-of-use assets	14	3,635	1,804
Intangible assets	14	387	373
Deferred income tax asset	29	516	516
Other financial assets	15	1,915	2,518
Other non-financial assets	15	411	486
Total assets		**232,740**	**248,228**
Liabilities			
Due to other banks	16	1,586	1,355
Customer accounts	17	189,493	205,352
Debt securities issued	18	6,539	6,818
Other financial liabilities	19	4,008	11,063
Other non-financial liabilities	19	1,195	1,123
Total liabilities		**202,821**	**225,711**
Equity			
Share capital	20	10,002	7,758
Share premium	20	32,491	28,735
Accumulated loss		(13,085)	(13,855)
Other provisions		511	(121)
Total equity		**29,919**	**22,517**
Total equity and liabilities		**232,740**	**248,228**

Approved for issue and signed on behalf of the Management Board on 31 March 2020

T.V. Ushkova
Chairman of the Management Board

O.N. Prigornitskaya
Chief Accountant

Separate statement of profit or loss
for the year ended 31 December 2019

(Millions of Russian rubles)

	Notes	2019	2018
Interest income calculated using the effective interest rate	22	20,590	23,273
Other interest income	22	36	37
Interest expense	22	(12,711)	(14,137)
Net interest income		**7,915**	**9,173**
Allowance for loan impairment	10	(1,582)	(10,043)
Net interest income/(expense) after allowance for loan impairment		**6,333**	**(870)**
Fee and commission income	23	3,218	2,638
Fee and commission expense	23	(736)	(574)
Net expense on financial instruments at FVPL	25	(188)	(167)
Net gains from financial assets at FVOCI	24	332	816
Net (losses)/gains from operations with derivatives		(4,515)	2,455
Net gains from trading in foreign currencies		1,469	71
Net gains from derecognition of financial assets at amortized cost		1,066	235
Net foreign exchange translation differences		1,706	(2,745)
Other income	26	1,035	66
Other expenses	26	(338)	(1,840)
Non-interest income		**3,049**	**955**
Personnel expenses	27	(2,958)	(3,354)
Administrative and other operating expenses	27	(2,768)	(2,682)
Net (charge)/reversal of provision for losses from credit-related commitments	19, 21	(95)	702
Net reversal of allowance for impairment of investment securities and other financial assets	11, 15, 28	132	377
Net (charge)/reversal of other provisions	15, 28	(2,586)	409
Non-interest expense		**(8,275)**	**(4,548)**
Profit/(loss) before income tax expense		**1,107**	**(4,463)**
Income tax expense	29	(337)	(266)
Profit/(loss) for the year		**770**	**(4,729)**

Approved for issue and signed on behalf of the Management Board on 31 March 2020

T.V. Ushkova
Chairman of the Management Board

O.N. Prigornitskaya
Chief Accountant

The accompanying notes from 1 to 37 are an integral part of these separate financial statements.

Separate statement of comprehensive income
for the year ended 31 December 2019

(Millions of Russian rubles)

	Notes	*2019*	*2018*
Profit/(loss) for the year		**770**	**(4,729)**
Other comprehensive income/(expense)			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods			
Net change in the fair value of debt instruments at fair value through other comprehensive income, net of tax		891	(420)
Net change in the fair value of debt instruments at fair value through other comprehensive income reclassified to profit or loss, net of tax	24	(292)	(816)
Change in the allowance for expected credit losses on debt instruments at fair value through other comprehensive income, net of tax		33	(1,124)
Total other comprehensive income/(expense) for the year, net of tax		**632**	**(2,360)**
Total comprehensive income/(expense) for the year		**1,402**	**(7,089)**

Separate statement of changes in equity

for the year ended 31 December 2019

(Millions of Russian rubles)

	Notes	*Share capital*	*Share premium*	*Accumulated loss*	*Other provisions*	*Total equity*
31 December 2017		**6,027**	**24,466**	**2,001**	**1,082**	**33,576**
Effect of transition to IFRS 9		–	–	(11,127)	1,157	**(9,970)**
Opening balance restated in accordance with IFRS 9		**6,027**	**24,466**	**(9,126)**	**2,239**	**23,606**
Issue of share capital	20	1,731	4,269	–	–	**6,000**
Loss for the year		–	–	(4,729)	–	**(4,729)**
Other comprehensive expense for the year		–	–	–	(2,360)	**(2,360)**
31 December 2018		**7,758**	**28,735**	**(13,855)**	**(121)**	**22,517**
Issue of share capital	20	2,244	3,756	–	–	**6,000**
Profit for the year		–	–	770	–	**770**
Other comprehensive income for the year		–	–	–	632	**632**
31 December 2019		**10,002**	**32,491**	**(13,085)**	**511**	**29,919**

Separate statement of cash flows

for the year ended 31 December 2019

(Millions of Russian rubles)

	Notes	2019	2018
Cash flows from operating activities			
Interest received		20,716	23,599
Interest paid		(11,391)	(12,412)
Fees and commissions received		3,121	2,631
Fees and commissions paid		(736)	(574)
Losses from operations with trade securities		(153)	(123)
(Losses)/gains from operations with derivatives		(4,371)	2,299
Gains from operations with foreign currencies		1,469	71
Other operating income received / (expenses paid)		361	(225)
Personnel expenses paid		(3,050)	(3,429)
Other operating expenses paid		(2,025)	(1,987)
Income tax paid		(268)	(436)
Cash flows from operating activities before changes in operating assets and liabilities		**3,673**	**9,414**
Net (increase)/decrease in operating assets			
Mandatory cash balances with the CBR		(137)	(308)
Trading securities		18	112
Due from other banks		9,229	(30,575)
Loans to customers		(7,283)	4,582
Other financial assets		631	(2,198)
Other non-financial assets		665	464
Net increase/(decrease) in operating liabilities			
Due to other banks		504	(35,915)
Customer accounts		(12,889)	22,432
Promissory notes issued		(256)	(922)
Other financial liabilities		(2,479)	(2,418)
Other non-financial liabilities		7	34
Net cash used in operating activities		**(8,317)**	**(35,298)**
Cash flows from investing activities			
Purchase of investment securities		(15,435)	(107,220)
Purchase of intangible assets		(242)	(195)
Purchase of property and equipment		(43)	(101)
Acquisition of associates		(1,645)	(80)
Proceeds from sale and redemption of investment securities		14,432	133,717
Proceeds from sale of investment property		–	18
Proceeds from disposal of associates		1,092	5,367
Proceeds from sale of property and equipment		3	17
Net cash (used in) / from investing activities		**(1,838)**	**31,523**
Cash flows from financing activities			
Repayment of bonds		(723)	(3,007)
Proceeds from issue of share capital		6,000	6,000
Total cash outflow from lease liabilities		(413)	–
Net cash from financing activities		**4,864**	**2,993**
Effect of exchange rate changes on cash and cash equivalents		(492)	500
Net decrease in cash and cash equivalents		**(5,783)**	**(282)**
Cash and cash equivalents, beginning	7	16,220	16,502
Cash and cash equivalents, ending	7	**10,437**	**16,220**

The accompanying notes from 1 to 37 are an integral part of these separate financial statements.

(Millions of Russian rubles)

1. Principal activities

These separate financial statements comprise the accounts of Absolut Bank (PAO) (the “Bank”). The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank’s principal business activity is commercial and retail banking operations within the Russian Federation. The Bank is operating under a full banking license issued by the Central Bank of Russia (the “CBR”) since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No. 177-FZ *Deposits of Individuals Insurance in the Russian Federation* of 23 December 2003. The system operates under the federal laws and regulations and is governed by the State Corporation “Deposit Insurance Agency” (“DIA”). Insurance covers Bank’s liabilities to individual depositors for the amount up to 1,400 thousands of Russian rubles for each individual in case of business failure and revocation of the CBR banking license.

The Bank’s registered address is: Russian Federation 127051, Moscow, Tsvetnoy boulevard, 18

As at 31 December 2019 and 2018, there were the following shareholders of the Bank:

Shareholder	***31 December 2019 %***	***31 December 2018 %***
JSC Management Company TRINFICO, a trustee managing the pension reserves of the JSC NPF "BLAGOSOSTOYANIE” (UN 33024)	20.00	19.90
CJSC Leader (a company managing pension fund’s assets), a trustee managing the pension reserves of the JSC NPF "BLAGOSOSTOYANIE”	19.99	19.13
JSC Management Company TRANSFINGROUP, a trustee managing the pension reserves of the JSC NPF "BLAGOSOSTOYANIE” (25/DU)	17.09	6.17
CJSC RWM Capital, a trustee managing the Closed-end Blend Fund RWM Russian Transit	10.00	–
JSC REGION SM, a trustee managing the pension reserves of JSC NPF "BLAGOSOSTOYANIE”	10.00	–
TRINFIKO Property Management, a trustee managing the Closed-end Blend Fund Delta under management of LLC TRINFICO Property Management	10.00	–
JSC TKB Investment Partners, a trustee managing the pension reserves of the JSC NPF "BLAGOSOSTOYANIE”	9.99	9.9
JSC Management Company TRANSFINGROUP, a trustee managing the Closed-end Blend Fund Tekhnologichesky	1.72	2.26
JSC TRANSFINGROUP Management Company, a trustee managing the Closed-end Blend Fund Spektr	1.19	1.57
PJSC United Credit Systems (“PJSC UCS”)	–	41.04
Other	0.02	0.03
Total	**100.00**	**100.00**

The Bank is controlled by the Joint stock company "Non-State Pension Fund "BLAGOSOSTOYANIE” (JSC NPF "BLAGOSOSTOYANIE”) operating under control of the government of the Russian Federation.

2. Basis of preparation

General information

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Bank is required to maintain its accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions (“RAL”). These separate financial statements are based on the Bank’s RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

The separate financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

As at 31 December 2019, the principal rates of exchange used for translating foreign currency balances were RUB 61.9057 to USD 1 and RUB 69.3406 to EUR 1 (31 December 2018: RUB 69.4706 to USD 1 and RUB 79.4605 to EUR 1).

These separate financial statements are presented in millions of Russian rubles (“RUB”), unless otherwise indicated.

(Millions of Russian rubles)

2. Basis of preparation (continued)

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

3. Summary of accounting policies

Changes in accounting policies

The Bank adopted the following new standards and interpretations as at 1 January 2019:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, IFRS 16 did not have an impact on leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective approach starting from 1 January 2019. Under this approach, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to use exemptions specified in the standard with regard to lease agreements that expire within 12 months from the date of initial application and do not contain a purchase option, as well as with regard to leases of low-value underlying assets.

The effect of the adoption of IFRS 16 on the Bank's separate statement of financial position is presented below:

	1 January 2019
Assets	
Property and equipment (right-of-use assets)	973
Other assets (prepayment)	(6)
Total assets	**967**
Liabilities	
Other liabilities (lease liabilities)	967
Total liabilities	**967**
Net effect on equity	**–**

The operating lease commitments can be reconciled to lease liabilities under IFRS 16 as follows:

	1 January 2019
Operating lease payables	**1,173**
Adjustments to lease payments	
Practical expedient: short-term leases	(2)
Practical expedient: underlying low-value asset	(46)
Future lease payments under IFRS 16	**1,125**
Weighted average incremental borrowing rate as at 1 January 2019	10.9%
Effect of discounting	(158)
Lease liability under IFRS 16	**967**
Previously paid advances and non-refundable guarantee deposits under contracts	6
Right-of-use assets under IFRS 16	**973**

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

(a) Nature of the effect of adoption of IFRS 16

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases as a lessee at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise, it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and the reduction in the lease liability. In an operating lease, the leased property was not capitalized and lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized in other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients which have been applied by the Bank.

<u>Leases previously classified as operating leases</u>

The Bank recognized right-of-use assets and lease liabilities for leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of the incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and charged lease payments previously recognized. Lease liabilities were recognized at the present value of the remaining lease payments, discounted using the rate of attracting additional borrowings at the date of initial application.

The Bank also applied available practical expedients and as a result it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains an option to extend or terminate the lease.

Set out below are the new accounting policies of the Bank upon adoption of IFRS 16, which have been applied since the date of initial application:

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Bank upon adoption of IFRS 16, which have been applied from the date of initial application:

i. Bank as a lessee

The Bank applies a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

<u>Right-of-use assets and lease liabilities</u>

The Bank recognizes right-of-use assets from the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at actual cost, less any accumulated depreciation and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of a leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including direct fixed payments) less incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification of contract, change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of the option to purchase the underlying asset.

Right-of-use assets are disclosed in the line Property and equipment and right-of-use assets in the separate statement of financial position, lease liabilities are disclosed in the line Other lease liabilities in the separate statement of financial position. Finance expenses are disclosed in the line Interest expenses in the separate statement of profit and loss, depreciation of right-of-use assets is disclosed in the line Administrative and other operating expenses in the separate statement of profit and loss.

Short-term leases and leases of low-value assets

The Bank applies a recognition exemption to short-term leases of premises, land, office equipment and computers (i.e. leases which have the contractual lease term of 12 months or less at the date of lease commencement and do not contain a purchase option). The Bank also applies the low-value asset lease recognition exemption to leases of premises, land, office equipment and computers that is considered of low value (below USD 5 thousand). Lease payments under short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term and included into administrative and other operating expenses.

Significant judgment in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Set out below are the carrying amounts of the Bank's right-of-use assets and lease liabilities and their movements during the period:

	Right-of-use assets			
	Buildings and land	***Motor vehicles***	***Total***	***Lease liabilities***
1 January 2019	**973**	**–**	**973**	**967**
Additions	34	1	**35**	35
Modification and reassessment of lease liabilities	1,277	–	**1,277**	1,277
Disposals	(22)	(1)	**(23)**	(22)
Depreciation expense	(330)	–	**(330)**	–
Interest expense	–	–	**–**	113
Payments	–	–	**–**	(413)
31 December 2019	**1,932**	**–**	**1,932**	**1,957**

The Bank recognized expenses from short-term leases and leases of low-value assets of RUB 20 million for the year ended 31 December 2019.

In 2019, total cash outflow related to leases amounted to RUB 413 million.

ii. Operating – Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as lease income. Contingent lease payments are recognized as revenue in the period in which they are received.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes* and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of the interpretation, the Bank considered whether it had any uncertain tax treatments, particularly those relating to transfer pricing. The Bank's tax filings include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. This interpretation had no impact on the Bank's separate financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are ''solely payments of principal and interest on the principal amount outstanding'' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the Bank's separate financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine current service cost applicable to the remaining part of the period after the plan amendment, curtailment or settlement, based on the actuarial assumptions used for the revaluation of a net liability (asset) under the defined benefit plan, reflecting the consideration under the plan and assets of the plan after this event. An entity also has to determine the net interest applicable to the remaining part of the period after the plan amendment, curtailment or settlement with the use of a net liability (asset) under the defined benefit plan, reflecting the consideration under the plan and assets of the plan after this event; and the discount rate used to remeasure this net liability (asset) under the defined benefit plan.

These amendments had no impact on the Bank's separate financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarify that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the separate financial statements of the Bank as the Bank does not have any long-term interests in its associates or joint ventures.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2015-2017 Cycle

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

The entity must apply those amendments to annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies these amendments, it should apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

Since the Bank's current practice is in line with these amendments, they had no effect on the Bank's separate financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity should treat as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity should apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. The entity must apply those amendments to annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Bank's current practice is in line with these amendments, they had no effect on the Bank's separate financial statements.

Investments in subsidiaries

Subsidiaries are entities in which the Bank has an interest of more than one half of the voting rights or equity interest, or otherwise has power to exercise control over their operations. These separate financial statements of the Bank contain no consolidated interests of the Bank and no investments recognized under the equity method. Investments in subsidiaries are carried in the separate financial statements at actual acquisition cost. For the purpose of impairment testing, management regularly measures the recoverable value of such investments.

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at acquisition cost, including goodwill. Subsequent changes in the carrying amount reflect the post-acquisition changes in the Bank's share in net assets of the associate. The Bank's share of its associates' profits or losses is recognized in profit or loss, and its share of movements in reserves is recognized in other comprehensive income. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognize further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date i.e. the date that the Bank commits to purchase the asset or the liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on contractual terms and the business model used for managing financial instruments. Financial instruments are initially measured at fair value, including transaction costs, except when financial assets and financial liabilities are measured at fair value through profit or loss.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all its financial assets on the basis of business models used to manage the assets and contractual terms as measured at:

- Amortized cost;
- FVOCI;
- FVPL.

The Bank classifies and measures derivatives and instruments held for trading at FVPL. The Bank may, at its discretion, designate financial instruments as measured at FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Financial liabilities, except for loan commitments and financial guarantees, are measured at amortized cost or FVPL, if they are held for trading or derivatives, or the fair value designation is applied at the entity's discretion.

Amounts due from credit institutions, loans to customers, investment securities measured at amortized cost

The Bank only measures amounts due from credit institutions, loans to customers and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held under a business model designed to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, scope and timing of sales are also important factors in assessing the Bank's business model.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of a financial asset to identify whether they meet the SPPI test .

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgments and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Bank measures debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

Debt instruments at FVOCI are subsequently measured at fair value, with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses in exchange rates are recognized in profit or loss in the same manner as in the case of financial assets at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

ECL on debt instruments at FVOCI do not decrease the carrying amount of these financial assets in the statement of financial position that continue to be measured at fair value. Instead, an amount equal to the allowance for expected losses that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is reclassified to profit or loss when the asset is derecognized.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never reclassified to profit or loss. Dividends are recognized in profit or loss as other income when the right for dividends has been established, except where the Bank benefits from such receipts as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, in the amount of the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the separate statement of profit or loss, and an ECL provision.

Commitments to provide loans and letters of credit are contractual commitments, pursuant to which over the life of the commitment the Bank undertakes to issue a loan to the client on previously specified terms. Similarly to financial guarantees, the ECL measurement requirements are applied to such commitments.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Reclassification of financial assets and liabilities

The Bank does not reclassify financial assets after their initial recognition, apart from exceptional cases, when the Group changes the business model for managing the financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2019.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, correspondent accounts with other banks, settlement accounts with trading systems, and overnight deposits free from contractual encumbrances.

Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Mandatory cash balances with the CBR

Mandatory cash balances with the CBR are carried at amortized cost and represent non-interest bearing mandatory reserve deposits amount of which depends on the level of funds attracted by the credit institution which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents. The amount of these reserves depends on the amount of funds attracted by the credit institution.

Trading securities

Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within one to three months. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change, except for rare circumstances.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the separate statement of profit or loss as interest income. Dividends are recorded in the separate statement of profit or loss when the Bank's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the separate statement of profit or loss as net gains from operations with securities in the period in which they arise.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the separate statement of profit or loss.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the separate statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity or any of its counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the separate statement of financial position.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

From 1 January 2018, the Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been revised to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Renegotiated loans (continued)

When assessing whether a loan to a customer should be derecognized, the Bank considers the following:

- The change in the currency of a loan;
- The change of a counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within interest revenue calculated using EIR in the separate statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Financial assets

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the separate statement of profit or loss.

Securitization

As part of its operational activities, the Bank securitizes financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Interests in the securitized financial assets may be retained by the Bank and are primary classified as loans and receivables. Gains or losses on securitizations are based on the carrying amount of the financial assets derecognized and the retained interest, based on their relative fair values at the date of transfer.

Fair value measurement

The Bank measures financial instruments recorded at FVPL and FVOCI at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Property and equipment

Property and equipment are stated at cost, restated to the equivalent purchasing power of the Russian ruble as at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and allowance for impairment.

Construction in progress is at cost less allowance for impairment. Upon completion, assets are transferred to property and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalized and the replaced part is retired.

The carrying amount of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in the separate statement of profit or loss.

Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	% per year
Premises	2-3
Motor vehicles	7-25
Equipment	3-33
Leasehold improvement	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets

All of the Bank's intangible assets have definite useful life and primarily include capitalized computer software and the customer base. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable.

Capitalized costs include staff costs of the software development team and cost of services received which are incremental to the software development. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight-line basis over expected useful live. Intangible assets with finite lives are amortized over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Investment property

Real estate held to earn rentals or for capital appreciation, as well as real estate not held for sale in the ordinary course of business is classified as investment property. Investment property is recognized only when it is probable that future economic benefits associated with the investment property will flow to the enterprise and the cost of the investment property can be measured reliably.

The investment property is measured initially at cost, including transaction costs. Investment property is subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. It is depreciated according to the straight-line method over the economic life of the investment property concerned (i.e. 3% on a yearly basis for real estate). Depreciable leased assets are depreciated according to the normal depreciation policy for similar assets. Subsequent expenditure relating to investment property that has already been recognized is added to the carrying amount of the investment property when it is probable that relevant future economic benefits will flow to the enterprise. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

Assets classified as held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Bank measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognizes an impairment loss for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost.

Customer accounts

Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Debt securities issued

Debt securities issued include promissory notes and bonds issued by the Bank. Debt securities are carried at amortized cost. If the Bank purchases its own debt securities in issue, they are removed from the separate statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in the separate statement of profit or loss.

Taxation

Income taxes have been provided for in the separate financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognized in the separate statement of profit or loss except if it is recognized directly in equity because it relates to transactions that are also recognized, in the same or a different period, directly in equity.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Taxation (continued)

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the statement of financial position liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Russia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of administrative and other operating expenses.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-employment benefits.

Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as share premium in equity.

Fiduciary assets

Assets held by the Bank in its own name, but on the account of third parties, are not reported in the separate statement of financial position. For the purpose of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial markets.

Contingencies

Contingent liabilities are not recognized in the separate statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the separate statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

In case of purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest revenue by applying the effective interest rate adjusted for the credit risk to the amortized cost of the financial asset. An effective interest rate adjusted for the credit risk is an interest rate that at initial recognition discounts estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

Interest income on all financial assets at FVPL is recognized using the contractual interest rate in Other interest income in the separate statement of profit or loss.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income can be divided into the following two categories:

Fee and commission income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as the respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as where the Bank’s performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognized after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Foreign currency translation

The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional currency of the Bank is the national currency of the Russian Federation, the Russian ruble.

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the CBR at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates of the CBR are recognized in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Future changes in accounting policies

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank’s separate financial statements are disclosed below. The Bank intends to adopt these standards when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. In 2019, the Bank will continue to assess the potential effect of IFRS 17 on its separate financial statements.

Amendments to IAS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of material across the standards and to clarify certain aspects of the definition. The new definition states that 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material are not expected to have a significant impact on the Bank's separate financial statements.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of the interest rate benchmark reform, there may be uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect on 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Bank's separate financial statements.

4. Significant accounting judgments and estimates

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the separate financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Expected credit losses / impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL/impairment losses and assessing a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's calculation of ECL is the result of applying complex models that include a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The internal credit rating system used by the Bank to determine the probability of default (PD);
- Criteria used by the Bank to assess whether a significant increase in credit risk occurred, resulting in the need to assess impairment allowance for financial assets in the amount equal to lifetime ECL, and qualitative assessment;
- The segmentation of financial assets when their ECL are assessed on a collective basis;
- Development of ECL models, including various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(Millions of Russian rubles)

4. Significant accounting judgments and estimates (continued)

Investment property

The Bank tests its investment property for impairment on a regular basis. In determining the recoverable value of its investment property, the Bank analyzes its fair value. Fair values of investment property are measured by comparing them to the market value of similar properties, as well as by using other methods.

Deferred tax

When determining the amount of deferred tax assets which may be recognized in the separate financial statements, the Bank's management assesses the probability of use of the deferred tax asset. The use of the deferred tax asset depends on taxable profit obtained in periods when timing differences may be offset against it. When conducting such an assessment, the management takes into account the future expected taxable profit, as well as tax planning strategies.

Based on the historical data on income tax amounts, as well as future expected taxable profit in periods when timing differences may be used against it, the Bank's management considers it probable to use the deferred tax asset recognized in the separate financial statements.

5. Changes in presentation

The following reclassifications are made in notes to the separate statement of profit or loss for the year 2018 to present them in accordance with the form of presentation for the year 2019:

Reclassification item	*As previously reported*	*Reclassification amount*	*As adjusted*
Separate statement of profit or loss			
Non-interest income			
Net gains from operations with securities	649	(649)	–
Net expense on financial instruments at FVPL	–	(167)	(167)
Net gains from financial assets at FVOCI	–	816	816

6. Segment information

For management purposes, the Bank is organized into three operating segments based on products and services as follows:

- Retail – comprises retail services of opening and maintenance of settlement accounts, raising finance in the forms of retail deposits, debit and credit cards servicing, lending and foreign exchange transactions with individuals. Different types of retail banking operations are represented by a single operating segment, as they are characterized by similar economic features and indicators;
- Corporate – comprises lending to corporate clients, individual entrepreneurs and small and medium size entities, including reverse repurchase agreements, corporate deposit services and placement of promissory notes among corporate clients, trade finance operations, leasing services, issuing of guarantees, foreign currency exchange transactions and other transactions with corporate customers, individual entrepreneurs and small and medium size entities;
- Financial markets – comprises securities trading, debt capital markets services (interbank and other borrowings, placement of promissory notes and bonds on money market, raising finance on loro accounts), foreign currency exchange and derivatives transactions on stock exchange and over the counter market.

Management monitors the operating results of each segment separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is measured differently from profit or loss in the separate financial statements.

The Bank allocates revenues and expenses between segments depending on the contractual counterparty and type of transaction.

The Bank allocates in its internal management accounting system major part of the Bank's assets and liabilities as well as income and expenses between the segments. Certain types of assets and liabilities, income and expenses (e.g., property and equipment, intangible assets, investment property, investments in subsidiaries and the Bank's equity) that were not allocated have been presented as "unallocated" in the table below.

(Millions of Russian rubles)

6. Segment information (continued)

Segment liabilities used by the Bank's management for analysis purposes comprise equity presented as "unallocated".

"Income/(expense) from other segments" is defined on the basis of transfer pricing policy. According to the existing transfer pricing system, approved by the Board, funds are transferred between segments at historical market rate. Choice of market rate for each interest asset or liability depends on the currency and contractual maturity of this asset or liability.

Segment results are based on the direct and allocated revenues and expenses attributable to the assets and liabilities of the respective segment.

The Bank allocates expenses on attraction and servicing of Bank's clients/products related to cost centers, which activities clearly correspond to segment activities. The remaining expense items (general banking expenses) are expenses related to management, maintenance and servicing of the Bank's infrastructure and they are not allocated.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

The following table presents asset and liability information regarding the Bank's operating segments as at 31 December 2019:

	Retail banking	*Corporate banking*	*Financial markets*	*Unallocated items*	*Total*
Segment assets	99,856	56,401	28,048	48,435	**232,740**
Segment liabilities, including equity	123,418	59,793	1,618	47,911	**232,740**

The following table presents asset and liability information regarding the Bank's operating segments as at 31 December 2018:

	Retail banking	*Corporate banking*	*Financial markets*	*Unallocated items*	*Total*
Segment assets	94,270	59,157	49,019	45,782	**248,228**
Segment liabilities, including equity	113,675	67,388	22,700	44,465	**248,228**

The table below presents information on the allocation of the Bank's income and expenses between operating segments for the year ended 31 December 2019:

	Retail banking	*Corporate banking*	*Financial markets*	*Unallocated items*	*Total*
Interest income calculated using the effective interest rate	10,587	3,833	1,902	4,268	**20,590**
Other interest income	–	–	36	–	**36**
Interest expense	(6,729)	(2,217)	(1,500)	(2,265)	**(12,711)**
Income/(expense) from other segments	222	(218)	731	(735)	**–**
Net interest income	**4,080**	**1,398**	**1,169**	**1,268**	**7,915**
Commission and dealing income/(expense)	2,765	1,282	(540)	(458)	**3,049**
Operating income	**6,845**	**2,680**	**629**	**810**	**10,964**
Operating expenses	(3,095)	(1,454)	(219)	(958)	**(5,726)**
Profit/(loss) before allowance and tax	**3,750**	**1,226**	**410**	**(148)**	**5,238**
Allowances for impairment of financial assets and other provisions	(753)	(3,391)	35	(22)	**(4,131)**
Income tax	–	–	(196)	(141)	**(337)**
Profit/(loss)	**2,997**	**(2,165)**	**249**	**(311)**	**770**

(Millions of Russian rubles)

6. Segment information (continued)

The table below presents information on the allocation of the Bank's income and expenses between operating segments for the year ended 31 December 2018:

	Retail banking	*Corporate banking*	*Financial markets*	*Unallocated items*	*Total*
Interest income calculated using the effective interest rate	9,183	8,408	2,306	3,376	**23,273**
Other interest income	–	–	37	–	**37**
Interest expense	(6,177)	(2,789)	(2,729)	(2,442)	**(14,137)**
Income/(expense) from other segments	1,070	(2,766)	1,218	478	**–**
Net interest income	**4,076**	**2,853**	**832**	**1,412**	**9,173**
Commission and dealing income/(expense)	1,505	(348)	(102)	(100)	**955**
Operating income	**5,581**	**2,505**	**730**	**1,312**	**10,128**
Operating expenses	(2,856)	(1,707)	(302)	(1,171)	**(6,036)**
Profit before allowance and tax	**2,725**	**798**	**428**	**141**	**4,092**
Allowances for impairment of financial assets and other provisions	(522)	(8,863)	828	2	**(8,555)**
Income tax	–	–	–	(266)	**(266)**
Profit/(loss)	**2,203**	**(8,065)**	**1,256**	**(123)**	**(4,729)**

7. Cash and cash equivalents

	31 December 2019	*31 December 2018*
Cash on hand	1,697	2,173
Current accounts with the CBR	6,135	10,872
Current accounts with other banks	2,205	1,291
Settlement accounts with trading systems	400	1,884
Total cash and cash equivalents	**10,437**	**16,220**

8. Trading securities

	31 December 2019	*31 December 2018*
Government bonds	493	465
Corporate shares	–	5
Total trading securities	**493**	**470**
Government bonds	–	36
Total trading securities pledged under repurchase agreements	**–**	**36**

As at 31 December 2019 and 31 December 2018, trading securities were represented by the RUB-denominated Russian Federation's debt securities.

As at 31 December 2019, there were no trading securities pledged under repurchase agreements (31 December 2018: trading securities pledged under repurchase agreements were represented by the RUB-denominated Russian Federation's debt securities).

(Millions of Russian rubles)

9. Due from other banks

	31 December 2019	*31 December 2018*
Term deposits with other banks	36,600	40,724
Reverse repurchase agreements with banks	9,382	14,395
Total due from other banks	**45,982**	**55,119**
Allowance for impairment	(112)	(123)
Total due from other banks less allowance for impairment	**45,870**	**54,996**

As at 31 December 2019, term deposits with other banks included amounts of RUB 36,595 million, or 79.6% of total due from other banks, placed in one counterparty bank (31 December 2018: RUB 38,017 million, or 69.0% of total due from other banks).

As at 31 December 2019, reverse repurchase agreements with banks were represented by agreements concluded with a central counterparty (NCI NCC (JSC)) secured by corporate bonds and clearing certificate participatory notes. As at 31 December 2018, reverse repurchase agreements with banks were represented by agreements concluded with a Russian bank and the central counterparty (NCI NCC (JSC)) secured by the Russian Federation’s debt securities and clearing certificate participatory notes. As at 31 December 2019, the fair value of the corporate bonds and clearing certificate participatory notes pledged under reverse repurchase agreements with banks was RUB 9,393 million. As at 31 December 2018, the fair value of the Russian Federation’s debt securities and clearing certificate participatory notes pledged under reverse repurchase agreements with banks was RUB 15,190 million.

As at 31 December 2019 and 31 December 2018, collateral for separate reverse repurchase agreements equals or exceeds the amount of claims.

Reconciliation of gross carrying amount of due from other banks for the year ended 31 December 2019 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2019	**55,119**	**–**	**–**	**55,119**
New purchased or originated assets	40,535	–	–	**40,535**
Assets redeemed	(50,257)	–	–	**(50,257)**
Net movement in gross carrying amount	585	–	–	**585**
31 December 2019	**45,982**	**–**	**–**	**45,982**

Reconciliation of gross carrying amount of due from other banks for the year ended 31 December 2018 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2018	**24,340**	**–**	**–**	**24,340**
New purchased or originated assets	17,097	–	–	**17,097**
Assets redeemed	(18,990)	–	–	**(18,990)**
Net movement in gross carrying amount	32,672	–	–	**32,672**
31 December 2018	**55,119**	**–**	**–**	**55,119**

Movements in allowances for ECL for 2019 are presented in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance at 1 January 2019	**123**	**–**	**–**	**123**
New purchased or originated assets	54	–	–	**54**
Assets redeemed	(71)	–	–	**(71)**
Net revaluation of ECL allowance	6	–	–	**6**
31 December 2019	**112**	**–**	**–**	**112**

Movements in allowances for ECL for 2018 are presented in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance at 1 January 2018	**113**	**–**	**–**	**113**
Net revaluation of ECL allowance	10	–	–	**10**
31 December 2018	**123**	**–**	**–**	**123**

(Millions of Russian rubles)

10. Loans to customers

	31 December 2019	*31 December 2018*
Loans to legal entities		
Corporate loans	63,454	66,686
Trade financing	4,545	4,861
SME loans (legal entities)	245	49
Other loans	25	26
Total loans to legal entities	**68,269**	**71,622**
Loans to individuals		
Mortgage loans	78,651	88,203
Consumer and cash loans	1,341	786
Credit cards	526	361
SME loans (individuals)	56	109
Car loans	12	35
Total loans to individuals	**80,586**	**89,494**
Total loans to customers at amortized cost	**148,855**	**161,116**
Allowance for impairment	(24,892)	(24,513)
Total loans to customers at amortized cost, less allowance for impairment	**123,963**	**136,603**
Loans to customers at FVOCI		
Loans to individuals at FVOCI	15,097	–
Total loans to customers at FVOCI	**15,097**	**–**
Total loans to customers	**139,060**	**136,603**

Mortgage loans include loans transferred to structured entities in order to raise financing (Note 19). As at 31 December 2019, carrying amount of the transferred loans was RUB 1,796 million (31 December 2018: carrying amount of the transferred loans was RUB 4,457 million). The Bank retained substantially all the risks and rewards related to these loans.

In the first quarter of 2019, the Bank implemented a new business model to manage liquidity and interest rate risk. To achieve this goal, the Bank decided not only to hold loans to collect contractual cash flows but also to sell them. Starting from April 2019, the loans issued, which are qualified for sale, are classified as financial assets at fair value through other comprehensive income. As at 31 December 2019, the loan portfolio at FVOCI was RUB 15,097 million.

(Millions of Russian rubles)

10. Loans to customers (continued)

Reconciliation of gross carrying amount of loans to legal entities at amortized cost for 2019, with a breakdown by relevant category is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Corporate loans				
Gross carrying amount at 1 January 2019	**26,177**	**14,150**	**26,359**	**66,686**
New purchased or originated assets	26,899	–	–	**26,899**
Assets derecognized or redeemed (excluding write-offs)	(11,901)	(3,699)	(363)	**(15,963)**
Transfers to Stage 2	(2,488)	2,488	–	**–**
Transfers to Stage 3	(611)	(4,165)	4,776	**–**
Other movements in gross carrying amount	(1,727)	424	(3,173)	**(4,476)**
Sale of loans	(5,861)	(1,676)	(2,155)	**(9,692)**
31 December 2019	**30,488**	**7,522**	**25,444**	**63,454**
SME loans (legal entities)				
Gross carrying amount at 1 January 2019	**5**	**1**	**43**	**49**
New purchased or originated assets	213	–	–	**213**
Assets derecognized or redeemed (excluding write-offs)	–	–	(17)	**(17)**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	–	(2)	2	**–**
Other movements in gross carrying amount	(2)	–	2	**–**
31 December 2019	**214**	**1**	**30**	**245**
Trade financing				
Gross carrying amount at 1 January 2019	**2,449**	**89**	**2,323**	**4,861**
New purchased or originated assets	1,418	–	–	**1,418**
Assets derecognized or redeemed (excluding write-offs)	(1,345)	(88)	–	**(1,433)**
Transfers to Stage 2	(12)	12	–	**–**
Transfers to Stage 3	(773)	–	773	**–**
Other movements in gross carrying amount	(42)	–	(259)	**(301)**
31 December 2019	**1,695**	**13**	**2,837**	**4,545**
Other loans				
Gross carrying amount at 1 January 2019	**–**	**–**	**26**	**26**
Other movements in gross carrying amount	–	–	(1)	**(1)**
31 December 2019	**–**	**–**	**25**	**25**

(Millions of Russian rubles)

10. Loans to customers (continued)

Reconciliation of gross carrying amount of loans to individuals at amortized cost for 2019 with a breakdown by relevant category is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Mortgage loans				
Gross carrying amount at 1 January 2019	**78,944**	**7,124**	**2,135**	**88,203**
New purchased or originated assets	27,702	–	–	**27,702**
Assets derecognized or redeemed (excluding write-offs)	(9,450)	(831)	(236)	**(10,517)**
Transfers to Stage 1	1,607	(1,542)	(65)	**–**
Transfers to Stage 2	(7,955)	8,016	(61)	**–**
Transfers to Stage 3	(652)	(618)	1,270	**–**
Other movements in gross carrying amount	(2,034)	(419)	(89)	**(2,542)**
Amounts written off	(9)	(19)	(93)	**(121)**
Sale of loans	(22,549)	(1,162)	(363)	**(24,074)**
31 December 2019	**65,604**	**10,549**	**2,498**	**78,651**
Car loans				
Gross carrying amount at 1 January 2019	**16**	**6**	**13**	**35**
Assets derecognized or redeemed (excluding write-offs)	(14)	(3)	(1)	**(18)**
Transfers to Stage 1	1	(1)	–	**–**
Other movements in gross carrying amount	(2)	–	–	**(2)**
Amounts written off	–	–	(1)	**(1)**
Sale of loans	–	–	(2)	**(2)**
31 December 2019	**1**	**2**	**9**	**12**
Consumer and cash loans				
Gross carrying amount at 1 January 2019	**766**	**1**	**19**	**786**
New purchased or originated assets	710	–	–	**710**
Assets derecognized or redeemed (excluding write-offs)	(78)	–	–	**(78)**
Transfers to Stage 2	(3)	3	–	**–**
Transfers to Stage 3	(4)	–	4	**–**
Other movements in gross carrying amount	(62)	(1)	3	**(60)**
Sale of loans	–	–	(17)	**(17)**
31 December 2019	**1,329**	**3**	**9**	**1,341**
Credit cards				
Gross carrying amount at 1 January 2019	**90**	**6**	**265**	**361**
New purchased or originated assets	14	–	–	**14**
Assets derecognized or redeemed (excluding write-offs)	(21)	–	(2)	**(23)**
Transfers to Stage 1	1	(1)	–	**–**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	(8)	(4)	12	**–**
Other movements in gross carrying amount	(1)	–	179	**178**
Amounts written off	–	–	(3)	**(3)**
Sale of loans	–	–	(1)	**(1)**
31 December 2019	**73**	**3**	**450**	**526**
SME loans (individuals)				
Gross carrying amount at 1 January 2019	**97**	**–**	**12**	**109**
Assets derecognized or redeemed (excluding write-offs)	(30)	–	–	**(30)**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	(12)	–	12	**–**
Other movements in gross carrying amount	(25)	–	2	**(23)**
31 December 2019	**28**	**2**	**26**	**56**

(Millions of Russian rubles)

10. Loans to customers (continued)

Reconciliation of gross carrying amount of loans to individuals at FVOCI for 2019 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Loans to individuals at FVOCI				
Gross carrying amount at 1 January 2019	**–**	**–**	**–**	**–**
New purchased or originated assets	15,093	–	–	**15,093**
Transfers to Stage 2	(117)	117	–	**–**
Transfers to Stage 3	(29)	–	29	**–**
Other movements in gross carrying amount	2,420	4	–	**2,424**
Sale of loans	(2,416)	(4)	–	**(2,420)**
31 December 2019	**14,951**	**117**	**29**	**15,097**

Reconciliation of gross carrying amount of loans to legal entities at amortized cost for 2018, with a breakdown by relevant category is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Corporate loans					
Gross carrying amount at 1 January 2018	**51,338**	**21,631**	**10,465**	**–**	**83,434**
New purchased or originated assets	15,035	–	–	–	**15,035**
Assets derecognized or redeemed (excluding write-offs)	(26,267)	(4,747)	(1,123)	(615)	**(32,752)**
Transfers to Stage 1	4,032	(4,032)	–	–	**–**
Transfers to Stage 2	(10,703)	10,703	–	–	**–**
Transfers to Stage 3	(3,184)	(7,081)	10,265	–	**–**
Other movements in gross carrying amount	(4,074)	(2,324)	6,759	615	**976**
Amounts written off	–	–	(7)	–	**(7)**
31 December 2018	**26,177**	**14,150**	**26,359**	**–**	**66,686**
SME loans (legal entities)					
Gross carrying amount at 1 January 2018	**12**	**–**	**45**	**–**	**57**
New purchased or originated assets	1	–	–	–	**1**
Assets derecognized or redeemed (excluding write-offs)	(5)	–	(1)	–	**(6)**
Transfers to Stage 2	(1)	1	–	–	**–**
Transfers to Stage 3	(1)	–	1	–	**–**
Other movements in gross carrying amount	(1)	–	(2)	–	**(3)**
31 December 2018	**5**	**1**	**43**	**–**	**49**
Trade financing					
Gross carrying amount at 1 January 2018	**2,328**	**32**	**1,683**	**–**	**4,043**
New purchased or originated assets	2,538	–	–	–	**2,538**
Assets derecognized or redeemed (excluding write-offs)	(2,033)	(32)	–	–	**(2,065)**
Transfers to Stage 2	(89)	89	–	–	**–**
Transfers to Stage 3	(295)	–	295	–	**–**
Other movements in gross carrying amount	–	–	345	–	**345**
31 December 2018	**2,449**	**89**	**2,323**	**–**	**4,861**

(Millions of Russian rubles)

10. Loans to customers (continued)

Reconciliation of gross carrying amount of loans to individuals at amortized cost for 2018, with a breakdown by relevant category is as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
Mortgage loans				
Gross carrying amount at 1 January 2018	**61,163**	**6,593**	**1,656**	**69,412**
New purchased or originated assets	43,899	–	–	**43,899**
Assets derecognized or redeemed (excluding write-offs)	(18,148)	(1,406)	(139)	**(19,693)**
Transfers to Stage 1	2,167	(2,111)	(56)	**–**
Transfers to Stage 2	(4,876)	4,972	(96)	**–**
Transfers to Stage 3	(304)	(425)	729	**–**
Other movements in gross carrying amount	(4,897)	(402)	73	**(5,226)**
Amounts written off	(60)	(97)	(32)	**(189)**
31 December 2018	**78,944**	**7,124**	**2,135**	**88,203**
Car loans				
Gross carrying amount at 1 January 2018	**104**	**36**	**19**	**159**
Assets derecognized or redeemed (excluding write-offs)	(57)	(20)	(5)	**(82)**
Transfers to Stage 1	5	(5)	–	**–**
Transfers to Stage 2	(4)	6	(2)	**–**
Transfers to Stage 3	–	(4)	4	**–**
Other movements in gross carrying amount	(32)	(7)	(1)	**(40)**
Amounts written off	–	–	(2)	**(2)**
31 December 2018	**16**	**6**	**13**	**35**
Consumer and cash loans				
Gross carrying amount at 1 January 2018	**1,185**	**4**	**38**	**1,227**
New purchased or originated assets	56	–	–	**56**
Assets derecognized or redeemed (excluding write-offs)	(245)	(4)	(21)	**(270)**
Transfers to Stage 2	(3)	3	–	**–**
Transfers to Stage 3	(5)	(1)	6	**–**
Other movements in gross carrying amount	(222)	(1)	(1)	**(224)**
Amounts written off	–	–	(3)	**(3)**
31 December 2018	**766**	**1**	**19**	**786**
Credit cards				
Gross carrying amount at 1 January 2018	**145**	**1**	**232**	**378**
New purchased or originated assets	23	–	–	**23**
Assets derecognized or redeemed (excluding write-offs)	(28)	–	(5)	**(33)**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	(28)	(1)	29	**–**
Other movements in gross carrying amount	(20)	4	13	**(3)**
Amounts written off	–	–	(4)	**(4)**
31 December 2018	**90**	**6**	**265**	**361**
SME loans (individuals)				
Gross carrying amount at 1 January 2018	**151**	**–**	**14**	**165**
Assets derecognized or redeemed (excluding write-offs)	(21)	–	–	**(21)**
Transfers to Stage 1	2	–	(2)	**–**
Other movements in gross carrying amount	(35)	–	–	**(35)**
31 December 2018	**97**	**–**	**12**	**109**

(Millions of Russian rubles)

10. Loans to customers (continued)

The analysis of movements in allowances for ECL on loans to legal entities at amortized cost for 2019 with a breakdown by respective category is presented in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Corporate loans				
ECL allowance at 1 January 2019	**322**	**902**	**18,461**	**19,685**
New purchased or originated assets	521	–	–	**521**
Assets derecognized or redeemed (excluding write-offs)	(86)	(48)	(348)	**(482)**
Transfers to Stage 2	(197)	197	–	**–**
Transfers to Stage 3	(90)	(27)	117	**–**
Net revaluation of ECL allowance	(77)	114	1,278	**1,315**
Unwinding of discount (recorded in interest income)	–	–	1,512	**1,512**
Sale of loans	(95)	(549)	(1,828)	**(2,472)**
31 December 2019	**298**	**589**	**19,192**	**20,079**
SME loans (legal entities)				
ECL allowance at 1 January 2019	**–**	**–**	**43**	**43**
New purchased or originated assets	4	–	–	**4**
Assets derecognized or redeemed (excluding write-offs)	–	–	(17)	**(17)**
Net revaluation of ECL allowance	–	–	1	**1**
Unwinding of discount (recorded in interest income)	–	–	2	**2**
31 December 2019	**4**	**–**	**29**	**33**
Trade financing				
ECL allowance at 1 January 2019	**5**	**–**	**2,323**	**2,328**
New purchased or originated assets	4	–	–	**4**
Assets derecognized or redeemed (excluding write-offs)	(3)	–	–	**(3)**
Transfers to Stage 3	(1)	–	1	**–**
Net revaluation of ECL allowance	–	–	(146)	**(146)**
Unwinding of discount (recorded in interest income)	–	–	1	**1**
31 December 2019	**5**	**–**	**2,179**	**2,184**
Other loans				
ECL allowance at 1 January 2019	**–**	**–**	**26**	**26**
Net revaluation of ECL allowance	–	–	(1)	**(1)**
31 December 2019	**–**	**–**	**25**	**25**

(Millions of Russian rubles)

10. Loans to customers (continued)

The analysis of movements in allowances for ECL on loans to individuals at amortized cost for 2019 with a breakdown by respective category is presented in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Mortgage loans				
ECL allowance at 1 January 2019	**154**	**561**	**1,339**	**2,054**
New purchased or originated assets	165	–	–	**165**
Assets derecognized or redeemed (excluding write-offs)	(25)	(97)	(201)	**(323)**
Transfers to Stage 1	146	(119)	(27)	**–**
Transfers to Stage 2	(66)	93	(27)	**–**
Transfers to Stage 3	(60)	(53)	113	**–**
Net revaluation of ECL allowance	(95)	221	321	**447**
Unwinding of discount (recorded in interest income)	–	–	93	**93**
Amounts written off	(1)	(16)	(91)	**(108)**
Sale of loans	(112)	(48)	(200)	**(360)**
31 December 2019	**106**	**542**	**1,320**	**1,968**
Car loans				
ECL allowance at 1 January 2019	**–**	**–**	**12**	**12**
Assets derecognized or redeemed (excluding write-offs)	–	–	(1)	**(1)**
Net revaluation of ECL allowance	–	–	(1)	**(1)**
Unwinding of discount (recorded in interest income)	–	–	1	**1**
Amounts written off	–	–	(1)	**(1)**
Sale of loans	–	–	(1)	**(1)**
31 December 2019	**–**	**–**	**9**	**9**
Consumer and cash loans				
ECL allowance at 1 January 2019	**54**	**–**	**18**	**72**
New purchased or originated assets	54	–	–	**54**
Assets derecognized or redeemed (excluding write-offs)	(1)	–	(1)	**(2)**
Transfers to Stage 1	1	–	(1)	**–**
Net revaluation of ECL allowance	(4)	1	4	**1**
Unwinding of discount (recorded in interest income)	–	–	3	**3**
Amounts written off	–	–	(1)	**(1)**
Sale of loans	–	–	(16)	**(16)**
31 December 2019	**104**	**1**	**6**	**111**
Credit cards				
ECL allowance at 1 January 2019	**3**	**5**	**266**	**274**
New purchased or originated assets	5	–	–	**5**
Assets derecognized or redeemed (excluding write-offs)	–	–	(5)	**(5)**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(4)	(3)	7	**–**
Net revaluation of ECL allowance	–	1	–	**1**
Unwinding of discount (recorded in interest income)	–	–	185	**185**
Amounts written off	–	–	(3)	**(3)**
Sale of loans	–	–	(1)	**(1)**
31 December 2019	**3**	**4**	**449**	**456**
SME loans (individuals)				
ECL allowance at 1 January 2019	**7**	**–**	**12**	**19**
Assets derecognized or redeemed (excluding write-offs)	(3)	–	–	**(3)**
Transfers to Stage 3	(1)	–	1	**–**
Net revaluation of ECL allowance	(2)	–	10	**8**
Unwinding of discount (recorded in interest income)	–	–	3	**3**
31 December 2019	**1**	**–**	**26**	**27**

(Millions of Russian rubles)

10. Loans to customers (continued)

The analysis of movements in allowances for ECL on loans to individuals at FVOCI for 2019 is presented in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Loans to individuals at FVOCI				
ECL allowance at 1 January 2019	**–**	**–**	**–**	**–**
New purchased or originated assets	46	–	–	**46**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	(12)	–	12	**–**
Net revaluation of ECL allowance	5	–	–	**5**
Sale of loans	(5)	–	–	**(5)**
31 December 2019	**32**	**2**	**12**	**46**

The analysis of movements in allowances for ECL on loans to legal entities at amortized cost for 2018 with a breakdown by respective category is presented in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Corporate loans					
ECL allowance at 1 January 2018	**921**	**2,660**	**6,177**	**–**	**9,758**
New purchased or originated assets	1,727	–	–	–	**1,727**
Assets derecognized or redeemed (excluding write-offs)	342	304	(3)	–	**643**
Transfers to Stage 1	1,302	(1,302)	–	–	**–**
Transfers to Stage 2	(846)	846	–	–	**–**
Transfers to Stage 3	(1,016)	(1,572)	2,588	–	**–**
Net revaluation of ECL allowance	(1,324)	(19)	7,855	–	**6,512**
Transfer from investment securities	–	–	2,793	–	**2,793**
Unwinding of discount (recorded in interest income)	–	–	(329)	–	**(329)**
Sale of loans	(784)	(15)	(620)	–	**(1,419)**
31 December 2018	**322**	**902**	**18,461**	**–**	**19,685**
SME loans (legal entities)					
ECL allowance at 1 January 2018	**–**	**–**	**45**	**–**	**45**
Assets derecognized or redeemed (excluding write-offs)	–	–	(1)	–	**(1)**
Net revaluation of ECL allowance	–	–	(1)	–	**(1)**
31 December 2018	**–**	**–**	**43**	**–**	**43**
Trade financing					
ECL allowance at 1 January 2018	**6**	**–**	**1,683**	**–**	**1,689**
New purchased or originated assets	5	–	–	–	**5**
Assets derecognized or redeemed (excluding write-offs)	(5)	–	–	–	**(5)**
Transfers to Stage 3	(1)	–	1	–	**–**
Net revaluation of ECL allowance	–	–	639	–	**639**
31 December 2018	**5**	**–**	**2,323**	**–**	**2,328**

(Millions of Russian rubles)

10. Loans to customers (continued)

The analysis of movements in allowances for ECL on loans to individuals at amortized cost for 2018 with a breakdown by respective category is presented in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Mortgage loans				
ECL allowance at 1 January 2018	**113**	**546**	**1,059**	**1,718**
New purchased or originated assets	220	–	–	**220**
Assets derecognized or redeemed (excluding write-offs)	(18)	(100)	(52)	**(170)**
Transfers to Stage 1	196	(159)	(37)	**–**
Transfers to Stage 2	(90)	146	(56)	**–**
Transfers to Stage 3	(39)	(35)	74	**–**
Net revaluation of ECL allowance	(211)	224	408	**421**
Unwinding of discount (recorded in interest income)	–	–	(5)	**(5)**
Amounts written off	(17)	(56)	(25)	**(98)**
Sale of loans	–	(5)	(27)	**(32)**
31 December 2018	**154**	**561**	**1,339**	**2,054**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance at 1 January 2018	**–**	**6**	**18**	**24**
Assets derecognized or redeemed (excluding write-offs)	–	(3)	(4)	**(7)**
Transfers to Stage 1	1	(1)	–	**–**
Transfers to Stage 2	–	2	(2)	**–**
Transfers to Stage 3	–	(1)	1	**–**
Net revaluation of ECL allowance	(1)	(3)	1	**(3)**
Amounts written off	–	–	(2)	**(2)**
31 December 2018	**–**	**–**	**12**	**12**
Consumer and cash loans				
ECL allowance at 1 January 2018	**45**	**3**	**38**	**86**
New purchased or originated assets	2	–	–	**2**
Assets derecognized or redeemed (excluding write-offs)	(6)	–	(2)	**(8)**
Transfers to Stage 3	(1)	(1)	2	**–**
Net revaluation of ECL allowance	14	1	3	**18**
Amounts written off	–	–	(3)	**(3)**
Sale of loans	–	(3)	(20)	**(23)**
31 December 2018	**54**	**–**	**18**	**72**
Credit cards				
ECL allowance at 1 January 2018	**6**	**1**	**232**	**239**
New purchased or originated assets	6	–	–	**6**
Assets derecognized or redeemed (excluding write-offs)	(1)	–	(4)	**(5)**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(6)	(1)	7	**–**
Net revaluation of ECL allowance	(1)	4	36	**39**
Amounts written off	–	–	(4)	**(4)**
Sale of loans	–	–	(1)	**(1)**
31 December 2018	**3**	**5**	**266**	**274**
SME loans (individuals)				
ECL allowance at 1 January 2018	**4**	**–**	**14**	**18**
Assets derecognized or redeemed (excluding write-offs)	(1)	–	–	**(1)**
Transfers to Stage 1	2	–	(2)	**–**
Net revaluation of ECL allowance	2	–	–	**2**
31 December 2018	**7**	**–**	**12**	**19**

As at 31 December 2019, the Bank had a concentration of loans represented by RUB 27,907 million, or 17.0% of gross loan portfolio, due from the ten largest third-party borrowers (31 December 2018: RUB 29,426 million, or 18.3% of gross loan portfolio). An allowance of RUB 7,218 million (31 December 2018: RUB 8,659 million) was recognized against these loans.

(Millions of Russian rubles)

10. Loans to customers (continued)

Loans are made principally within Russia in the following industry sectors:

	31 December 2019	*31 December 2018*
Individuals	95,683	89,494
Manufacturing	22,289	20,882
Finance	13,204	13,627
Trade	11,857	10,948
Construction	10,102	15,589
Services	7,431	7,098
Real estate	2,182	2,113
Agriculture	263	295
Other	941	1,070
Total loans to customers	**163,952**	**161,116**

Modified and restructured loans

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the changes in cash flows discounted at the original effective interest rate, the Bank recognizes a gain or loss from modification before an impairment loss is recognized.

During the reporting period, there were neither significant loans that were renegotiated and, as a result, recognized as restructured loans, nor respective losses incurred by the Bank due to the modification were recorded.

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory and receivables;
- For retail lending, mortgages over residential properties and chargers over motor vehicles.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for impairment losses. If loans included in Stage 3 were not secured, the allowance for ECL equaled the gross carrying amount of these loans.

11. Investment securities

	31 December 2019	*31 December 2018*
Debt securities at FVOCI		
Government bonds	13,897	7,454
Corporate bonds	5,970	7,159
Debt securities at FVOCI	**19,867**	**14,613**
Debt securities at FVOCI pledged under repurchase agreements		
Government bonds	–	10,575
Debt securities at FVOCI pledged under repurchase agreements	**–**	**10,575**
Debt securities at amortized cost		
Corporate bonds	3,114	2,787
Less – allowance for impairment	(3,114)	(2,787)
Debt securities at amortized cost	**–**	**–**

(Millions of Russian rubles)

11. Investment securities (continued)

Reconciliation of gross carrying amount of investment securities for the year ended 31 December 2019 is as follows:

Debt securities at amortized cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2019	**–**	**–**	**2,787**	**2,787**
Net movement in gross carrying amount	–	–	327	**327**
31 December 2019	**–**	**–**	**3,114**	**3,114**

Debt securities at FVOCI	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2019	**25,186**	**–**	**2**	**25,188**
New purchased or originated assets	15,438	–	–	**15,438**
Assets redeemed	(17)	–	–	**(17)**
Assets sold	(14,171)	–	–	**(14,171)**
Transfers to Stage 3	–	–	–	**–**
Net movement in gross carrying amount	(6,569)	–	(2)	**(6,571)**
31 December 2019	**19,867**	**–**	**–**	**19,867**

Reconciliation of gross carrying amount of investment securities for the year ended 31 December 2018 is as follows:

Debt securities at amortized cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2018	**–**	**8,147**	**–**	**–**	**8,147**
New purchased or originated assets	–	–	–	615	**615**
Transfers to Stage 3	–	(8,147)	8,147	–	**–**
Net movement in gross carrying amount	–	–	(5,360)	(615)	**(5,975)**
31 December 2018	**–**	**–**	**2,787**	**–**	**2,787**

Debt securities at FVOCI	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2018	**54,159**	**–**	**–**	**54,159**
New purchased or originated assets	106,603	–	–	**106,603**
Assets redeemed	(1,653)	–	–	**(1,653)**
Assets sold	(131,238)	–	–	**(131,238)**
Transfers to Stage 3	(2)	–	2	**–**
Net movement in gross carrying amount	(2,683)	–	–	**(2,683)**
31 December 2018	**25,186**	**–**	**2**	**25,188**

The analysis of movements in allowances for ECL on investment securities for 2019 is as follows:

Debt securities at amortized cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance at 1 January 2019	**–**	**–**	**2,787**	**2,787**
Unwinding of discount	–	–	327	**327**
31 December 2019	**–**	**–**	**3,114**	**3,114**

Debt securities at FVOCI	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance at 1 January 2019	**51**	**–**	**2**	**53**
New purchased or originated assets	42	–	–	**42**
Assets sold	(23)	–	–	**(23)**
Net revaluation of ECL allowance	(30)	–	(2)	**(32)**
31 December 2019	**40**	**–**	**–**	**40**

(Millions of Russian rubles)

11. Investment securities (continued)

The analysis of movements in allowances for ECL on investment securities for 2018 is as follows:

Debt securities at amortized cost	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL allowance at 1 January 2018	**–**	**5,196**	**–**	**–**	**5,196**
Transfers to Stage 3	–	(5,196)	5,196	–	**–**
Transfer to loans to customers	–	–	(2,793)	–	**(2,793)**
Net revaluation of ECL allowance	–	–	384	–	**384**
31 December 2018	**–**	**–**	**2,787**	**–**	**2,787**

Debt securities at FVOCI	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance at 1 January 2018	**1,176**	**–**	**–**	**1,176**
New purchased or originated assets	986	–	–	**986**
Assets redeemed	(2)	–	–	**(2)**
Assets sold	(1,762)	–	–	**(1,762)**
Transfers to Stage 3	(2)	–	2	**–**
Net revaluation of ECL allowance	(345)	–	–	**(345)**
31 December 2018	**51**	**–**	**2**	**53**

As at 31 December 2019, corporate bonds were represented by RUB and USD denominated securities issued by top Russian companies (31 December 2018: corporate bonds were represented by RUB and USD denominated securities issued by top Russian and foreign companies).

As at 31 December 2019, the value of bonds of the largest issuer within debt securities at FVOCI was RUB 3,738 million, or 19% of the total value of debt securities at FVOCI (31 December 2018: RUB 7,454 million, or 51%).

As at 31 December 2018, the value of bonds of the largest issuer within debt securities at FVOCI pledged under repurchase agreements was RUB 10,575 million, or 100% of the total value of debt securities at FVOCI pledged under repurchase agreements.

12. Investments in subsidiaries

Investments in subsidiaries are recognized in these separate financial statements at cost. Analysis of investments in subsidiaries is provided below:

Name	*31 December 2019, share, %*	*31 December 2018, share, %*	*Country of operation*	*Type of operation*	*31 December 2019*	*31 December 2018*
LLC Absolut Leasing	100.00	100.00	Russian Federation	Finance lease	300	300
Closed-end Unit Investment Fund Promising Investments Fund	–	100.00	Russian Federation	Closed-end unit fund for venture investments	–	680
Closed-end Unit Investment Fund Yakor	100.00	100.00	Russian Federation	Closed-end Real Estate Unit Investment Fund	3,074	3,074
Closed-end Real Estate Unit Investment Fund Genesis	100.00	100.00	Russian Federation	Closed-end Real Estate Unit Investment Fund	1,099	2,159
Closed-end Unit Investment Fund RVM Novorizhskiy-Development	100.00	100.00	Russian Federation	Closed-end Real Estate Unit Investment Fund	2,015	2,015
Closed-end Unit Combined Investment Fund RVM Novosaratovka-Development	100.00	41.68	Russian Federation	Closed-end Real Estate Unit Investment Fund	504	–
Closed-end Unit Combined Investment Fund TFG-Stabilniy	100.00	–	Russian Federation	Closed-end Real Estate Unit Investment Fund	2,646	–
LLC Absolut Factoring	100.00	–	Russian Federation	Factoring	300	–
Ashenvale Aviation Limited	100.00	–	The Isle of Man	Leases	–	–
PJSC Baltic Investment Bank (Baltinvestbank)	100.00	100.00	Russian Federation	Corporate and retail banking	995	10
Total investments in subsidiaries					**10,933**	**8,238**
Allowance for impairment					(3,906)	(2,229)
Total investments in subsidiaries less allowance for impairment					**7,027**	**6,009**

As at 31 December 2019, investments in Ashenvale Aviation Limited amounted to RUB 165 thousand.

(Millions of Russian rubles)

12. Investments in subsidiaries (continued)

Movements in the allowance for impairment were as follows:

	Allowance for investments in subsidiaries
31 December 2017	**2,635**
Reversal	(406)
31 December 2018	**2,229**
Decrease in investments in subsidiaries	(648)
Charge	2,325
31 December 2019	**3,906**

Mortgage agents

CJSC IA Absolut 1 and CJSC IA Absolut 2 are structured companies established in 2013 for mortgage loans securitization. LLC IA Absolut 3 and LLC IA Absolut 4 are structured companies established in 2014 and 2015, respectively, for mortgage loans securitization. LLC IA Absolut 5 is a structured company established in 2017 for mortgage loans securitization.

Name	*31 December 2019, share, %*	*31 December 2018, share, %*	*Country of operation*	*Type of operation*
CJSC IA Absolut 1	0.00	0.00	Russian Federation	Mortgage agent
CJSC IA Absolut 2	0.00	0.00	Russian Federation	Mortgage agent
LLC IA Absolut 3	0.00	0.00	Russian Federation	Mortgage agent
LLC IA Absolut 4	0.00	0.00	Russian Federation	Mortgage agent
LLC IA Absolut 5	0.00	0.00	Russian Federation	Mortgage agent

Baltinvestbank

On 22 December 2015, DIA selected Absolut Bank (PAO) from among potential investors to perform financial stabilization of Baltinvestbank. As at 31 December 2019, negative net assets of the subsidiary bank amounted to RUB 25,195 million. Financial rehabilitation plan is currently in the process of negotiating with the CBR. Baltinvestbank was established on 11 October 1994 as an Open Joint-stock Company Commercial Bank BALTONEKSIM BANK. On 16 January 2003, by the shareholders' decision it was renamed as Open Joint-stock Company Baltinvestbank. Starting from March 2005, the bank participates in the state deposit insurance system. The registered address of the bank is: Russian Federation 197101, St. Petersburg, Divenskaya street, 1A. The bank's principal business activity is commercial and retail banking operations within the Russian Federation.

(Millions of Russian rubles)

13. Investment property

As at 31 December 2019, investment property comprised land plots and buildings with the carrying amount of RUB 1,263 million (31 December 2018: RUB 1,287 million). As at 31 December 2019, the fair value of the items of investment property was RUB 1,409 million (31 December 2018: RUB 1,424 million).

Movements in investment property are as follows:

	2019	*2018*
Cost		
1 January	**1,512**	**760**
Additions	–	3
Reclassified from another category	–	773
Disposals	–	(24)
31 December	**1,512**	**1,512**
Accumulated depreciation		
1 January	**225**	**208**
Depreciation charge (Note 27)	24	23
Disposals	–	(6)
31 December	**249**	**225**
Accumulated impairment		
1 January	**–**	**3**
Reversal of impairment	–	(3)
31 December	**–**	**–**
Carrying amount		
1 January	**1,287**	**549**
31 December	**1,263**	**1,287**

The Bank has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties, or for repairs, maintenance and enhancements. Rental income received from investment property for the year ended 31 December 2019 amounted to RUB 27 million (2018: RUB 29 million).

14. Property and equipment and intangible assets

Movements in property and equipment for the year ended 31 December 2019 were as follows:

	Buildings	*Leasehold improvements*	*Computers and office equipment*	*Motor vehicles*	*Right-of-use asset*	*Total property and equipment and right-of-use assets*	*Intangible assets*
Cost							
31 December 2018	**2,084**	**87**	**1,321**	**86**	**–**	**3,578**	**1,654**
Additions	–	7	36	–	35	**78**	242
Effect of transition to IFRS 16	–	–	–	–	973	**973**	–
Modification and reassessment of lease liabilities	–	–	–	–	1,277	**1,277**	–
Disposals	–	(2)	(184)	(11)	(28)	**(225)**	–
31 December 2019	**2,084**	**92**	**1,173**	**75**	**2,257**	**5,681**	**1,896**
Accumulated depreciation and amortization							
31 December 2018	**616**	**41**	**1,081**	**36**	**–**	**1,774**	**1,281**
Depreciation and amortization charge (Note 27)	55	14	66	6	330	**471**	228
Disposals	–	(2)	(184)	(8)	(5)	**(199)**	–
31 December 2019	**671**	**53**	**963**	**34**	**325**	**2,046**	**1,509**
Carrying amount							
31 December 2018	**1,468**	**46**	**240**	**50**	**–**	**1,804**	**373**
31 December 2019	**1,413**	**39**	**210**	**41**	**1,932**	**3,635**	**387**

(Millions of Russian rubles)

14. Property and equipment and intangible assets (continued)

Movements in property and equipment for the year ended 31 December 2018 were as follows:

	Buildings	*Leasehold improvements*	*Computers and office equipment*	*Motor vehicles*	*Total property and equipment*	*Intangible assets*
Cost						
31 December 2017	**2,202**	**92**	**1,333**	**94**	**3,721**	**1,459**
Additions	–	10	83	**8**	**101**	195
Reclassified	(86)	–	–	–	**(86)**	–
Disposals	(32)	(15)	(95)	**(16)**	**(158)**	–
31 December 2018	**2,084**	**87**	**1,321**	**86**	**3,578**	**1,654**
Accumulated depreciation and amortization						
31 December 2017	**584**	**38**	**1,103**	**41**	**1,766**	**1,079**
Depreciation and amortization charge (Note 27)	57	13	69	**7**	**146**	202
Disposals	(25)	(10)	(91)	**(12)**	**(138)**	–
31 December 2018	**616**	**41**	**1,081**	**36**	**1,774**	**1,281**
Carrying amount						
31 December 2017	**1,618**	**54**	**230**	**53**	**1,955**	**380**
31 December 2018	**1,468**	**46**	**240**	**50**	**1,804**	**373**

As at 31 December 2019, property and equipment and intangible assets include fully depreciated and amortized assets in the amount of RUB 1,649 million (31 December 2018: RUB 2,352 million).

15. Other assets

	31 December 2019	*31 December 2018*
Other financial assets		
Settlements under broker and other transactions	2,100	2,537
Derivative financial assets	86	261
Variable margin	44	–
Restricted cash	34	34
Investments in associates	–	154
Allowance for impairment of other financial assets	(349)	(468)
Total other financial assets	**1,915**	**2,518**
Other non-financial assets		
Assets foreclosed as collateral	328	211
Accrued income	126	29
Prepayments	69	92
Prepaid income tax	63	49
Prepaid taxes other than income tax	12	122
Precious coins	6	6
Petty cash settlements	1	3
Allowance for impairment of other non-financial assets	(194)	(26)
Total other non-financial assets	**411**	**486**

In December 2018, as a result of debt settlement, the Bank acquired 41.7% in Closed-end Unit Investment Fund RVM Novosaratovka-Development. The Bank has a significant influence on this investee and recognizes it as an investment in an associate at equity method. In January 2019, the Bank increased its share in Closed-end Unit Investment Fund RVM Novosaratovka-Development to 100%.

The analysis of movements in allowances for ECL on other financial assets for 2019 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance at 1 January 2019	**410**	**–**	**58**	**468**
Transfers to Stage 3	(13)	–	13	**–**
Net revaluation of ECL allowance	(91)	–	(28)	**(119)**
31 December 2019	**306**	**–**	**43**	**349**

(Millions of Russian rubles)

15. Other assets (continued)

The analysis of movements in allowances for ECL on other financial assets for 2018 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance at 1 January 2018	**47**	**–**	**59**	**106**
Transfers to Stage 3	(14)	–	14	**–**
Net revaluation of ECL allowance	377	–	(15)	**362**
31 December 2018	**410**	**–**	**58**	**468**

Movements in allowances for impairment of other non-financial assets for 2019 were as follows:

	Other non-financial assets
31 December 2018	**26**
Charge	168
31 December 2019	**194**

Movements in allowances for impairment of other non-financial assets for 2018 were as follows:

	Other non-financial assets
31 December 2017	**32**
Reversal	(6)
31 December 2018	**26**

The table below shows the fair values of derivative financial instruments, recorded in the separate financial statements as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

As at 31 December 2019 and 31 December 2018, the Bank had positions in the following types of derivatives:

	31 December 2019			*31 December 2018*		
	Notional principal	*Fair value Asset*	*Fair value Liability*	*Notional principal*	*Fair value Asset*	*Fair value Liability*
Foreign exchange contracts						
Swaps – domestic counterparty	23,537	71	(51)	16,116	261	(2)
Forwards – domestic counterparty	831	15	–	10,904	–	(80)
Total derivative assets/liabilities		**86**	**(51)**		**261**	**(82)**

Domestic counterparties in the table above mean Russian entities.

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

16. Due to other banks

	31 December 2019	*31 December 2018*
Term deposits and loans	1,500	1,109
Current accounts and overnight placements of other banks	86	246
Total due to other banks	**1,586**	**1,355**

(Millions of Russian rubles)

17. Customer accounts

	31 December 2019	*31 December 2018*
State and public organizations		
Current accounts	220	343
Term deposits	9,425	8,839
Total state and public organizations	**9,645**	**9,182**
Legal entities		
Current accounts	16,849	14,658
Term deposits	46,339	56,862
Repurchase agreements	–	15,103
Total legal entities	**63,188**	**86,623**
Individuals		
Current accounts	4,386	4,687
Term deposits	112,274	104,860
Total individuals	**116,660**	**109,547**
Total customer accounts	**189,493**	**205,352**

As at 31 December 2019, customer accounts of RUB 27,384 million, or 14.5% of total customer accounts, were due to the ten largest third-party customers (31 December 2018: RUB 50,485 million, or 24.6%).

An analysis of customer accounts by economic sector is as follows:

	31 December 2019	*31 December 2018*
Individuals	116,660	109,547
Construction / real estate	12,141	8,952
Trade	11,597	15,644
Insurance	8,029	14,023
Finance	7,793	24,421
DIA	5,442	4,856
State and public organizations	4,284	4,353
Oil and gas	3,933	408
Manufacturing	3,768	4,424
Services	2,655	1,791
Transport	2,029	8,733
Telecom	1,308	181
Agriculture	300	415
Other	9,554	7,604
Total customer accounts	**189,493**	**205,352**

As at 31 December 2019, included in term deposits are term deposits of individuals in the amount of RUB 112,274 million (31 December 2018: RUB 104,860 million). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

In December 2015, the Bank received RUB 11,000 million from DIA at the annual interest rate of 0.51% for the period of 10 years. The funds were provided for the purpose of financial stabilization of Baltinvestbank. The funds received from DIA were transferred to Baltinvestbank in the form of a loan on similar terms as the transaction with DIA. The Bank recognized the attracted funds at fair value of RUB 3,475 million as at the date of their receipt. As at 31 December 2019, the carrying amount of the received funds amounted to RUB 5,442 million (31 December 2018: RUB 4,856 million).

In December 2015, DIA provided Baltinvestbank with RUB 10,900 million at 0.51% p.a. for the period of 10 years, as well as RUB 9,000 million and RUB 1,400 million at 6.01% p.a. for 2 and 6 years, respectively. The funds were provided for the purpose of financial stabilization of Baltinvestbank. In December 2017, the loan for RUB 9,000 million received from DIA was repaid.

In accordance with the agreements, loans received by the Bank and Baltinvestbank from DIA in the amount of RUB 23,300 million (31 December 2018: RUB 23,300 million) were secured by the pledged assets of the Bank with the carrying amount of RUB 15,700 million as at 31 December 2019 (31 December 2018: RUB 23,614 million).

(Millions of Russian rubles)

17. Customer accounts (continued)

As at 31 December 2019, there were no securities pledged under repurchase agreements. As at 31 December 2018, securities pledged under repurchase agreements included bonds with the fair value of RUB 15,921 million (Note 32).

As at 31 December 2019, customer accounts included deposits of RUB 2,167 million representing collateral under import letters of credit (31 December 2018: RUB 1,722 million).

18. Debt securities issued

	31 December 2019	*31 December 2018*
Subordinated bonds	5,128	5,125
Promissory notes	1,411	1,693
Total debt securities issued	**6,539**	**6,818**

Bonds issued comprised:

Currency	*Date of issue*	*Maturity date*	*Nominal value*	*Effective interest rate at 31 December 2019*	*Carrying amount 31 December 2019*	*Carrying amount 31 December 2018*
Subordinated bonds						
RUB	April 2016	October 2021	5,000	15.1%	5,128	5,125
Total bonds issued					**5,128**	**5,125**

Promissory notes are represented by debt securities issued by the Bank in Russian rubles and foreign currencies with a discount to nominal value or payment of interest upon bill presentation.

19. Other liabilities

	31 December 2019	*31 December 2018*
Other financial liabilities		
Lease liabilities	1,957	–
Liabilities under loans securitization	1,569	3,902
Accounts payable	419	262
Derivative financial liabilities (Note 15)	51	82
Fees and commission payable for participation in the state program for the additional capitalization of banks	12	12
Liability to return securities received under reverse repurchase agreements	–	6,508
Settlements on currency conversion operations	–	297
Total other financial liabilities	**4,008**	**11,063**
Other non-financial liabilities		
Provisions for guarantees and commitments (Note 21)	445	350
Other accrued expenses	208	171
Accrued bonuses and unused vacation provision including social security costs	176	384
Taxes payable other than income tax	130	112
Payables to employees	130	14
Provision for legal claims	101	9
Deferred income	3	60
Income tax payable	2	23
Total other non-financial liabilities	**1,195**	**1,123**

(Millions of Russian rubles)

19. Other liabilities (continued)

Movements in provisions were as follows:

	Legal claims
31 December 2017	**12**
Utilization	(9)
Charge (Note 28)	6
31 December 2018	**9**
Utilization	(1)
Charge (Note 28)	93
31 December 2019	**101**

The analysis of movements in the provision for ECL on guarantees and commitments for 2019 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL provision at 1 January 2019	**244**	**62**	**44**	**350**
Net revaluation of ECL provision	(67)	(24)	186	**95**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	(1)	–	1	**–**
31 December 2019	**174**	**40**	**231**	**445**

The analysis of movements in the provision for ECL on guarantees and commitments for 2018 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL provision at 1 January 2018	**773**	**273**	**6**	**1,052**
Net revaluation of ECL provision	(536)	(192)	26	**(702)**
Transfers to Stage 1	13	(13)	–	**–**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	(4)	(8)	12	**–**
31 December 2018	**244**	**62**	**44**	**350**

Movements in the provision for legal claims are included in the line Net (charge)/reversal of other provisions in the separate statement of profit or loss. Movements in the provision for guarantees and commitments are included in the line Net (charge)/reversal of provision for losses from credit-related commitments in the separate statement of profit or loss.

20. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares in issue (in millions)	*Ordinary shares (nominal value)*	*Ordinary shares (inflation adjustment)*	*Total*	*Share premium*
31 December 2017	**541.7**	**5,417**	**610**	**6,027**	**24,466**
Share issue	173.2	1,731	**–**	**1,731**	4,269
31 December 2018	**714.9**	**7,148**	**610**	**7,758**	**28,735**
Share issue	224.4	2,244	**–**	**2,244**	3,756
31 December 2019	**939.3**	**9,392**	**610**	**10,002**	**32,491**

All ordinary shares have a nominal value of RUB 10 per share and rank equally. Each share carries one vote. All shares have been fully paid in.

Share premium represents the excess of contributions received over the nominal value of shares issued.

(Millions of Russian rubles)

20. Equity (continued)

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL.

In April 2019, additional 224,382,946 ordinary shares were issued with a nominal value of RUB 10 and an actual value of RUB 26.74 each.

In July 2018, additional 173,110,214 ordinary shares were issued with a nominal value of RUB 10 and an actual value of RUB 34.66 each.

21. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Russian economy is affected by dropping oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remain high. The combination of the above resulted in reduced access to capital, a higher cost of capital, and increased uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. The Bank's management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal

In the ordinary course of business, the Bank 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 of the Bank.

As at 31 December 2019, the Bank was engaged in a number of litigation proceedings. Provision of RUB 101 million (31 December 2018: RUB 9 million) has been made as it is likely that such an amount of loss will occur (Note 19).

Taxation

A significant part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Also, the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As Russian tax administration is gradually becoming more tough, and tax legislation were amended to prohibit reduction of tax base as a result of distortion of facts with regard to business operations and taxable activities; due to operations with a primary objective of non-payment or underpayment of taxes; or when the obligation assumed in the transaction was performed by a person that is a party to the contract with the taxpayer and/or by a person to whom the obligation in the transaction was not assigned under contract or by law. As there is no well-established practice for applying the above provisions and due to the latest trends in law enforcement practices, there is uncertainty regarding possible interpretation by the Russian tax authorities of the Bank's operations in the context of challenging economic justification of certain types of transactions and operations (and, consequently, income received and losses incurred on such transactions), sufficiency of documentation and the existence of business purpose for these transactions and operations. It is not possible to determine the amounts of potential claims or assess the probability of an unfavorable outcome.

The Russian transfer pricing legislation allows the Russian tax authorities to adjust tax base and impose additional income tax and value added tax liabilities, as well as fines and penalties, in respect of controlled transactions if the transaction price differs from the market price and unless the Bank is able to demonstrate the use of market prices with respect to the controlled transactions. Management believes that the Bank fully complies with transfer pricing rules, and the prices in controlled transactions are consistent with market prices.

As at 31 December 2019, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained. Moreover, management believes that the Bank has accrued and paid all applicable taxes to the budget.

(Millions of Russian rubles)

21. Commitments and contingencies (continued)

Capital expenditure commitments

As at 31 December 2019 and 2018, the Bank had no contractual capital expenditure commitments in respect of property and equipment and investment property.

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancelable operating leases are as follows:

	31 December 2019	*31 December 2018*
Less than 1 year	3	421
From 1 to 5 years	–	686
Total operating lease commitments	**3**	**1,107**

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank 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 Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit-related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit-related commitments are as follows:

	31 December 2019	*31 December 2018*
Guarantees issued	72,830	61,816
Undrawn credit lines	2,537	14,928
Import letters of credit	292	528
Unused limits on guarantee issuance	200	70
Total credit-related commitments	**75,859**	**77,342**

Guarantees issued represent irrevocable commitments of the Bank to make payments in the event the customer cannot meet its obligations to third parties. Guarantee portfolio is represented by financial guarantees and performance guarantees.

As at 31 December 2019, there were no irrevocable undrawn credit lines (31 December 2018: RUB 3,000 million).

Based on management's assessment of the probability of losses on credit-related commitments, a provision of RUB 445 million was created as at 31 December 2019 (31 December 2018: RUB 350 million). Refer to Note 19.

(Millions of Russian rubles)

22. Interest income and expense

	2019	*2018*
Interest income		
Financial assets at amortized cost		
Loans to customers	13,655	16,757
Due from other banks	4,408	3,321
Current accounts with other banks	7	6
Investment securities	–	762
	18,070	**20,846**
Financial assets at FVOCI		
Investment securities	1,751	2,427
Loans to customers	769	–
	2,520	**2,427**
Total interest income calculated using the effective interest rate	**20,590**	**23,273**
Other interest income		
Financial assets at FVPL	36	37
Total interest income	**20,626**	**23,310**
Interest expense		
Term deposits of individuals	6,329	5,921
Term deposits of legal entities	2,919	3,396
Debt securities issued	857	1,075
Term deposits of state and public organizations	829	573
Direct repurchase agreements with banks	602	1,036
Direct repurchase agreements with customers	472	259
Term deposits of other banks	318	638
Liabilities under loans securitization	266	1,236
Lease liabilities	113	–
Current accounts of other banks	6	3
Total interest expense	**12,711**	**14,137**

23. Fee and commission income and expense

	2019	*2018*
Guarantees issued	2,050	1,477
Settlement and cash operations and trade financing	493	484
Commission on plastic cards settlements	200	229
Letters of credit	134	46
Agency agreements	109	164
Acting as currency control agent	54	72
On-line settlement transactions	27	102
Safe deposits rental income	10	45
Commission on cash collection	7	3
Transactions with securities	5	5
Other	129	11
Fee and commission income	**3,218**	**2,638**
Agency agreements	372	217
Plastic cards	140	158
Settlement and cash operations and trade financing	93	82
Fee and commission for participation in the state program for additional capitalization of the bank	60	60
Transactions with securities	30	25
Commission on cash collection	18	16
Other	23	16
Fee and commission expense	**736**	**574**

(Millions of Russian rubles)

24. Net gains from financial assets at FVOCI

	2019	*2018*
Investment securities		
Corporate bonds	116	764
Government bonds	111	52
Total investment securities	**227**	**816**
Loans to customers	105	–
Total net gains from financial assets at FVOCI	**332**	**816**

25. Net expense on financial instruments at FVPL

	2019	*2018*
Trading securities		
Corporate shares	10	11
Corporate bonds	–	(55)
Government bonds	(197)	(100)
Total trading securities	**(187)**	**(144)**
Other	(1)	(23)
Total net expense on financial instruments at FVPL	**(188)**	**(167)**

26. Other income and expenses

Other income

	2019	*2018*
Gain from investments in subsidiaries	973	–
Rental income	38	36
Gain arising on derecognition of debt securities issued	23	12
Net gain from disposal of property and equipment	1	12
Net gain from disposal of investment property	–	5
Income from operations with precious coins	–	1
Other income	**1,035**	**66**

Other expenses

	2019	*2018*
Losses arising on investment property management	338	187
Financial result from the sale of subsidiaries	–	1,493
Other expenses	–	160
Other expenses	**338**	**1,840**

The financial result from the sale of subsidiaries for the year ended 31 December 2018 represents a loss from the loss of control over Closed-end Unit Investment Fund Long-Term Investments – Petrovsky Island (Note 12). The reversal of the respective allowance for impairment is recognized within Net (charge)/reversal of other provisions (Note 28).

(Millions of Russian rubles)

27. Personnel, administrative and other operating expenses

	2019	*2018*
Fixed wages and salaries, bonuses and unused vacations	2,297	2,537
Social security costs	578	643
Severance payments	43	120
Other employee benefits	40	54
Personnel expenses	**2,958**	**3,354**
Contributions to state deposit insurance system	735	599
Depreciation of property and equipment and of right-of-use assets (Note 14)	471	146
Taxes other than income tax	268	235
IT expenses	247	179
Other expenses related to property and equipment	229	249
Amortization of intangible assets (Note 14)	228	202
Advertising and marketing services	152	134
Communication expenses	122	124
Professional services	40	74
Mailing and postal services	30	43
Business trip expenses	30	32
Depreciation of investment property (Note 13)	24	23
Leases	20	499
Security services	19	19
Other personnel related expenses	14	13
Charity	1	4
Other	138	107
Administrative and other operating expenses	**2,768**	**2,682**

28. Other provisions

Net reversal of allowance for impairment of investment securities and other financial assets

	2019	*2018*
ECL allowance for investment securities	13	739
ECL allowance for other financial assets	119	(362)
Total net reversal of allowance for impairment of investment securities and other financial assets	**132**	**377**

Net (charge)/reversal of other provisions

	2019	*2018*
Allowance for impairment of investments in subsidiaries	(2,325)	406
Allowance for impairment of other non-financial assets	(168)	6
Provision for legal claims	(93)	(6)
Allowance for impairment of investment property and other non-current assets	–	3
Total net (charge)/reversal of other provisions	**(2,586)**	**409**

29. Taxation

	2019	*2018*
Current tax charge	337	266
Income tax expense	**337**	**266**

Russian legal entities must file individual tax declarations with the tax authorities. The tax rate for companies (including banks) was 20% for 2019 and 2018. In 2019 and 2018, the corporate income tax rate applicable to interest (coupon) income on government bonds was 15%, while the corporate income tax rate applicable to interest (coupon) income on municipal bonds was 9%. In 2019 and 2018, the corporate income tax rate on mortgage-backed bonds issued before and after 1 January 2007 was 9% and 15%, respectively. Dividends received by Russian legal entities are subject to Russian income tax at a standard rate of 13% (2018: 13%), which in certain circumstances can be decreased to 0%. Income of a mortgage agent received in course of chartered activities is not subject to income tax.

(Millions of Russian rubles)

29. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual income tax expense is as follows:

	2019	*2018*
Profit/(loss) before income tax expense	**1,107**	**(4,463)**
Statutory tax rate	20%	20%
Theoretical income tax expense/(benefit) at the statutory rate	**221**	**(893)**
Change in unrecognized deferred tax assets	24	1,005
Income on state securities taxed at different rates	(71)	(83)
Non-deductible expenses	180	246
Other non-temporary differences	(17)	(9)
Income tax expense	**337**	**266**

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

			Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	31 December 2017	*Effect of IFRS 9*	*In profit or loss*	*In other comprehen-sive income*	*31 December 2018*	*In profit or loss*	*In other comprehen-sive income*	*31 December 2019*
Tax effect of deductible temporary differences								
Unutilized tax losses	3,767	–	1,461	–	5,228	(127)	–	5,101
Effective interest rate accrual	20	–	322	–	342	(47)	–	295
Deferred income/accrued expenses	277	165	(54)	–	388	(33)	–	355
Securities	–	1,049	(784)	301	566	(20)	(49)	497
Deferred tax asset, gross	**4,064**	**1,214**	**945**	**301**	**6,524**	**(227)**	**(49)**	**6,248**
Unrecognized deferred tax asset	(2,259)	(2,078)	(1,005)	(301)	(5,643)	(24)	150	(5,517)
Deferred tax asset	**1,805**	**(864)**	**(60)**	**–**	**881**	**(251)**	**101**	**731**
Tax effect of taxable temporary differences								
Securities	(288)	–	288	–	–	–	–	–
Property and equipment and investment property	(54)	–	(40)	–	(94)	7	–	(87)
Allowance for loan impairment and other provisions	(947)	864	(188)	–	(271)	244	–	(27)
Other	–	–	–	–	–	–	(101)	(101)
Deferred tax liability	**(1,289)**	**864**	**60**	**–**	**(365)**	**251**	**(101)**	**(215)**
Deferred tax asset, net	**516**	**–**	**–**	**–**	**516**	**–**	**–**	**516**

As at 31 December 2019, the Bank has RUB 5,101 million of tax losses carried forward (31 December 2018: RUB 5,228 million).

30. Risk management

Introduction

The risk management of the Bank comprises a set of processes and procedures to identify, measure and control risks to ensure an efficient operation and sustainable development of the Bank. Risk management processes are regulated by the Risk and Capital Management Policy, the Significant Risk and Capital Adequacy Management Procedure, the Risk and Capital Management Strategy and other internal documents, which set risk management principles and unified risk management standards. The risk and capital management system of the Bank is designed to:

- Identify, measure and aggregate significant risks, as well as manage the assumed scope of significant risks for the purposes of internal capital adequacy assessment procedures;
- Ensure that the Bank's capital is sufficient to cover all assumed and potential risks that should be assumed to implement the measures provided in the development strategy of the Bank;
- Ensure that the risk and capital management approach used by the Bank in its activities complies with the requirements of the Bank of Russia;
- Ensure sustainable development of the Bank within its development strategy;
- Maintain risks assumed by the Bank at a level determined by the Risk and Capital Management Strategy in accordance with its development strategy.

(Millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

The Bank is exposed to credit risk, industry credit concentration risk, liquidity risk, market risk, operational risk and interest rate risk.

Risk management at the Bank is achieved by coordinated and consistent work of the management bodies of the Bank and units acting as risk management functions at all levels.

Risk management structure

Board of Directors

The Board of Directors designs and controls the effectiveness of a system for managing all types of banking risks, approves the risk and capital management strategy of the Bank, including in terms of ensuring the adequacy of equity (capital) and liquidity to cover risks, the procedure for managing risks that are most significant for the Bank, including control over its implementation, the procedure for applying banking risk management methodologies and quantitative assessment models, and other internal documents on banking risk management and banking risk limitation policies, sets strategic goals, decides all strategic planning issues and approves risk appetite, stress testing scenarios and the target levels and structure of risks and capital.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee of the Bank's Board of Directors assists the Board of Directors in monitoring and assessing the effectiveness of risk and capital management of the Bank.

Management Board

According to the risk and capital management strategy approved by the Bank's Board of Directors, the Bank's Management Board is responsible for organizing risk management and capital adequacy processes within the Bank and exercises control over the risk management process and its efficiency, the current level of risks and the capital adequacy of the Bank.

Risk management function

Units acting as risk management functions are responsible for the development, implementation, realization and improvement of the risk and capital management system of the Bank, the development and execution of stress testing scenarios and procedures, the on-going management of banking risks, including the identification, assessment and control of the level of the Bank's risks, the performance of stress testing procedures, the preparation of reporting data on the level of risks assumed by the Bank and capital adequacy, and the development of recommendations to mitigate the effect of risks on the achievement of set goals and to implement the development strategy of the Bank.

Internal Audit Function

The Bank's Internal Audit Function assesses the effectiveness of the banking risk assessment methodology and banking risk management procedures established by the internal documents of the Bank (methods, programs, rules, practices and procedures for banking operations and transactions and banking risks management) and determines whether these documents are adequately applied, including assessment of risk management effectiveness.

Risk committees

The Bank has permanent committees that include management bodies and heads of the Bank's structural units that assume risks. The risk committees of the Bank include:

- Main Credit Committee;
- Small Credit Committee;
- Credit Committee of Retail Business;
- Financial Committee;
- Problem Loans Management Committee;
- Technology Committee;
- Other committees.

(Millions of Russian rubles)

30. Risk management (continued)

Risk management procedures

The Bank combines centralized and decentralized risk and capital management to achieve the maximum effectiveness. To ensure effective risk management, the Bank continuously performs the following procedures:

- Ensures exchange of information among management bodies and structural units of the Bank on issues related to discovery, identification, measurement and control of risks as well as measures aimed at their mitigation and prevention of their effects;
- Has a system of management reporting on its risks;
- Has a segregation of duties and responsibilities among its management bodies and units;
- Takes measures to promote risk culture, which is mainly aimed at acquisition of knowledge and skills in risk management by the Bank's employees through systematic training, proper use of risk management tools by managers and employees in their day-to-day activities and development of skills required by employees for the proper and timely use of risk management tools.

Risk identification

The identification of risks and the assessment of their significance are performed annually and end before the start of an annual business planning cycle of the Bank. The assessment of risk significance is based on a system of quantitative and qualitative parameters. As a result of the assessment and if necessary, the significant risk identification methodology and risk management procedures may be updated.

Risk assessment

The Bank applies the basic approaches established by the Bank of Russia and quantitative methods for the assessment of significant risks, which reflect expected and unforeseen losses based on statistical models. The models make use of probabilities derived from historical data and adjusted to reflect the economic environment. The Bank also runs crisis event scenarios, i.e. stress tests.

Monitoring

To control the level of risks assumed by the Bank, it has a system of internal limits, risk appetite indicators and the target levels and structure of the Bank's risks and capital. Limits reflect the operational strategy and market environment of the Bank as well as its risk appetite based on the goals of the Bank's development strategy and planned business development indicators.

The Bank determines its risk appetite in order to ensure continuous operations on the going concern basis in the long-term perspective, including in stress situations.

The system of internal limits is designed to ensure that the Bank's structure of assets and liabilities is consistent with the nature and size of its business. The Bank's system of limits has multiple layers, which may include limits on significant risks, limits on the scope of transactions and business development stipulated by the development strategy of the Bank, and other types of limits.

Reporting

The Bank regularly prepares reports on significant risks and capital adequacy, compliance with prudential ratios, results of stress testing and monitoring of set limits and failures to comply with them. The major objective of risk reporting is to ensure that management bodies as well as heads of structural units have sufficient information to make appropriate management decisions.

Risk mitigation

The Bank may use the following risk prevention and mitigation methods:

- Limitation of risks, including introduction of interim control measures (red flags for significant risks);
- Insurance, which is a way of mitigating risks through transfer of risk to an insurer, including property insurance and liability insurance. When using the insurance method, the Bank may apply hedges to limit risks of financial transactions;
- Reserves, which is a way of mitigating negative implications of risk events by creating reserves to cover losses with part of equity in accordance with the requirements and methodology set by the Bank of Russia;
- Diversification, which is a process to allocate investments among different investees that are not directly related to each other.

The Bank applies a complex approach of using various risk mitigation methods to achieve an optimal balance between the level of achieved risk mitigation and additional costs necessary to achieve that level.

(Millions of Russian rubles)

30. Risk management (continued)

Concentration risk

Concentration risk arises due to the Bank's exposure to large risks.

The Bank annually identifies all types of concentration risk inherent in its operations. Concentration risks inherent in the Bank's operations include the risks of credit concentration with one counterparty (group of counterparties), industry, geographical area, credit product or currency, the indirect risk of credit concentration and the risks of concentration of liquidity sources and funding with one lender. In order to identify and assess concentration risk, the Bank uses a system of indicators that allows it to identify concentration risk in respect of significant risks, individual counterparties (groups of counterparties) and counterparties related to the Bank, industries, geographical areas, credit products and sources of collateral and liquidity. Such indicators include ratios set by the Bank of Russia and describing types of credit concentration, the Herfindahl–Hirschman index and other indicators.

To assess the level of significance of different types of credit concentration risk, the Bank uses the Herfindahl–Hirschman index (HHI) that characterizes the degree of diversification of the Bank's portfolios. To assess the level of significance of concentration risk from individual liquidity sources, the Bank sets indicative values (limits) for the maximum and/or minimum share of an individual liquidity source in overall liabilities of the Bank. To analyze the level of significance of the risk of concentration of funding per one lender, the Bank calculates the percentage of the largest amount of deposits or loans obtained by the Bank and balances on accounts with one lender (depositor) or several related lenders (depositors) in overall liabilities.

The risk of concentration of interest rate risk is estimated on the basis of the share of sensitivity to changes in interest rates of major balance sheet indicators of the Bank in its assets and liabilities. The Bank determines the significance of concentration of market risk through an expert analysis of the Bank's portfolio. The significant type of concentration risk in the reporting period is the industry concentration of the loan portfolio of the Bank. The Bank assesses industry credit concentration risk on a monthly basis by using the Herfindahl–Hirschman index that shows the degree of diversification of the loan portfolio of the Bank. The Bank performs quarterly stress testing procedures in respect of the significant types of concentration risks. Stress testing results in evaluation of the effect of negative scenarios on the quantitative metrics of concentration risk, capital adequacy and the financial result of the Bank.

The Bank mitigates significant types of concentration risk through a system of limits, which are annually approved and reviewed as part of the risk and capital management strategy of the Bank. In the reporting period, the Bank set limits on capital requirements for industry credit concentration risk and on the Herfindahl–Hirschman index that shows the diversification of the Bank's loan portfolio by industry.

The Bank exercises control over compliance with the limits on concentration risk and the Bank's instrument portfolios in order to identify new types of risk concentration that are not covered by the concentration risk management procedures.

Credit risk

The Bank is exposed to risk of financial loss as a result of the borrowers' (counterparties') failure to discharge their financial commitments.

Credit risk has the largest weight among risks assumed by the Bank in the course of its banking operations, and the effectiveness of its management significantly influences the effectiveness of the Bank's operations in general.

The Bank manages credit risk at all stages of its credit process, including the following procedures:

- Identification, and quantitative and qualitative assessment of credit risk;
- Limitation and mitigation of credit risk;
- Control over aggregate credit risk and credit risk at the level of individual borrowers (groups of borrowers);
- Assessment of adequacy of the Bank's capital to cover credit risk.

The Bank identifies credit risks during the preliminary qualification and review of a transaction, as well as during the provision of subsequent support (monitoring, amendment of the transaction terms). The Management Board of the Bank and its designated committees as well as authorized individuals with respective powers can make all decisions related to issue of credit products (transactions with issuers and counterparties, recovery of the assets' quality).

The Bank performs quantitative assessment of credit risk in accordance with the requirements of the Bank of Russia and the Bank's internal models for estimating the probability of default for different types of counterparties. The assessment is based on the analysis of quantitative (financial) and qualitative factors of credit risk and the extent of their influence on the counterparty's ability to service and discharge its liabilities. The assigned ratings are assessed and updated regularly. To estimate credit risk, the Bank uses a model for determining expected losses in case of the counterparty's default, which is based on assessment of the counterparty's risks and collateral for the transaction. Such model helps to determine the level of losses upon the realization of the risk of counterparty default. The Bank uses internal ratings to set limits per borrower/counterparty (group of borrowers/counterparties), estimate expected losses, charge provisions and analyze the credit risk of the Bank.

(Millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

An important component of credit risk identification and measurement procedures is the performance of stress testing procedures using scenarios assuming negative outcome for the Bank as a result of changes in the market environment, macroeconomic parameters and other circumstances, which may have an effect on credit risk. The major objectives of the stress testing of credit risk include assessment of the ability to maintain the adequacy of capital, prudential ratios and liquidity of the Bank in stress environment.

The Bank has risk limits per one counterparty (group of counterparties) and the loan portfolio of the Bank, limits on required capital to cover credit risk, credit risk appetite indicators and the target levels of credit risk. Individual credit limits are set by special committees of the Bank. The thresholds of limits for aggregate credit risk are set in the internal documents of the Bank and updated at least annually. The Board of Directors of the Bank annually approves limits on required capital to cover the credit risk of the Bank, its appetite to credit risk and the target levels of credit risk.

The Bank exercises control over the level of risk to ensure timely identification of changes in the level of credit risk, take preventive measures and mitigate consequences of credit risk events, including the monitoring of the financial position of borrowers (counterparties), payment discipline and the value of collateral, control over the use of limits, and planning of capital and control over whether it is sufficient to cover credit risk.

Impairment assessment

The Bank recognizes an allowance for expected credit losses on all financial assets at amortized cost or at FVOCI, and on loan commitments and financial guarantees which together are referred to as “financial instruments” in this section.

The allowance is based on the ECL for 12 months unless there has been a significant increase in credit risk since origination. For assets associated with significantly increased credit risk, the allowance is calculated over the whole life of the instrument.

The Bank has an approved methodology for determining a significant increase in credit risk associated with a financial asset since its initial recognition until maturity. In order to create an allowance, the Bank identifies assets within the scope of the general approach to provisioning and purchased or originated credit-impaired assets (POCI).

For financial assets within the scope of the general approach, three stages of accrual of the allowance are established depending on changes in the level of credit risk relative to the date of initial recognition and the presence of impairment indicators.

Stage 1 (1Y):	This stage includes assets for which the credit risk has not increased significantly since initial recognition and no impairment indicators exist. Credit losses are determined as the amount of 12 month ECL. Stage 1 also includes financial instruments for which credit risk decreased to the extent they have been reclassified from Stage 2.
Stage 2 (Life Time):	This stage includes assets, for which one or more factors of a significant increase in credit risk since initial recognition exist and no impairment indicators are identified. For these financial assets the amount of credit losses is determined as the lifetime ECL. Stage 2 also includes financial instruments whose credit risk decreased to the extent they have been reclassified from Stage 3.
Stage 3 (Life Time):	This stage includes financial assets, for which impairment indicators were identified, i.e. one or more events adversely affect the future cash flows generated by the asset. For these financial assets the amount of credit losses is determined as the lifetime ECL.
POCI assets:	POCI assets are purchased assets that are credit-impaired at initial recognition or newly created assets that may be a part of the existing assets restructuring plan. Allowance calculation is based on the assessment of accumulated changes in the lifetime ECL.

Criteria of allocation to stages

At each reporting date, the Group performs an analysis to identify a significant increase in credit risk since recognition of the financial asset.

Assets are transferred from Stage 1 to Stage 2 if one or more of the following factors exist:

- Loans to customers are more than 30 days past due, amounts due from financial institutions are up to 14 days past due and securities are up to 10 days past due;
- Significant rating reduction at the reporting date as compared with the rating at initial recognition;
- Watch-list asset;
- Non-default restructuring for mortgage loans.

(Millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

Default determining process

A financial asset is deemed to be impaired when the borrower is assigned a default status and there are one or more events that have a negative effect on the future cash flows generated by the asset.

The Bank considers assets to be default when there is no or remote possibility to redeem the claim and when one or more of the following events occur:

- Loans to customers are more than 90 days past due, amounts due from financial institutions are more than 14 days past due and securities are more than 10 days past due;
- Significant deterioration in the financial position of the counterparty;
- Restructuring on default;
- Other factors.

The Bank calculates allowances on the basis of three probability-weighted scenarios (basic, optimistic, pessimistic).

Allowance calculation involves the use of the following key credit risk parameters:

Probability of default (PD)	*Probability of default (PD*) is an estimate of the likelihood of default to fulfill obligations over a given time horizon.
Exposure at default (EAD)	*Exposure at default (EAD)* is the estimated amount of the asset at a future default date, including the repayment of the principal and interest amounts, as well as the expected use of credit facilities and the amount of interest accrued on past due payments. For the off-balance sheet items (guarantees issued, undrawn credit lines), the credit conversion factor (CCF) is used representing the share of the unused portion of the credit-related commitment at the beginning of the observation period that may be used by a counterparty up to the possible default date.
Loss given default (LGD)	The *Loss Given Default* (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. Depending on the available information on the credit quality, different models to determine the loss given default are used. For assets without impairment indicators, the calculation is based on the foreclosure level and the probability of recovery (transfer from default to non-default status). For assets with impairment indicators (Stage 3), LGD in default is determined by calculating markup to the level of foreclosure depending on the term when the default status is in effect.

Effect of macroeconomic factors and macroeconomic scenarios

When calculating the allowance, the Bank considers the predictive information based on macroeconomic models and used to calibrate the probability of default.

The Bank relies baseline scenario and conservative scenario. In calculations, the weights of the baseline scenario and the conservative scenario are 65% and 35%, respectively. The input data for macroeconomic models include the values of major macroeconomic indicators taken from the actual forecast of the social and economic development prepared by the Russian Ministry for Economic Development.

Macroeconomic indicators

- Real GDP;
- Current account;
- Consumer price index;
- Investments in fixed assets;
- Price for a square meter of floor space on the primary and secondary real estate markets.

Credit quality per class of financial assets

The Bank analyses the credit quality of debt securities and counterparties in transactions on financial markets based on analysis of the companies' (groups of companies) financial statements, as well as international ratings of the issuers.

For the purpose of credit risk restriction the Bank implemented the system of limits, which allows to control credit risk for a particular issuer/counterparty or a group of counterparties/issuers.

In addition to the above-mentioned limits, the Bank sets portfolio limits for investments in third-party securities and transactions on financial markets.

(Millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

As Fitch and Standard & Poor's international rating scales are in general consistent in credit risk characteristics that they assign to particular ratings, the Bank gathers and uses for the purpose of credit quality analysis ratings by either Fitch or Standard & Poor's as being complementary.

AAA – the highest credit rating assigned. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA – differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A – more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB – exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB – less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B – more vulnerable to nonpayment than obligations rated 'BB', but the obligator currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity to meet its financial commitment on the obligation.

The analysis of amounts due from other banks by international rating and ECL stage as at 31 December 2019 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Due from other banks				
From BBB+ to BBB-	9,387	–	–	**9,387**
From B+ to B-	36,595	–	–	**36,595**
Total due from other banks	**45,982**	**–**	**–**	**45,982**

The analysis of investment debt securities by international rating and ECL stage as at 31 December 2019 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities at FVOCI				
From BBB+ to BBB-	17,706	–	–	**17,706**
From B+ to B-	2,161	–	–	**2,161**
Total debt securities at FVOCI	**19,867**	**–**	**–**	**19,867**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities at amortized cost				
Unrated	–	–	3,114	**3,114**
Total debt securities at amortized cost	**–**	**–**	**3,114**	**3,114**

The analysis of amounts due from other banks by international rating and ECL stage as at 31 December 2018 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Due from other banks				
From BBB+ to BBB-	7,662	–	–	**7,662**
From BB+ to BB-	1,206	–	–	**1,206**
From B+ to B-	46,251	–	–	**46,251**
Total due from other banks	**55,119**	**–**	**–**	**55,119**

(Millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

The analysis of investment debt securities by international rating and ECL stage as at 31 December 2018 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities at FVOCI				
From BBB+ to BBB-	24,740	–	–	**24,740**
From B+ to B-	446	–	–	**446**
Unrated	–	–	2	**2**
Total debt securities at FVOCI	**25,186**	**–**	**2**	**25,188**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities at amortized cost				
Unrated	–	–	2,787	**2,787**
Total debt securities at amortized cost	**–**	**–**	**2,787**	**2,787**

The Bank manages the credit quality of loans to customers based on credit ratings set in accordance with internal PD model. PD model was applied by the Bank in order to divide clients into the groups based on their creditworthiness using a statistical model of default probabilities for corporate clients.

Probability of Default (PD) – is the probability of insolvency of the counterparty for a specified period. In the practice of the Bank the probability of default is estimated for the time horizon of one year. Rating of the probability of default (PD rating) – is an indicator which takes values from 1 to 12 (where PDs 10, 11 and 12 – are determined to be impaired or default), which is set to each counterparty that has a calculated value of the probability of default on a special scale.

The table below shows the master scale of PD ratings:

PD rating	*Probability of default (%)*	*Level of credit risk*
1	Up to 0.1	Very high credit quality
2	From 0.1 to 0.2	
3	From 0.2 to 0.4	High credit quality
4	From 0.4 to 0.8	
5	From 0.8 to 1.6	
6	From 1.6 to 3.2	
7	From 3.2 to 6.4	Standard credit quality
8	From 6.4 to 12.8	Average credit quality
9	From 12.8 to 100	Average credit quality (Stage 1)/ Acceptable credit quality (Stage 2)
10	100	Individually impaired
11	100	
12	100	

The PD ratings 10, 11 and 12 are not calculated using the PD model, but are assigned according to definition of default, non-performing and uncollectable loans approved by the Bank.

(Millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

The credit quality and the maximum credit risk exposure by type of loans to legal entities at amortized cost depending on the Bank's internal credit rating and ECL stage as at 31 December 2019 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Corporate loans				
Very high credit quality	104	–	–	**104**
High credit quality	16,875	1,102	–	**17,977**
Standard credit quality	11,015	3,973	–	**14,988**
Average credit quality	2,493	211	–	**2,704**
Acceptable credit quality	–	2,162	–	**2,162**
Past due but not impaired	–	72	–	**72**
Individually impaired	–	–	25,447	**25,447**
Total corporate loans	**30,487**	**7,520**	**25,447**	**63,454**
SME loans (legal entities)				
Average credit quality	200	–	–	**200**
Past due but not impaired	14	2	–	**16**
Individually impaired	–	–	29	**29**
Total SME loans (legal entities)	**214**	**2**	**29**	**245**
Trade financing				
Very high credit quality	287	–	–	**287**
High credit quality	1,356	12	–	**1,368**
Standard credit quality	50	–	–	**50**
Individually impaired	–	–	2,840	**2,840**
Total trade financing	**1,693**	**12**	**2,840**	**4,545**
Other loans				
Individually impaired	–	–	25	**25**
Total other loans	**–**	**–**	**25**	**25**

(Millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

The credit quality and the maximum credit risk exposure by type of loans to individuals at amortized cost depending on the Bank's internal credit rating and ECL stage as at 31 December 2019 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Mortgage loans				
Very high credit quality	21,987	479	–	**22,466**
High credit quality	43,115	704	–	**43,819**
Standard credit quality	–	3,959	–	**3,959**
Average credit quality	–	3,986	–	**3,986**
Past due but not impaired	499	1,419	–	**1,918**
Individually impaired	–	–	2,503	**2,503**
Total mortgage loans	**65,601**	**10,547**	**2,503**	**78,651**
Car loans				
High credit quality	1	–	–	**1**
Acceptable credit quality	–	1	–	**1**
Individually impaired	–	–	10	**10**
Total car loans	**1**	**1**	**10**	**12**
Consumer and cash loans				
Very high credit quality	5	–	–	**5**
High credit quality	177	–	–	**177**
Average credit quality	1,147	–	–	**1,147**
Past due but not impaired	2	3	–	**5**
Individually impaired	–	–	7	**7**
Total consumer and cash loans	**1,331**	**3**	**7**	**1,341**
Credit cards				
High credit quality	70	–	–	**70**
Past due but not impaired	3	2	–	**5**
Individually impaired	–	–	451	**451**
Total credit cards	**73**	**2**	**451**	**526**
SME loans (individuals)				
Average credit quality	30	–	–	**30**
Past due but not impaired	–	1	–	**1**
Individually impaired	–	–	25	**25**
Total SME loans (individuals)	**30**	**1**	**25**	**56**

The credit quality and the maximum credit risk exposure by type of loans to individuals at FVOCI depending on the Bank's internal credit rating and ECL stage as at 31 December 2019 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Loans to individuals at FVOCI				
High credit quality	15,097	–	–	**15,097**
Total mortgage loans	**15,097**	**–**	**–**	**15,097**

(Millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

The credit quality and the maximum credit risk exposure by type of loans to legal entities at amortized cost depending on the Bank's internal credit rating and ECL stage as at 31 December 2018 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Corporate loans				
Very high credit quality	79	–	–	**79**
High credit quality	11,141	1,453	–	**12,594**
Standard credit quality	11,056	5,491	–	**16,547**
Average credit quality	3,900	2,848	–	**6,748**
Acceptable credit quality	–	4,342	–	**4,342**
Past due but not impaired	–	16	–	**16**
Individually impaired	–	–	26,360	**26,360**
Total corporate loans	**26,176**	**14,150**	**26,360**	**66,686**
SME loans (legal entities)				
Average credit quality	5	–	–	**5**
Past due but not impaired	–	1	–	**1**
Individually impaired	–	–	43	**43**
Total SME loans (legal entities)	**5**	**1**	**43**	**49**
Trade financing				
Very high credit quality	329	–	–	**329**
High credit quality	2,120	89	–	**2,209**
Individually impaired	–	–	2,323	**2,323**
Total trade financing	**2,449**	**89**	**2,323**	**4,861**
Other loans				
Individually impaired	–	–	26	**26**
Total other loans	**–**	**–**	**26**	**26**

(Millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

The credit quality and the maximum credit risk exposure by type of loans to individuals at amortized cost depending on the Bank's internal credit rating and ECL stage as at 31 December 2018 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Mortgage loans				
Very high credit quality	23,945	65	–	**24,010**
High credit quality	54,752	500	–	**55,252**
Standard credit quality	–	2,854	–	**2,854**
Average credit quality	–	2,714	–	**2,714**
Past due but not impaired	246	992	–	**1,238**
Individually impaired	–	–	2,135	**2,135**
Total mortgage loans	**78,943**	**7,125**	**2,135**	**88,203**
Car loans				
Very high credit quality	16	–	–	**16**
Standard credit quality	–	1	–	**1**
Average credit quality	–	2	–	**2**
Acceptable credit quality	–	3	–	**3**
Past due but not impaired	–	1	–	**1**
Individually impaired	–	–	12	**12**
Total car loans	**16**	**7**	**12**	**35**
Consumer and cash loans				
High credit quality	762	–	–	**762**
Past due but not impaired	3	2	–	**5**
Individually impaired	–	–	19	**19**
Total consumer and cash loans	**765**	**2**	**19**	**786**
Credit cards				
High credit quality	86	–	–	**86**
Average credit quality	1	–	–	**1**
Acceptable credit quality	–	1	–	**1**
Past due but not impaired	3	5	–	**8**
Individually impaired	–	–	265	**265**
Total credit cards	**90**	**6**	**265**	**361**
SME loans (individuals)				
Average credit quality	85	–	–	**85**
Past due but not impaired	12	–	–	**12**
Individually impaired	–	–	12	**12**
Total SME loans (individuals)	**97**	**–**	**12**	**109**

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The assigned ratings are assessed and updated regularly.

Collateral and other credit enhancements

Liquidity reserves make the most important risk mitigation tool of the Bank. The Bank accepts the following assets for pledge as collateral: residential and non-residential properties, land, assets under construction, production and trading equipment, vehicles and production machinery, goods (finished products), raw materials, inventories, securities, other assets. Guarantees of the business owners or companies generating income or holding companies may be used as an additional collateral. The Bank combines different types of collateral.

(Millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	31 December 2019				31 December 2018			
	Russia	*OECD*	*Other*	*Total*	*Russia*	*OECD*	*Other*	*Total*
Assets								
Cash and cash equivalents	8,448	1,982	7	**10,437**	14,354	1,866	–	**16,220**
Mandatory cash balances with the CBR	1,859	–	–	**1,859**	1,722	–	–	**1,722**
Trading securities	493	–	–	**493**	470	–	–	**470**
Trading securities pledged under repurchase agreements	–	–	–	**–**	36	–	–	**36**
Due from other banks	45,870	–	–	**45,870**	54,996	–	–	**54,996**
Loans to customers	133,865	519	4,676	**139,060**	135,334	558	711	**136,603**
Investment securities	19,867	–	–	**19,867**	12,328	2,285	–	**14,613**
Investment securities pledged under repurchase agreements	–	–	–	**–**	10,575	–	–	**10,575**
Other financial assets	1,915	–	–	**1,915**	2,517	–	1	**2,518**
	212,317	**2,501**	**4,683**	**219,501**	**232,332**	**4,709**	**712**	**237,753**
Liabilities								
Due to other banks	1,585	1	–	**1,586**	646	709	–	**1,355**
Customer accounts	188,424	280	789	**189,493**	204,280	137	935	**205,352**
Debt securities issued	6,539	–	–	**6,539**	6,818	–	–	**6,818**
Other financial liabilities	3,986	22	–	**4,008**	11,031	30	2	**11,063**
	200,534	**303**	**789**	**201,626**	**222,775**	**876**	**937**	**224,588**
Net position	**11,783**	**2,198**	**3,894**	**17,875**	**9,557**	**3,833**	**(225)**	**13,165**
Financial commitments and contingencies	**75,859**	**–**	**–**	**75,859**	**76,342**	**1,000**	**–**	**77,342**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its obligations when they fall due. To limit this risk, the Bank maintains sustainable funding base comprising of term deposits of legal entities and individuals and debt securities issued. The Bank invests funds to the diversified portfolios of liquid assets to be able to easily meet unforeseen liquidity needs.

The management also manages assets taking into account the liquidity concept and daily monitoring of future cash flows. This incorporates an assessment of expected cash flows and the availability of high quality collateral which could be used to secure additional funding, if required.

The liquidity position is assessed and managed based on certain liquidity ratios established by the CBR and internal regulations of the Bank, including liquidity stress testing.

Due to the operational liquidity needs liquidity target consists of two parts: cash and cash equivalents and bonds of high quality Russian issuers:

- ► The Bank maintains a required level of cash and cash equivalents to ensure continuous operations and solvency of the Bank;
- ► Banking (non-trading) portfolio comprising of bonds of high quality Russian issuers is a liquidity reserve which, if required, can be used as collateral under transactions with the CBR, or realized shortly with a minimum discount.

(Millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as at 31 December 2019 and 2018, based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities at 31 December 2019	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Due to other banks	1,588	–	–	–	**1,588**
Customer accounts	91,151	89,728	8,896	5,909	**195,684**
Debt securities issued	349	1,292	6,052	310	**8,003**
Other financial liabilities, including:	926	1,457	1,138	1,589	**5,110**
Lease liabilities	19	232	1,138	1,589	**2,978**
Foreign exchange derivative contracts					
- Contractual amounts payable	4,032	–	–	–	**4,032**
- Contractual amounts receivable	(3,982)	–	–	–	**(3,982)**
Total undiscounted financial liabilities	**94,014**	**92,477**	**16,086**	**7,808**	**210,385**

Financial liabilities at 31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Due to other banks	1,005	358	–	–	**1,363**
Foreign exchange derivative contracts					
- Contractual amounts payable	14,828	18	–	–	**14,846**
- Contractual amounts receivable	(14,736)	(18)	–	–	**(14,754)**
Customer accounts	130,518	56,605	18,632	11,301	**217,056**
Debt securities issued	253	1,732	6,969	15	**8,969**
Other financial liabilities (excluding derivative financial instruments)	7,625	1,344	1,031	1,224	**11,224**
Total undiscounted financial liabilities	**139,493**	**60,039**	**26,632**	**12,540**	**238,704**

The table below shows the contractual expiry by maturity of the Bank's commitments and contingencies:

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2019	40,201	20,749	14,784	125	**75,859**
31 December 2018	39,272	22,674	15,256	140	**77,342**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in "less than 3 months" in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and security prices. The Bank classifies exposures to market risk into either trading or banking (non-trading) portfolios, which is in line with the generally accepted practice. The market risk for the trading and banking (non-trading) positions are managed and monitored by setting up appropriate limits and applying sensitivity analysis.

(Millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

The responsible collegial bodies set limits on the level of risk that may be accepted. The Bank applies sensitivity analysis both for assessment of positions subject to market risk and estimation of the potential economic losses.

For managing the price, interest rate and currency risk the sensitivity of the portfolio of homogeneous financial instruments to the reasonable possible change (RPC) of market index, yield curve and interest rates are applied.

Market risk – trading portfolio

Price risk

There were no material equity positions in the trading portfolio in 2019 and 2018.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity (calculation is based on durations of instruments) to a reasonable possible change in interest rates, with all other variables held constant, of the trading book.

	Increase in basis points		*Sensitivity of profit/loss before tax*	
Currency	***2019***	***2018***	***2019***	***2018***
RUB	125	125	(3)	3
USD	35	50	–	(2)

	Decrease in basis points		*Sensitivity of profit/loss before tax*	
Currency	***2019***	***2018***	***2019***	***2018***
RUB	(125)	(140)	3	(3)
USD	(35)	(15)	–	1

Market risk – banking (non-trading) portfolio

Price risk

As at 31 December 2019 and 31 December 2018, the Bank has no equity instruments sensitive to market position changes.

Interest rate risk

The sensitivity of net interest income (NII) is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate banking (non-trading) financial assets and financial liabilities. The sensitivity of equity (defined based on maturity of financial instruments/duration) estimates revaluation of financial assets at fair value through other comprehensive income as at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	Increase in basis points		*Sensitivity of NII*	
Currency	***2019***	***2018***	***2019***	***2018***
RUB	125	125	(98)	(109)
USD	35	50	–	–

	Decrease in basis points		*Sensitivity of NII*	
Currency	***2019***	***2018***	***2019***	***2018***
RUB	(125)	(140)	98	122
USD	(35)	(15)	–	–

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank sets limits for each currency on currency positions both for trading and banking (non-trading) portfolios. The limits are monitored on a daily basis. The Bank maintains the currency risk at a low level through transactions with derivatives.

(Millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

The tables below indicate the currencies to which the Bank had significant exposure as at 31 December 2019 and 2018. The analysis calculates the effect of a reasonably possible movement of the currency rate against the RUB on the financial performance of the Bank.

	Increase in currency rate in %		*Effect on profit/(loss) before tax*		*Effect on equity*	
Currency	***2019***	***2018***	***2019***	***2018***	***2019***	***2018***
USD	13.0	14.0	60	87	60	87
EUR	13.0	14.0	5	(28)	5	(28)

	Decrease in currency rate in %		*Effect on profit/(loss) before tax*		*Effect on equity*	
Currency	***2019***	***2018***	***2019***	***2018***	***2019***	***2018***
USD	(11.0)	(14.0)	(51)	(87)	(51)	(87)
EUR	(11.0)	(14.0)	(4)	28	(4)	28

Operational risk

Operational risk is the risk of direct or indirect losses as a result of lacks or errors of the Bank's internal processes, actions of employees and other individuals, failures and deficiencies in information, technological and other systems or due to external events. The Bank's legal risk, as well as the Bank's information security risk (including cyber risk) and information systems risk are included in the Bank's operational risk.

The sources of operational risk of the Bank include the following:

- Errors and deficiencies in processes: unreliable and (or) ineffective arrangement of the Bank's internal management processes or banking and other transactions, as well as inconsistency of those processes with the nature and size of the Bank's operations and (or) requirements of the applicable legislation;
- Actions of employees: inadvertent errors, deliberate actions or omissions of employees and other persons related to the Bank, including the owners and those involved in performing work (rendering services) under a contract concluded with the Bank;
- Systems: failures (malfunction) of information, technological and (or) other systems applied by the Bank, inadequacy of their capacity (parameters) with the Bank's needs;
- External events: impact of external factors, namely actions of third parties, including state and regulatory authorities, law enforcement agencies, other organizations and similar external event.

When managing the operational risk, the Bank identifies both direct (physical losses, meaning that they have been already accounted for, and possible losses that may be actually incurred) and indirect (qualitative and consequential) losses, as well as uncovered losses of clients and third parties.

The operational risk is identified both during the day-to-day functioning of the employees and in the course of the planned operational risk self-assessment.

The Bank performs quantitative and qualitative assessment of operational risk.

The Group designs and approves risk mitigation measures on the level of linear management (locally, supported by risk coordinators), as well as on the level of collegial executive bodies, depending on the level of respective risk (considering the amount and the probability of possible direct and indirect losses). The Bank maintains control over risk management through the Bank's Managing Risk Director, risk management functions, the Management Board and the Board of Directors.

For the purpose of risk monitoring and control, the Bank performs the following:

- Analysis of key risk indicators;
- Control over the set limit and red flags;
- Control over the risk mitigating activities.

(Millions of Russian rubles)

30. Risk management (continued)

Operational risk (continued)

The Bank manages its operational risk in accordance with Instructive Regulation No. 3624-U of the Bank of Russia *Concerning Requirements to Risk and Capital Management in Credit Institutions and Banking Groups* of 15 April 2015 (together with *Requirements to Organization of Certain Risk Management Procedures*), Letter No. 76-T of the Bank of Russia *On Organizing Management of Operational Risks in Credit Institutions* of 24 May 2005, Letter No. 69-T of the Bank of Russia *On Recommendations of the Basel Committee on Banking Supervision "Principles of Proper Operational Risk Management"* of 16 May 2012 ("CBR Letter No. 69-T") *and* Letter No. 92-T of the Bank of Russia *On the Management of Legal Risk and Reputational Risk at Credit Institutions and Banking Groups* of 30 June 2005.

In accordance with efficient operating risk management principles described in CBR Letter No. 69-T, the Bank has a three levels of operational risk management:

- Linear management and risk coordinator;
- Unit responsible for operational risk management;
- Internal Audit: internal function responsible for independent analysis.

The Bank gives authority to department managers, including collegial bodies, to approve measures to address operational risk, including risk acceptance.

The Bank's operational risk management system consists of certain elements aimed at identification, prevention, monitoring and mitigation of operational risk:

- Analysis of internal databases for operational risk events;
- Analysis of movements in key risk indicators;
- Analysis of additional internal and external sources;
- Analysis of audit reports.

The following documents are effective within the Bank:

- Operational risk policy;
- Regulation on organization of collection of data on operational risk events;
- Procedure to develop key risk indicators.

The Group calculates the amount of operational risk in accordance with Regulation No. 652-P of the Bank of Russia *On the Procedure for Calculating Operational Risk Exposure* of 3 September 2018.

The Bank's department responsible for operational risk management regularly reports on operational risk covering the elements of the Bank's operational risk management system and communicates on the matter with the Bank's Management Board and the Board of Directors on a monthly and quarterly basis, respectively.

(Millions of Russian rubles)

31. Fair value of financial instruments

For the purpose of fair value disclosures, the Bank has determined classes of financial assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy. The table below analyses the fair values of the Bank's financial assets and liabilities by the level of fair value hierarchy as at 31 December 2019, and compares by class the carrying amounts and fair values of the Bank's financial assets and liabilities.

	Fair value measurement using					
	Quoted prices in active markets (Level 1)	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total fair value***	***Carrying amount***	***Unrecognized gain/ (loss)***
Financial assets measured at fair value						
Trading securities	493	–	–	**493**	493	–
Loans to customers	–	–	15,097	**15,097**	15,097	–
Derivative financial assets (in other financial assets)	–	86	–	**86**	86	–
Investment securities	17,635	2,232	–	**19,867**	19,867	–
Financial assets for which fair values are disclosed						
Cash and cash equivalents	1,697	8,740	–	**10,437**	10,437	–
Mandatory cash balances with the CBR	–	1,859	–	**1,859**	1,859	–
Due from other banks	–	47,338	–	**47,338**	45,870	1,468
Loans to customers	–	–	126,319	**126,319**	123,963	2,356
Other financial assets (excluding derivative financial assets)	–	–	1,829	**1,829**	1,829	–
Financial liabilities measured at fair value						
Derivative financial liabilities (in other financial liabilities)	–	51	–	**51**	51	–
Financial liabilities for which fair values are disclosed						
Due to other banks	–	–	1,587	**1,587**	1,586	(1)
Customer accounts	–	–	192,982	**192,982**	189,493	(3,489)
Debt securities issued	–	6,552	–	**6,552**	6,539	(13)
Other financial liabilities (excluding derivative financial liabilities)	–	–	3,946	**3,946**	3,957	11
Total unrecognized change in fair value						**332**

(Millions of Russian rubles)

31. Fair value of financial instruments (continued)

The table below analyses the fair values of the Bank's financial assets and liabilities by the level of fair value hierarchy as at 31 December 2018, and compares by class the carrying amounts and fair values of the Bank's financial assets and liabilities. The Bank changed presentation of cash and cash equivalents broken down by hierarchy levels to align it with market practices:

	Fair value measurement using					
	Quoted prices in active markets (Level 1)	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total fair value***	***Carrying amount***	***Unrecognized gain/ (loss)***
Financial assets measured at fair value						
Trading securities	465	–	5	**470**	470	–
Trading securities pledged under repurchase agreements	36	–	–	**36**	36	–
Derivative financial assets (in other financial assets)	–	261	–	**261**	261	–
Investment securities	13,769	842	2	**14,613**	14,613	–
Investment securities pledged under repurchase agreements	10,575	–	–	**10,575**	10,575	–
Financial assets for which fair values are disclosed						
Cash and cash equivalents	2,173	14,047	–	**16,220**	16,220	–
Mandatory cash balances with the CBR	–	1,722	–	**1,722**	1,722	–
Due from other banks	–	–	54,996	**54,996**	54,996	–
Loans to customers	–	–	138,418	**138,418**	136,603	1,815
Other financial assets (excluding derivative financial assets)	–	–	2,257	**2,257**	2,257	–
Financial liabilities measured at fair value						
Derivative financial liabilities (in other financial liabilities)	–	82	–	**82**	82	–
Financial liabilities for which fair values are disclosed						
Due to other banks	–	–	1,353	**1,353**	1,355	2
Customer accounts	–	–	207,067	**207,067**	205,352	(1,715)
Debt securities issued	–	6,814	–	**6,814**	6,818	4
Other financial liabilities (excluding derivative financial liabilities)	6,508	–	4,406	**10,914**	10,981	67
Total unrecognized change in fair value						**173**

The following table shows the reconciliation of opening and closing balances of trading and investment securities classified within Level 3 of the fair value hierarchy as at 31 December 2019:

	Corporate shares	***Corporate bonds***	***Total***
Fair value			
31 December 2018	**5**	**2**	**7**
Disposals	(17)	–	**(17)**
Revaluation	12	(2)	**10**
31 December 2019	**–**	**–**	**–**

The following table shows the reconciliation of opening and closing balances of investment securities available for sale classified within Level 3 of the fair value hierarchy as at 31 December 2018:

	Corporate shares	***Corporate bonds***	***Total***
Fair value			
31 December 2017	**5**	**2,753**	**2,758**
Transfer to debt securities at amortized cost at the transition to IFRS 9	–	(2,753)	**(2,753)**
Transfers to Level 3	–	2	**2**
31 December 2018	**5**	**2**	**7**

(Millions of Russian rubles)

31. Fair value of financial instruments (continued)

Financial instruments measured at fair value

The following is a description of fair value measurement for financial instruments recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that market participants would make when valuing the instruments.

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Fair value of financial assets and liabilities not measured at fair value

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, professional judgment is necessarily required to interpret market data to determine the estimated fair value. The economy of the Russian Federation continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets.

Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Cash and cash equivalents are carried at amortized cost, which approximates current fair value.

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The Bank believes that the carrying amount of due from other banks and reverse repurchase agreements approximates their fair value as all such transactions are either of a short term nature, or were performed on market terms shortly before the reporting date.

The fair value of debt securities in issue is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of financial liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

32. Transferred financial assets

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition as at 31 December 2018:

			Trading securities	*Debt securities at FVOCI*	
31 December 2018	***Notes***	***Transferred financial asset***	***Government bonds***	***Government bonds***	***Total***
Carrying amount of financial assets	8, 11	Repurchase agreements	36	10,575	**10,611**
Total			**36**	**10,575**	**10,611**
Carrying amount of financial liabilities	16, 17	Repurchase agreements	35	15,068	**15,103**
Total			**35**	**15,068**	**15,103**

As at 31 December 2019, the Bank did not have financial assets which had been transferred in such a way that part or all of the transferred financial assets did not qualify for derecognition.

As at 31 December 2018, securities pledged under repurchase agreements included bonds with fair value of RUB 10,611 million, debt securities received under the first part of reverse repurchase agreements (without initial recognition) with the fair value of RUB 5,310 million.

(Millions of Russian rubles)

32. Transferred financial assets (continued)

The securities sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral. The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

Likewise, the Bank may sell or repledge securities received as loans or purchased under reverse repurchase agreements but is obliged to return the securities. In this case, the counterparty retains almost all risks and rewards of ownership. Consequently, the securities are not recognized by the Bank.

The Bank did not offset financial assets against financial liabilities in the separate statement of financial position. In addition, the Bank was not engaged in any transactions providing for an offset.

33. Maturity analysis of assets and liabilities

In its day-to-day liquidity management performed by the Treasury and liquidity reporting to the Financial Committee, the Bank uses information from management accounts, which are based on statutory financial reporting figures. The liquidity analysis based on the international financial reporting figures as adjusted below is used as a subsequent control tool and in reporting to the international finance creditors.

The tables below show an analysis of financial assets and liabilities as at 31 December 2019 and 2018 according to when they are contracted to be recovered or settled, except for mortgage loans, which are classified based on recursion model that uses statistic data for period of one year for estimation of future payments, and bonds issued secured with mortgage loans, which are classified based on maturity analysis of related mortgage loans.

Maturity analysis of assets and liabilities was prepared based on the assumption that the repayable liabilities would not be extended.

See Note 30 for the Bank's contractual undiscounted repayment obligations.

31 December 2019	*On demand and less than 1 month*	*1 to 3 months*	*3 to 12 months*	*12 months to 5 years*	*Over 5 years*	*Past due*	*No stated maturity*	*Total*
Cash and cash equivalents	10,437	–	–	–	–	–	–	**10,437**
Mandatory cash balances with the CBR	696	224	803	81	55	–	–	**1,859**
Trading securities	493	–	–	–	–	–	–	**493**
Due from other banks	12,115	28,371	–	–	5,384	–	–	**45,870**
Loans to customers	5,786	6,931	27,875	63,543	29,718	5,207	–	**139,060**
Investment securities	19,867	–	–	–	–	–	–	19,867
Investments in subsidiaries	–	–	–	–	–	–	7,027	**7,027**
Investment property	–	–	–	–	–	–	1,263	**1,263**
Property and equipment and right-of-use assets	–	–	–	–	–	–	3,635	**3,635**
Intangible assets	–	–	–	–	–	–	387	**387**
Deferred income tax asset	–	–	–	–	–	–	516	**516**
Other financial assets	1,901	1	13	–	–	–	–	**1,915**
Other non-financial assets	–	–	–	–	–	–	411	**411**
Total financial assets	**51,295**	**35,527**	**28,691**	**63,624**	**35,157**	**5,207**	**13,239**	**232,740**
Due to other banks	1,586	–	–	–	–	–	–	**1,586**
Customer accounts	70,946	22,809	81,899	8,267	5,572	–	–	**189,493**
Debt securities issued	230	116	1,220	4,754	219	–	–	**6,539**
Other financial liabilities	491	424	1,257	588	1,248	–	–	**4,008**
Other non-financial liabilities	–	–	–	–	–	–	1,195	**1,195**
Total financial liabilities	**73,253**	**23,349**	**84,376**	**13,609**	**7,039**	**–**	**1,195**	**202,821**
Net liquidity gap	**(21,958)**	**12,178**	**(55,685)**	**50,015**	**28,118**	**5,207**	**12,044**	**29,919**
Securities available for repurchase transactions within 12 months	**6,703**	**–**	**–**	**–**	**–**	**–**	**–**	
Cumulative liquidity gap	**(15,255)**	**(3,077)**	**(58,762)**	**(8,747)**	**19,371**	**24,578**	**36,622**	

(Millions of Russian rubles)

33. Maturity analysis of assets and liabilities (continued)

31 December 2018	*On demand and less than 1 month*	*1 to 3 months*	*3 to 12 months*	*12 months to 5 years*	*Over 5 years*	*Past due*	*No stated maturity*	*Total*
Cash and cash equivalents	16,220	–	–	–	–	–	–	**16,220**
Mandatory cash balances with the CBR	731	350	456	143	42	–	–	**1,722**
Trading securities	470	–	–	–	–	–	–	**470**
Trading securities pledged under repurchase agreements	36	–	–	–	–	–	–	**36**
Due from other banks	13,480	36,711	–	–	4,805	–	–	**54,996**
Loans to customers	5,227	13,884	32,636	58,550	24,063	2,243	–	**136,603**
Investment securities	14,613	–	–	–	–	–	–	**14,613**
Investment securities pledged under repurchase agreements	10,575	–	–	–	–	–	–	**10,575**
Investments in subsidiaries	–	–	–	–	–	–	6,009	**6,009**
Investment property	–	–	–	–	–	–	1,287	**1,287**
Property and equipment	–	–	–	–	–	–	1,804	**1,804**
Intangible assets	–	–	–	–	–	–	373	**373**
Deferred income tax asset	–	–	–	–	–	–	516	**516**
Other financial assets	2,518	–	–	–	–	–	–	**2,518**
Other non-financial assets	–	–	–	–	–	–	486	**486**
Total financial assets	**63,870**	**50,945**	**33,092**	**58,693**	**28,910**	**2,243**	**10,475**	**248,228**
Due to other banks	647	355	353	–	–	–	–	**1,355**
Customer accounts	87,176	41,756	54,349	17,084	4,987	–	–	**205,352**
Debt securities issued	150	52	1,697	4,910	9	–	–	**6,818**
Other financial liabilities	3,463	4,233	1,255	889	1,223	–	–	**11,063**
Other non-financial liabilities	–	–	–	–	–	–	1,123	**1,123**
Total financial liabilities	**91,436**	**46,396**	**57,654**	**22,883**	**6,219**	**–**	**1,123**	**225,711**
Net liquidity gap	**(27,566)**	**4,549**	**(24,562)**	**35,810**	**22,691**	**2,243**	**9,352**	**22,517**
Securities available for repurchase transactions within 12 months	**6,718**	**–**	**–**	**–**	**–**	**–**	**–**	
Cumulative liquidity gap	**(20,848)**	**(16,299)**	**(40,861)**	**(5,051)**	**17,640**	**19,883**	**29,235**	

As at 31 December 2019 and 2018, the Bank controls the greatest liquidity gap in the time interval from 3 to 12 months through raising liquidity:

- Repurchase agreements secured by Russian Federal loan bonds received from DIA under the state program for additional capitalization of banks in the nominal amount of RUB 6,000 million and RUB 6,696 million at the fair value as at 31 December 2019 (31 December 2018: RUB 6,000 million and RUB 6,680 million, respectively);
- Unused limits of RUB 1,857 million on the credit facilities available to the Bank;
- High-quality mortgage portfolio (Note 30) helps the Bank rise long-term financing through its securitization. The Bank has successfully placed 4 issues of securitized bonds secured by a pool of mortgage bills of sale, which confirms that this instrument may be used to manage liquidity and interest rate risk.

Term deposits included in customer accounts are treated in the table above as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history. According to the 2019 data, the weighted average rate of holding the deposits of individuals was 74%.

Based on the historical data and previous experience, the Bank's management considers that most customers' current accounts included in "on demand and less than 1 month" category represent a stable source of long-term financing. Given the conservative approach to analyzing maturities of assets and liabilities, the Bank's management defines the liquidity risk as acceptable in view of the balance between the return and the liquidity risk.

34. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

As at 31 December 2019 and 2018, other related parties are the entities under control of the key management personnel over which the ultimate beneficiary has significant influence.

(Millions of Russian rubles)

34. Related party disclosures (continued)

The Russian Federation, acting through state agencies and other institutions, directly and indirectly controls and significantly influences a large number of entities (collectively referred to as "state-controlled entities"). The Bank enters into the following banking transactions with these entities: loan issue, deposit attraction, cash and settlement operations, exchange operations, guarantee provision, and transactions with securities and derivatives. The following table provides details on transactions with state-related entities as at 31 December 2019 and 2018.

Transactions with related parties and relevant balances as at 31 December 2019 are presented in the table below:

	31 December 2019					
Separate statement of financial position	***Parent***	***Subsidiaries***	***Entities under common control***	***Key management personnel***	***State-controlled entities***	***Other related parties***
Cash and cash equivalents	–	–	–	–	6,697	–
Mandatory cash balances with the CBR	–	–	–	–	1,859	–
Gross amount of loans to customers (contractual interest rates: 31 December 2019: 6.0%-19.0% p.a.)	–	8,014	–	630	701	392
Allowance for impairment of loans to customers	–	(78)	–	(52)	(9)	(3)
Trading securities (contractual interest rates: 31 December 2019: 8.41% p.a.)	–	–	–	–	493	–
Due from other banks (contractual interest rates: 31 December 2019: 0.51%-7.24% p.a.)	–	36,595	–	–	9,382	–
Allowance for impairment of amounts due from other banks	–	(112)	–	–	–	–
Investment securities at FVOCI (contractual interest rates: 31 December 2019: 2.5%-9.85% p.a.)	–	7	–	–	17,699	–
Property and equipment and right-of-use assets	–	6	1,712	–	–	–
Other financial assets	–	–	1,202	–	146	10
Other non-financial assets	–	–	–	–	3	–
Allowance for impairment of other financial assets	–	–	(217)	–	–	–
Customer accounts (contractual interest rates: 31 December 2019: 0%-8.00% p.a.)	373	1,473	3,278	128	10,190	7,239
Due to other banks (contractual interest rates: 31 December 2019: 6.50% p.a.)	–	1,585	–	–	–	–
Other financial liabilities	–	1,579	1,732	–	97	52
Other non-financial liabilities	–	–	2	–	22	7
Credit-related commitments						
Guarantees issued	–	–	143	–	2,275	1,344
Undrawn credit lines	–	–	–	–	61	–

Transactions with related parties and relevant balances as at 31 December 2018 are presented in the table below:

	31 December 2018					
Separate statement of financial position	***Parent***	***Subsidiaries***	***Entities under common control***	***Key management personnel***	***State-controlled entities***	***Other related parties***
Cash and cash equivalents	–	–	–	–	12,864	–
Mandatory cash balances with the CBR	–	–	–	–	1,722	–
Gross amount of loans to customers (contractual interest rates: 31 December 2018: 8.5%-19.0% p.a.)	–	2,793	137	87	109	659
Allowance for impairment of loans to customers	–	(42)	(9)	–	(2)	(10)
Trading securities (contractual interest rates: 31 December 2018: 8.80% p.a.)	–	–	–	–	465	–
Trading securities pledged under repurchase agreements (contractual interest rates: 31 December 2018: 8.80% p.a.)	–	–	–	–	36	–
Due from other banks (contractual interest rates: 31 December 2018: 0.51%-8.76% p.a.)	–	46,251	–	–	7,662	–
Allowance for impairment of amounts due from other banks	–	(123)	–	–	–	–
Investment securities at FVOCI (contractual interest rates: 31 December 2018: 2.50%-13.5% p.a.)	–	426	446	–	12,749	–
Investment securities at FVOCI pledged under repurchase agreements (contractual interest rates: 31 December 2018: 7.51%-8.80% p.a.)	–	–	–	–	10,575	–
Other financial assets	–	–	–	–	300	1
Other non-financial assets	–	–	2	–	5	–
Customer accounts (contractual interest rates: 31 December 2018: 0%-8.30% p.a.)	8,464	1,251	2,288	85	24,660	14,024
Due to other banks (contractual interest rates: 31 December 2018: 7.0%-8.75% p.a.)	–	644	–	–	1	–
Other financial liabilities	–	10,459	–	–	10	63
Other non-financial liabilities	–	–	3	–	61	7
Credit-related commitments						
Guarantees issued	–	–	150	–	3,841	1,489
Undrawn credit lines	–	–	–	–	1,291	–
Unused limits on guarantee issuance	–	–	–	–	–	70

(Millions of Russian rubles)

34. Related party disclosures (continued)

Income and expense from transactions with related parties for 2019 are presented in the table below:

	31 December 2019					
Separate statement of profit or loss	*Parent*	*Subsidiaries*	*Entities under common control*	*Key management personnel*	*State-controlled entities*	*Other related parties*
Interest income	–	4,638	33	12	1,860	45
Interest expense	(482)	(435)	(246)	(6)	(1,275)	(628)
Allowance for loan impairment	–	(25)	–	(52)	(9)	7
Fee and commission income	–	5	9	–	31	81
Fee and commission expense	–	–	–	–	(24)	(6)
Net gains/(losses) from financial instruments at FVPL	–	–	1	–	(4)	–
Net gains/(losses) from financial assets at FVOCI	–	–	6	–	(8)	(4)
Net losses from operations with derivatives	–	(1,345)	–	–	(1,824)	–
Allowance for impairment of securities	–	–	4	–	22	–
Other income	–	983	–	–	2	–
Administrative and other operating expenses	–	(2)	(273)	(1)	(754)	(7)
Provision for credit-related commitments	–	–	1	–	(22)	1

Income and expense from transactions with related parties for 2018 are presented in the table below:

	31 December 2018					
Separate statement of profit or loss	*Parent*	*Subsidiaries*	*Entities under common control*	*Key management personnel*	*State-controlled entities*	*Other related parties*
Interest income	–	3,628	338	29	1,872	2
Interest expense	(488)	(1,660)	(89)	(6)	(1,432)	(115)
Allowance for loan impairment	–	28	4	13	(2)	(10)
Fee and commission income	1	15	4	1	48	40
Fee and commission expense	–	–	–	–	(13)	–
Net gains from financial instruments at FVPL	–	–	–	–	109	–
Net gains/(losses) from financial assets at FVOCI	–	–	21	–	(173)	–
Net gains from operations with derivatives	–	–	–	–	26	–
Allowance for impairment of securities	–	5	122	–	(45)	–
Other income	–	–	–	–	2	–
Administrative and other operating expenses	–	(3)	(367)	(1)	(624)	–
Provision for credit-related commitments	–	–	3	–	(61)	(8)

Compensation of key management personnel comprised the following:

	2019	*2018*
Salaries and other short-term benefits	208	210
Severance payments	2	9
Social security costs	36	41
Total compensation to key management personnel	**246**	**260**

35. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from the Bank's financing activities as at 31 December 2019 and 31 December 2018 is presented in the table below:

	Bonds issued	*Lease liabilities*	*Total liabilities arising from financing activities*
Carrying amount at 31 December 2017	**7,168**	**–**	**7,168**
Cash flows from redemption/issue	(3,007)	–	**(3,007)**
Interest expense accrued	964	–	**964**
Carrying amount at 31 December 2018	**5,125**	**–**	**5,125**
Effect of applying IFRS 16	–	967	**967**
Cash flows from redemption/issue	(723)	(413)	**(1,136)**
Interest expense accrued	726	113	**839**
Other	–	1,290	**1,290**
Carrying amount at 31 December 2019	**5,128**	**1,957**	**7,085**

(Millions of Russian rubles)

36. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the CBR in supervising the Bank.

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the CBR and (ii) to safeguard the Bank's ability to continue as a going concern.

The Bank manages its capital structure and makes adjustments to it when economic conditions and the risk characteristics of its activities change. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

As at 31 December 2019 and 2018, the Bank's equity adequacy ratios calculated in accordance with the applicable CBR requirements were above minimum thresholds and totaled:

	Prudential ratio	*31 December 2019*	*31 December 2018*
Common equity		22,958	17,895
Core capital		22,958	17,895
Supplementary capital		8,082	9,069
Equity (capital)		**31,040**	26,964
Risk-weighted assets		**247,227**	**244,192**
Capital adequacy (%)			
Common equity adequacy (N20.1)	>4.5%	9.29%	7.33%
Core capital adequacy (N20.2)	>6.0%	9.29%	7.33%
Equity (capital) adequacy (N20.0)	>8.0%	12.56%	11.04%

As at 31 December 2019 and 2018, for the purpose of calculating, supplementary capital included RUB 6,000 million of Federal loan bonds received from DIA under the state program for additional capitalization of banks that were not recognized in the separate statement of financial position.

As at 31 December 2019, for the purpose of calculating, supplementary capital included RUB 2,000 million of subordinated bonds (31 December 2018: RUB 3,000 million).

37. Subsequent events

Due to the recent progress of the coronavirus pandemic, many countries, including the Russian Federation, introduced quarantine measures that significantly affected the level and scope of business operations in the market. It is expected that the pandemic itself and the mitigating measures may impact the performance of companies across industries. The Bank regards the pandemic as a non-adjusting event after the reporting period, the quantitative effect of which cannot be reliably measured at the moment. At the time of signing this financial statements, currency and commodity markets have shown extreme volatility, as well as a drop in oil prices and depreciation of the Russian ruble against the US dollar and the euro. The Government and the Central Bank of the Russian Federation are taking prompt measures to mitigate the economic impact of the coronavirus and volatility in global financial and commodity markets. Management of the Bank monitors current developments and takes appropriate measures. The Bank's management is currently assessing the possible impact of the changing micro- and macroeconomic environment on the Bank's financial position and performance.