Independent auditor’s report
on the consolidated financial statements of
Absolut Bank (PAO)
and its subsidiaries
for 2019

March 2020

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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 consolidated financial statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated 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 consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Allowance for 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 Group'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 69% of the total assets of the Group 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 29 to the consolidated 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 consolidated 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 Group 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 12 to the consolidated financial statements.

Other information included in the 2019 Annual Report

Other information consists of the information included in 2019 Annual Report, other than the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements

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

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

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

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

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

As part of an audit in accordance with 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

1) Whether the Banking group 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 Banking group conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
   - subordination of the risk management departments
   - the existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital
   - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank
   - oversight performed by the 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 Banking group with the obligatory ratios established by the Bank of Russia

We found that the values of the obligatory ratios of the Banking group as of 1 January 2020 were within the limits established by the Bank of Russia, except for ratios N20.0, N20.2, N21.

The Banking Group's failure to comply with these prudential ratios as at 1 January 2020 resulted from the consolidation of PJSC BALTINVESTBANK currently undergoing financial rehabilitation. The values of the prudential ratios of Absolut Bank (PAO) as at 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 Banking group, except for those procedures we considered necessary to express our opinion on the fair presentation of the Group's consolidated financial statements.

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

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2019, the internal audit division of each credit institution of the Banking group was subordinated and accountable to the Board of Directors of the respective credit institution, 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, interest rate, market, operational and liquidity risks that are significant to the Banking group, and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2019, the Bank had a reporting system pertaining to credit, interest rate, market, operational and liquidity risks that were significant to the Banking group 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 Banking Group complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments in respect of the effectiveness of relevant risk management methodologies. We found that the periodicity and consistency of reports prepared by the internal audit function of a credit institution within the Banking Group during the year ended 31 December 2019 with regard to the management of credit, market, operational, interest rate and liquidity risks comply with the internal documents of each credit institution within the Banking Group and that those reports include the observations made by the internal audit function of a credit institution within the Banking Group regarding the effectiveness of the relevant risk management methods of credit institutions.

- 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 Banking group 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 Banking group 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 Banking group, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

The partner in charge of the audit resulting in this independent auditor’s report is 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.

Consolidated 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	11,169	17,835
Mandatory cash balances with the CBR		2,196	2,186
Trading securities	8	493	742
Trading securities pledged under repurchase agreements	8	–	36
Due from other banks	9	10,688	8,889
Loans to customers	10	152,954	148,452
Investment securities	11	21,434	32,876
Investment securities pledged under repurchase agreements	11	–	10,575
Investment property	12	5,938	8,161
Property and equipment and right-of-use assets	13	8,356	1,819
Intangible assets	13	521	534
Deferred income tax asset	28	516	516
Other financial assets	14	2,798	2,554
Other non-financial assets	14	4,259	2,006
Total assets		**221,322**	**237,181**
Liabilities			
Due to other banks	15	8	710
Customer accounts	16	202,565	219,605
Debt securities issued	17	7,223	10,119
Other financial liabilities	18	2,672	623
Other non-financial liabilities	18	4,238	5,054
Total liabilities		**216,706**	**236,111**
Equity			
Share capital	19	10,002	7,758
Share premium	19	32,491	28,735
Accumulated loss		(38,566)	(35,279)
Other provisions		689	(144)
Total equity attributable to shareholders of the Bank		**4,616**	**1,070**
Total equity and liabilities		**221,322**	**237,181**

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

Коммерческий банк «Абсолют Банк» (публичное акционерное общество) ОГРН 1027700024560 * МОСКВА *
Абсолют Банк

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

Consolidated 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	21	20,056	23,550
Other interest income	21	38	132
Interest expense	21	(13,711)	(15,957)
Net interest income		**6,383**	**7,725**
Allowance for loan impairment	10	(4,241)	(12,533)
Net interest income/(expense) after allowance for loan impairment		**2,142**	**(4,808)**
Fee and commission income	22	3,298	2,669
Fee and commission expense	22	(793)	(607)
Net expense on financial instruments at FVPL	24	(102)	(473)
Net gains from financial assets at FVOCI	23	1,113	785
Net (losses)/gains from operations with derivatives		(4,084)	1,403
Net gains/(losses) from trading in foreign currencies		2,039	(1,747)
Net gains from derecognition of financial assets at amortized cost		1,396	1,054
Net foreign exchange translation differences		98	838
Other income	25	310	1,155
Other expenses	25	(335)	(1,398)
Revenue from non-banking activity		–	74
Cost of sales under non-banking activity		–	(115)
Non-interest income		**2,940**	**3,638**
Personnel expenses	26	(3,364)	(3,885)
Administrative and other operating expenses	26	(3,653)	(3,703)
Net (charge)/reversal of provision for losses from credit-related commitments	18, 20	(106)	702
Net reversal of allowance for impairment of investment securities and other financial assets	11, 14, 27	181	466
Net charge of other provisions	14, 27	(1,051)	(12)
Non-interest expense		**(7,993)**	**(6,432)**
Loss before income tax expense		**(2,911)**	**(7,602)**
Income tax expense	28	(376)	(956)
Loss for the year		**(3,287)**	**(8,558)**

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

Абсолют Банк

Consolidated statement of comprehensive income

for the year ended 31 December 2019

(Millions of Russian rubles)

	Notes	*2019*	*2018*
Loss for the year		**(3,287)**	**(8,558)**
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		1,834	(770)
Net change in the fair value of debt instruments at fair value through other comprehensive income reclassified to profit or loss, net of tax	23	(1,073)	(785)
Change in the allowance for expected credit losses on debt instruments at fair value through other comprehensive income, net of tax		74	(1,181)
Translation differences		(2)	–
Total other comprehensive income/(expense) for the year, net of tax		**833**	**(2,736)**
Total comprehensive expense for the year		**(2,454)**	**(11,294)**

Consolidated statement of changes in equity

for the year ended 31 December 2019

(Millions of Russian rubles)

	Notes	*Share capital*	*Share premium*	*Accumu-lated loss*	*Other provisions*	*Total equity attributable to share-holders of the Bank*	*Non-controlling interests*	*Total equity*
31 December 2017		**6,027**	**24,466**	**(14,229)**	**1,781**	**18,045**	**1**	**18,046**
Effect of transition to IFRS 9		–	–	(12,492)	811	**(11,681)**	–	**(11,681)**
Opening balance restated in accordance with IFRS 9		**6,027**	**24,466**	**(26,721)**	**2,592**	**6,364**	**1**	**6,365**
Disposal of a subsidiary	1	–	–	–	–	**–**	(1)	**(1)**
Issue of share capital	19	1,731	4,269	–	–	**6,000**	–	**6,000**
Loss for the year		–	–	(8,558)	–	**(8,558)**	–	**(8,558)**
Other comprehensive expense for the year		–	–	–	(2,736)	**(2,736)**	–	**(2,736)**
31 December 2018		**7,758**	**28,735**	**(35,279)**	**(144)**	**1,070**	**–**	**1,070**
Issue of share capital	19	2,244	3,756	–	–	**6,000**	–	**6,000**
Loss for the year		–	–	(3,287)	–	**(3,287)**	–	**(3,287)**
Other comprehensive income for the year		–	–	–	833	**833**	–	**833**
31 December 2019		**10,002**	**32,491**	**(38,566)**	**689**	**4,616**	**–**	**4,616**

Consolidated 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		20,769	23,855
Interest paid		(11,781)	(13,635)
Fees and commissions received		3,201	2,663
Fees and commissions paid		(794)	(607)
Losses from operations with trading securities		(73)	(49)
(Losses)/gains from operations with derivatives		(3,895)	1,211
Gains/(losses) from operations with foreign currencies		2,039	(1,748)
Other expenses paid		(22)	(505)
Personnel expenses paid		(3,444)	(3,984)
Other operating expenses paid		(2,753)	(2,225)
Income tax paid		(301)	(556)
Cash flows from operating activities before changes in operating assets and liabilities		**2,946**	**4,420**
Net (increase)/decrease in operating assets			
Mandatory cash balances with the CBR		(10)	638
Trading securities		286	4,747
Due from other banks		(2,226)	(7,003)
Loans to customers		(12,841)	3,298
Other financial assets		415	(2,108)
Other non-financial assets		473	351
Net increase/(decrease) in operating liabilities			
Due to other banks		(429)	(46,863)
Customer accounts		(14,477)	11,777
Promissory notes issued		(257)	(931)
Other financial liabilities		(13)	(618)
Other non-financial liabilities		(176)	7
Net cash used in operating activities		**(26,309)**	**(32,285)**
Cash flows from investing activities			
Purchase of investment securities		(18,747)	(114,998)
Purchase of intangible assets		(245)	(197)
Purchase of property and equipment		(4,833)	(105)
Purchase of investment property		(55)	(477)
Proceeds from sale and redemption of investment securities		40,670	147,360
Proceeds from sale of investment property		1,297	2,016
Proceeds from sale of property and equipment		2	29
Net cash from investing activities		**18,089**	**33,628**
Cash flows from financing activities			
Issue/reissue of bonds		30	2,230
Repayment of bonds		(3,518)	(11,713)
Proceeds from issue of share capital		6,000	6,000
Total cash outflow from lease liabilities		(464)	–
Net cash from / (used in) financing activities		**2,048**	**(3,483)**
Effect of exchange rate changes on cash and cash equivalents		(494)	517
Net decrease in cash and cash equivalents		**(6,666)**	**(1,623)**
Cash and cash equivalents, beginning	7	17,835	19,458
Cash and cash equivalents, ending	7	**11,169**	**17,835**

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

(Millions of Russian rubles)

1. Principal activities

These consolidated financial statements comprise the accounts of Absolut Bank (PAO) (the "Bank") and its subsidiaries (together, the "Group"). The Bank is the parent company in the Group. 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 general 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* dated 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	9.90
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.

(Millions of Russian rubles)

1. Principal activities (continued)

Subsidiaries

As at 31 December 2019 and 2018, the consolidated financial statements comprise financial statements of the following key companies under the Bank's control:

Subsidiary	*31 December 2019, share, %*	*31 December 2018, share, %*	*Country of operation*	*Type of operation*
LLC Absolut Leasing	100.00	100.00	Russian Federation	Finance lease
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
Closed-end Unit Investment Fund "Promising Investments Fund"	–	100.00	Russian Federation	Closed-end unit fund for venture investments
Closed-end Unit Investment Fund Yakor	100.00	100.00	Russian Federation	Closed-end Real Estate Unit Investment Fund
Closed-end Real Estate Unit Investment Fund Genesis	100.00	100.00	Russian Federation	Closed-end Real Estate Unit Investment Fund
Closed-end Unit Investment Fund RVM Novorizhskiy-Development	100.00	100.00	Russian Federation	Closed-end Real Estate Unit Investment Fund
Closed-end Unit Investment Fund RVM Novosaratovka-Development	100.00	41.68	Russian Federation	Closed-end Real Estate Unit Investment Fund
Closed-end Blend Fund TFG-Stabilny	100.00	–	Russian Federation	Closed-end Real Estate Unit Investment Fund
PJSC Baltic Investment Bank ("Baltinvestbank")	100.00	100.00	Russian Federation	Corporate and retail banking
LLC Absolut Factoring	100.00	–	Russian Federation	Factoring
Ashenvale Aviation Limited	100.00	–	The Isle of Man	Leases

Mortgage agents

CJSC IA Absolut 1, CJSC IA Absolut 2, LLC IA Absolut 3, LLC IA Absolut 4 and LLC IA Absolut 5 are structured companies established for the purposes of mortgage loans securitization.

Closed-end mutual funds

Investments in those funds mainly represent investments in investment properties.

Baltinvestbank

On 22 December 2015, DIA selected Absolut Bank (PAO) from among potential investors to perform financial stabilization of Baltinvestbank. 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 to 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: Russia 197101, St. Petersburg, Divenskaya street, 1A. The bank's principal business activity is commercial and retail banking operations within the Russian Federation.

In 2019, contribution of Baltinvestbank to the Group's interest expense, non-interest expense, and net loss before tax amounted to RUB 484 million, RUB 46 million and RUB 3,965 million, respectively.

2. Basis of preparation

General information

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

The Bank and its subsidiaries are required to maintain their accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Group's RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

The consolidated 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 consolidated financial statements are presented in millions of Russian rubles ("RUB"), unless otherwise indicated.

Going concern

These consolidated financial statements for the year ended 31 December 2019 were prepared based on the assumption that the Group will continue as a going concern in the foreseeable future. Under the going concern assumption, assets and liabilities are recorded on the basis that the Group is able to sell its assets and discharge its liabilities in the normal course of business.

The Bank is controlled by Blagosostoyanie. Blagosostoyanie has the ability to provide the Group with the financial support in the form of additional capital and liquidity, if necessary.

As at 31 December 2019, the Group's consolidated equity comprised Baltinvestbank's negative equity of RUB 25,314 million. From 2015, Baltinvestbank has been subject to financial rehabilitation measures implemented by the Bank (the "Investor"). The negative value of Baltinvestbank's equity resulted from significant allowances for impairment of distressed assets.

In accordance with the separate financial statements, the Bank's capital as at 31 December 2019 totaled RUB 29,919 million. As at 31 December 2019, the Bank's equity adequacy ratios calculated individually pursuant to the applicable CBR requirements were above minimum thresholds (Note 36).

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Group 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 Group 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 Group is the lessor.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The Group 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 Group 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 Group 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 (short-term lease), as well as with regard to leases of low-value underlying assets (low-value assets).

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

	1 January 2019
Assets	
Property and equipment (right-of-use assets)	1,074
Other assets (prepayment)	(9)
Total assets	**1,065**
Liabilities	
Other liabilities (lease liabilities)	1,065
Total liabilities	**1,065**
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	**1,287**
Adjustments to lease payments	
Practical expedient: short-term leases	(2)
Practical expedient: underlying low-value asset	(46)
Future lease payments under IFRS 16	**1,239**
Weighted average incremental borrowing rate as at 1 January 2019	10.9%
Effect of discounting	(174)
Lease liability under IFRS 16	**1,065**
Previously paid advances and non-refundable guarantee deposits under contracts	9
Right-of-use assets under IFRS 16	**1,074**

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

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group 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 Group; 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 Group 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 Group.

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

The Group 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.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The Group 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 Group 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 Group upon adoption of IFRS 16, which have been applied from the date of initial application:

i. Group as a lessee

The Group applies a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. The Group 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 Group 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 Group 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.

At the commencement date of the lease, the Group 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 Group 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 consolidated statement of financial position, lease liabilities are disclosed in the line Other lease liabilities in the consolidated statement of financial position. Finance expenses are disclosed in the line Interest expenses in the consolidated statement of profit and loss, depreciation of right-of-use assets is disclosed in the line Administrative and other operating expenses in the consolidated statement of profit and loss.

<u>Short-term leases and leases of low-value assets</u>

The Group 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 Group 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.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

The Group 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 Group'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	**1,074**	**–**	**1,074**	**1,065**
Additions	34	6	**40**	40
Modification and reassessment of lease liabilities	1,323	–	**1,323**	1,323
Disposals	(22)	(1)	**(23)**	(22)
Depreciation expense	(372)	(1)	**(373)**	–
Interest expense	–	–	**–**	125
Payments	–	–	**–**	(464)
31 December 2019	**2,037**	**4**	**2,041**	**2,067**

The Group recognized expenses from short-term leases and leases of low-value assets of RUB 38 million for the year ended 31 December 2019.

In 2019, total cash outflow related to leases amounted to RUB 464 million.

ii. Operating – Group as a lessor

Leases in which the Group 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.

iii. Finance – Group as a lessor

The Group recognizes lease receivables in an amount equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of lease receivables.

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 Group 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 Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group 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 Group's consolidated financial statements.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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 Group's consolidated 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 Group's consolidated 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 Group's consolidated financial statements as the Group does not have long-term interests in associate and joint venture.

Annual improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it should apply the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer should remeasure its entire previously held interest in the joint operation.

The entity must apply these amendments to business combinations, the date of which coincides with or occurs after the first annual reporting period beginning on or after 1 January 2019. Early application is permitted.

These amendments had no impact on the Group's consolidated financial statements as there is no transaction where joint control is obtained.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

The entity must apply these amendments to transactions, under which it obtains joint control, and the date of which coincides with or occurs after the first annual reporting period beginning on or after 1 January 2019. Early application is permitted.

These amendments had no impact on the Group's consolidated financial statements as there is no transaction where joint control is obtained.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intragroup transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

3. Summary of accounting policies (continued)

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree, that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, either at fair value or at the proportionate share of the acquiree's identifiable net assets. Other components of the non-controlling interests are measured at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes analyzing whether the acquiree needs to separate embedded derivatives in host contracts.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interests in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IFRS 9 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the subsidiary's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Investments in associates

Associates are entities in which the Group 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 Group's share in net assets of the associate. The Group'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 Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

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 Group 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.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group 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 Group classifies and measures derivatives and instruments held for trading at FVPL. The Group 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 Group 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 Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group'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 Group'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 Group's original expectations, the Group 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.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

The SPPI test

As a second step of its classification process the Group 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 Group 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.

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 Group 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 Group 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 Group 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 Group 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 Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the consolidated 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 Group 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.

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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 Group 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 Group did not reclassify any of its financial assets and liabilities in 2019.

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 Group'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 Group 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 Group'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 consolidated statement of profit or loss as interest income. Dividends are recorded in the consolidated statement of profit or loss when the Group'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 consolidated 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 Group 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. Derivative financial instruments 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 consolidated statement of profit or loss.

3. Summary of accounting policies (continued)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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 consolidated statement of financial position.

Renegotiated loans

Where possible, the Group 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 Group 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. When assessing whether a loan to a customer should be derecognized, the Group 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 Group records a modification gain or loss, presented within interest revenue calculated using EIR in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Group 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 Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all 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 consolidated statement of profit or loss.

3. Summary of accounting policies (continued)

Securitization

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

The Group 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.

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 Group 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 profit or loss.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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 improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group 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 Group'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 Group 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.

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 Group 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 Group'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 Group measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group 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.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Provisions

Provisions are recognized when the Group 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 Group 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 Group. Debt securities are carried at amortized cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of profit or loss.

Taxation

Income taxes have been provided for in the consolidated 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 consolidated 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.

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 and liabilities are netted only within the individual companies of the Group. 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 Group’s activities. These taxes are included as a component of administrative and other operating expenses.

Retirement and other employee benefit obligations

The Group 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 Group 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 Group in its own name, but on the account of third parties, are not reported in the consolidated 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.

3. Summary of accounting policies (continued)

Segment reporting

The Group'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 consolidated 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 consolidated 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 Group 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 Group 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 Group 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 Group 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 Group reverts to calculating interest income on a gross basis.

In case of purchased or originated credit-impaired (POCI) financial assets, the Group 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 consolidated statement of profit or loss.

Fee and commission income

The Group 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 Group'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.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's and the subsidiaries' functional currency and the Group's presentation currency 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 Group's consolidated financial statements are disclosed below. The Group 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.

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 Group will continue to assess the potential effect of IFRS 17 on its consolidated financial statements.

Amendments to IFRS 3 Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of their first application, the Group will not be affected by these amendments on the date of transition.

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 any significant impact on the Group's consolidated financial statements.

(Millions of Russian rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

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 Group's consolidated financial statements.

4. Significant accounting judgments and estimates

The Group 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 consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

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 Group'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 Group to determine the probability of default (PD);
- ► Criteria used by the Group 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.

Determination of control over investees

Due to adoption of the new standard IFRS 10 *Consolidated Financial Statements* by the Group since 1 January 2013, the control indicators set out in Note 3 are subject to management's judgment, which may have a significant effect on the Group's interests in structured companies.

(Millions of Russian rubles)

4. Significant accounting judgments and estimates (continued)

Determination of control over investees (continued)

Mortgage agents, established for the purpose of securitization, sponsored by the Group under its securitization program are run according to pre-determined criteria that are part of the initial design of the structured company. Outside of the day-to-day servicing of the receivables (which is carried out by the Group under a servicing contract), key decisions are required only when receivables in the agents go into default, and it is the Group that makes those decisions. In addition, the Group is exposed to a variability of returns from the structured companies through its holding of debt securities in them. As a result, the Group concluded that it controls these mortgage agents and they were consolidated as at 31 December 2018.

Investment property

The Group tests its investment property for impairment on a regular basis. In determining the recoverable value of its investment property, the Group 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 consolidated financial statements, the Group'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 Group's management considers it probable to use the deferred tax asset recognized in the consolidated financial statements.

5. Changes in presentation

The following reclassifications are made in notes to the consolidated 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*
Consolidated statement of profit or loss			
Non-interest income			
Net gains from operations with securities	312	(312)	–
Net expense on financial instruments at FVPL	–	(473)	(473)
Net gains from financial assets at FVOCI	–	785	785

6. Segment information

For management purposes, the Group 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 consolidated financial statements.

(Millions of Russian rubles)

6. Segment information (continued)

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

The Group allocates in its internal management accounting system major part of the Group'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, long-term borrowings from shareholders, amounts provided by DIA for financial stabilization of Baltinvestbank, assets of Baltinvestbank, including doubtful loans issued before the financial rehabilitation, and the Group's equity) that were not allocated have been presented as "unallocated" in the table below.

Segment liabilities used by the Group'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 Group 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 Group's total revenue in 2019 or 2018.

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

	Retail banking	***Corporate banking***	***Financial markets***	***Unallocated items***	***Total***
Segment assets	114,528	56,629	30,628	19,537	**221,322**
Segment liabilities, including equity	131,048	61,797	728	27,749	**221,322**

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

	Retail banking	***Corporate banking***	***Financial markets***	***Unallocated items***	***Total***
Segment assets	103,154	57,250	67,648	9,129	**237,181**
Segment liabilities, including equity	122,613	63,125	19,104	32,339	**237,181**

The table below presents information on the allocation of the Group'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	12,371	4,783	2,868	34	**20,056**
Other interest income	–	–	38	–	**38**
Interest expense	(7,151)	(5,131)	(1,429)	–	**(13,711)**
(Expense)/income from other segments	(49)	365	287	(603)	**–**
Net interest income/(expense)	**5,171**	**17**	**1,764**	**(569)**	**6,383**
Commission and dealing income	2,850	39	–	51	**2,940**
Operating income/(expense)	**8,021**	**56**	**1,764**	**(518)**	**9,323**
Operating expenses	(3,637)	(2,141)	(583)	(656)	**(7,017)**
Profit/(loss) before allowance and tax	**4,384**	**(2,085)**	**1,181**	**(1,174)**	**2,306**
Allowances for impairment of financial assets and other provisions	(1,489)	(3,724)	115	(119)	**(5,217)**
Income tax	–	–	(248)	(128)	**(376)**
Profit/(loss)	**2,895**	**(5,809)**	**1,048**	**(1,421)**	**(3,287)**

(Millions of Russian rubles)

6. Segment information (continued)

The table below presents information on the allocation of the Group'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	10,961	8,526	3,740	323	**23,550**
Other interest income	–	–	132	–	**132**
Interest expense	(7,080)	(4,545)	(4,332)	–	**(15,957)**
Income/(expense) from other segments	1,579	(3,131)	798	754	**–**
Net interest income	**5,460**	**850**	**338**	**1,077**	**7,725**
Commission and dealing income	1,823	1,001	275	539	**3,638**
Operating income	**7,283**	**1,851**	**613**	**1,616**	**11,363**
Operating expenses	(3,695)	(2,726)	(1,008)	(159)	**(7,588)**
Profit/(loss) before allowance and tax	**3,588**	**(875)**	**(395)**	**1,457**	**3,775**
Allowances for impairment of financial assets and other provisions	(1,133)	(10,805)	1,701	(1,140)	**(11,377)**
Income tax	–	–	(347)	(609)	**(956)**
Profit/(loss)	**2,455**	**(11,680)**	**959**	**(292)**	**(8,558)**

7. Cash and cash equivalents

	31 December 2019	*31 December 2018*
Cash on hand	1,758	2,225
Current accounts with the CBR	6,198	11,683
Current accounts with other banks	2,787	2,032
Settlement accounts with trading systems	426	1,895
Total cash and cash equivalents	**11,169**	**17,835**

8. Trading securities

	31 December 2019	*31 December 2018*
Government bonds	493	465
Corporate bonds	–	256
Corporate shares	–	11
Other securities at fair value through profit or loss	–	10
Total trading securities	**493**	**742**
Government bonds	–	36
Total trading securities pledged under repurchase agreements	**–**	**36**

As at 31 December 2019, trading securities were represented by the RUB-denominated Russian Federation's debt securities (31 December 2018: corporate bonds were represented by RUB and USD-denominated securities issued by top Russian companies and banks).

As at 31 December 2019, there were no trading securities pledged under repurchase agreements.

(Millions of Russian rubles)

9. Due from other banks

	31 December 2019	*31 December 2018*
Reverse repurchase agreements with banks	10,670	6,161
Term deposits with other banks	18	2,728
Total due from other banks	**10,688**	**8,889**
Allowance for impairment	–	–
Total due from other banks less allowance for impairment	**10,688**	**8,889**

As at 31 December 2019, reverse repurchase agreements with banks were represented by an agreement concluded with a central counterparty (NCI NCC (JSC)) secured by corporate debt securities and clearing certificate participatory notes. As at 31 December 2018, reverse repurchase agreements with banks were represented by an agreement concluded with a 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 debt securities and clearing certificate participatory notes pledged under reverse repurchase agreements with banks was RUB 10,681 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 6,182 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	**8,889**	**–**	**–**	**8,889**
New purchased or originated assets	10,670	–	–	**10,670**
Assets redeemed	(8,867)	–	–	**(8,867)**
Net movement in gross carrying amount	(4)	–	–	**(4)**
31 December 2019	**10,688**	**–**	**–**	**10,688**

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	**1,695**	**–**	**–**	**1,695**
New purchased or originated assets	8,863	–	–	**8,863**
Assets redeemed	(1,657)	–	–	**(1,657)**
Net movement in gross carrying amount	(12)	–	–	**(12)**
31 December 2018	**8,889**	**–**	**–**	**8,889**

As at 31 December 2019, the allowance for ECL on due from other banks amounted to RUB 0.1 million.

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	**1**	**–**	**–**	**1**
Assets redeemed	(1)	–	–	**(1)**
31 December 2018	**–**	**–**	**–**	**–**

As at 31 December 2018, the allowance for ECL on due from other banks amounted to RUB 0.09 million.

(Millions of Russian rubles)

10. Loans to customers

	31 December 2019	*31 December 2018*
Loans to legal entities		
Corporate loans	71,424	75,446
SME loans (legal entities)	7,904	5,954
Trade financing	4,545	4,861
Finance lease receivables	1,583	1,291
Other loans	25	26
Total loans to legal entities	**85,481**	**87,578**
Loans to individuals		
Mortgage loans	79,053	88,746
Car loans	9,762	9,543
Consumer and cash loans	2,573	2,040
Credit cards	583	425
SME loans (individuals)	60	113
Acquired rights of claim	3	9
Total loans to individuals	**92,034**	**100,876**
Total loans to customers at amortized cost	**177,515**	**188,454**
Allowance for impairment	(44,766)	(40,002)
Total loans to customers at amortized cost, less allowance for impairment	**132,749**	**148,452**
Loans to customers at FVOCI		
Loans to individuals at FVOCI	20,205	–
Total loans to customers at FVOCI	**20,205**	**–**
Total loans to customers	**152,954**	**148,452**

As at 31 December 2019, mortgage loans with the carrying amount of RUB 1,796 million were pledged as collateral for bonds issued by the Group (Note 17) (31 December 2018: mortgage loans with the carrying amount of RUB 4,457 million were pledged as collateral for bonds issued by the Group).

In the first quarter of 2019, the Group implemented a new business model to manage liquidity and interest rate risk. To achieve this goal, the Group 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 20,205 million.

As at 31 December 2019, the Group had a concentration of loans represented by RUB 26,848 million, or 13.6% of gross loan portfolio, due from the ten largest third-party borrowers (31 December 2018: RUB 29,438 million, or 15.8% of gross loan portfolio). An allowance of RUB 8,741 million (31 December 2018: RUB 9,142 million) was recognized against these loans.

(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	**23,946**	**14,150**	**37,350**	**75,446**
New purchased or originated assets	25,623	–	–	**25,623**
Assets derecognized or redeemed (excluding write-offs)	(15,379)	(5,929)	(364)	**(21,672)**
Transfers to Stage 2	(4,538)	4,538	–	**–**
Transfers to Stage 3	(3,277)	(5,911)	9,188	**–**
Other movements in gross carrying amount	(1,263)	776	(5,176)	**(5,663)**
Sale of loans	–	–	(2,310)	**(2,310)**
31 December 2019	**25,112**	**7,624**	**38,688**	**71,424**
SME loans (legal entities)				
Gross carrying amount at 1 January 2019	**260**	**1**	**5,693**	**5,954**
New purchased or originated assets	1,676	–	–	**1,676**
Assets derecognized or redeemed (excluding write-offs)	(48)	–	(39)	**(87)**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	(247)	(1)	248	**–**
Other movements in gross carrying amount	(79)	–	701	**622**
Sale of loans	–	–	(261)	**(261)**
31 December 2019	**1,560**	**2**	**6,342**	**7,904**
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)	(1,346)	(89)	–	**(1,435)**
Transfers to Stage 2	(12)	12	–	**–**
Transfers to Stage 3	(774)	–	774	**–**
Other movements in gross carrying amount	(42)	–	(257)	**(299)**
31 December 2019	**1,693**	**12**	**2,840**	**4,545**
Finance lease receivables				
Gross carrying amount at 1 January 2019	**833**	**138**	**320**	**1,291**
New purchased or originated assets	967	–	–	**967**
Assets derecognized or redeemed (excluding write-offs)	(78)	–	–	**(78)**
Transfers to Stage 2	1	(1)	–	**–**
Transfers to Stage 3	(42)	–	42	**–**
Other movements in gross carrying amount	(364)	(45)	(76)	**(485)**
Amounts written off	–	–	(112)	**(112)**
31 December 2019	**1,317**	**92**	**174**	**1,583**
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	**79,128**	**7,225**	**2,393**	**88,746**
New purchased or originated assets	27,703	–	–	**27,703**
Assets derecognized or redeemed (excluding write-offs)	(9,467)	(837)	(256)	**(10,560)**
Transfers to Stage 1	1,635	(1,553)	(82)	**–**
Transfers to Stage 2	(7,977)	8,046	(69)	**–**
Transfers to Stage 3	(660)	(644)	1,304	**–**
Other movements in gross carrying amount	(2,063)	(430)	(104)	**(2,597)**
Sale of loans	(22,549)	(1,163)	(405)	**(24,117)**
Amounts written off	(9)	(19)	(94)	**(122)**
31 December 2019	**65,741**	**10,625**	**2,687**	**79,053**
Car loans				
Gross carrying amount at 1 January 2019	**7,086**	**1,757**	**700**	**9,543**
New purchased or originated assets	3,683	–	–	**3,683**
Assets derecognized or redeemed (excluding write-offs)	(1,463)	(170)	(16)	**(1,649)**
Transfers to Stage 1	798	(793)	(5)	**–**
Transfers to Stage 2	(305)	310	(5)	**–**
Transfers to Stage 3	(388)	(441)	829	**–**
Other movements in gross carrying amount	(1,085)	(65)	(73)	**(1,223)**
Sale of loans	(358)	(76)	(157)	**(591)**
Amounts written off	–	–	(1)	**(1)**
31 December 2019	**7,968**	**522**	**1,272**	**9,762**
Consumer and cash loans				
Gross carrying amount at 1 January 2019	**845**	**4**	**1,191**	**2,040**
New purchased or originated assets	710	–	–	**710**
Assets derecognized or redeemed (excluding write-offs)	(110)	–	(10)	**(120)**
Transfers to Stage 1	4	(2)	(2)	**–**
Transfers to Stage 2	(4)	4	–	**–**
Transfers to Stage 3	(5)	(1)	6	**–**
Other movements in gross carrying amount	(67)	(1)	65	**(3)**
Sale of loans	(1)	–	(52)	**(53)**
Amounts written off	–	–	(1)	**(1)**
31 December 2019	**1,372**	**4**	**1,197**	**2,573**
Credit cards				
Gross carrying amount at 1 January 2019	**91**	**5**	**329**	**425**
New purchased or originated assets	15	–	–	**15**
Assets derecognized or redeemed (excluding write-offs)	(21)	–	(4)	**(25)**
Transfers to Stage 1	1	(1)	–	**–**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	(7)	(4)	11	**–**
Other movements in gross carrying amount	(1)	–	173	**172**
Sale of loans	–	–	(1)	**(1)**
Amounts written off	–	–	(3)	**(3)**
31 December 2019	**76**	**2**	**505**	**583**
SME loans (individuals)				
Gross carrying amount at 1 January 2019	**97**	**–**	**16**	**113**
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**	**30**	**60**

(Millions of Russian rubles)

10. Loans to customers (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Acquired rights of claim				
Gross carrying amount at 1 January 2019	**–**	**–**	**9**	**9**
Other movements in gross carrying amount	–	–	3	**3**
Sale of loans	–	–	(9)	**(9)**
31 December 2019	**–**	**–**	**3**	**3**

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	20,202	–	–	**20,202**
Transfers to Stage 2	(163)	163	–	**–**
Transfers to Stage 3	(35)	–	35	**–**
Other movements in gross carrying amount	2,419	4	–	**2,423**
Sale of loans	(2,416)	(4)	–	**(2,420)**
31 December 2019	**20,007**	**163**	**35**	**20,205**

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	**48,777**	**22,712**	**19,595**	**–**	**91,084**
New purchased or originated assets	15,416	–	–	–	**15,416**
Assets derecognized or redeemed (excluding write-offs)	(26,978)	(4,938)	(2,250)	(615)	**(34,781)**
Transfers to Stage 1	4,032	(4,032)	–	–	**–**
Transfers to Stage 2	(10,703)	10,703	–	–	**–**
Transfers to Stage 3	(3,332)	(7,971)	11,303	–	**–**
Other movements in gross carrying amount	(3,266)	(2,324)	8,709	615	**3,734**
Amounts written off	–	–	(7)	–	**(7)**
31 December 2018	**23,946**	**14,150**	**37,350**	**–**	**75,446**
SME loans (legal entities)					
Gross carrying amount at 1 January 2018	**1,382**	**–**	**5,551**	**–**	**6,933**
New purchased or originated assets	6	–	–	–	**6**
Assets derecognized or redeemed (excluding write-offs)	(861)	–	(215)	–	**(1,076)**
Transfers to Stage 2	(1)	1	–	–	**–**
Transfers to Stage 3	(123)	–	123	–	**–**
Other movements in gross carrying amount	(143)	–	271	–	**128**
Amounts written off	–	–	(37)	–	**(37)**
31 December 2018	**260**	**1**	**5,693**	**–**	**5,954**

(Millions of Russian rubles)

10. Loans to customers (continued)

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
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**
Finance lease receivables					
Gross carrying amount at 1 January 2018	**1,388**	**1,428**	**76**	**–**	**2,892**
New purchased or originated assets	182	–	–	–	**182**
Assets derecognized or redeemed (excluding write-offs)	(131)	(1,252)	–	–	**(1,383)**
Transfers to Stage 2	(103)	103	–	–	**–**
Transfers to Stage 3	(3)	(162)	165	–	**–**
Other movements in gross carrying amount	(500)	21	79	–	**(400)**
31 December 2018	**833**	**138**	**320**	**–**	**1,291**

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	**61,780**	**6,865**	**1,960**	**70,605**
New purchased or originated assets	43,900	–	–	**43,900**
Assets derecognized or redeemed (excluding write-offs)	(18,571)	(1,520)	(232)	**(20,323)**
Transfers to Stage 1	2,188	(2,132)	(56)	**–**
Transfers to Stage 2	(4,892)	4,988	(96)	**–**
Transfers to Stage 3	(305)	(468)	773	**–**
Other movements in gross carrying amount	(4,913)	(410)	76	**(5,247)**
Amounts written off	(60)	(97)	(32)	**(189)**
31 December 2018	**79,127**	**7,226**	**2,393**	**88,746**
Car loans				
Gross carrying amount at 1 January 2018	**3,690**	**767**	**265**	**4,722**
New purchased or originated assets	10,486	–	–	**10,486**
Assets derecognized or redeemed (excluding write-offs)	(4,441)	(507)	(272)	**(5,220)**
Transfers to Stage 1	169	(169)	–	**–**
Transfers to Stage 2	(1,887)	1,890	(3)	**–**
Transfers to Stage 3	(516)	(142)	658	**–**
Other movements in gross carrying amount	(415)	(82)	54	**(443)**
Amounts written off	–	–	(2)	**(2)**
31 December 2018	**7,086**	**1,757**	**700**	**9,543**

(Millions of Russian rubles)

10. Loans to customers (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Consumer and cash loans				
Gross carrying amount at 1 January 2018	**1,346**	**6**	**1,270**	**2,622**
New purchased or originated assets	56	–	–	**56**
Assets derecognized or redeemed (excluding write-offs)	(285)	(5)	(95)	**(385)**
Transfers to Stage 2	(5)	5	–	**–**
Transfers to Stage 3	(16)	(1)	17	**–**
Other movements in gross carrying amount	(251)	(1)	2	**(250)**
Amounts written off	–	–	(3)	**(3)**
31 December 2018	**845**	**4**	**1,191**	**2,040**
Credit cards				
Gross carrying amount at 1 January 2018	**147**	**2**	**291**	**440**
New purchased or originated assets	22	–	–	**22**
Assets derecognized or redeemed (excluding write-offs)	(29)	(1)	(9)	**(39)**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(28)	(1)	29	**–**
Other movements in gross carrying amount	(20)	4	22	**6**
Amounts written off	–	–	(4)	**(4)**
31 December 2018	**91**	**5**	**329**	**425**
SME loans (individuals)				
Gross carrying amount at 1 January 2018	**152**	**–**	**17**	**169**
Assets derecognized or redeemed (excluding write-offs)	(22)	–	–	**(22)**
Transfers to Stage 1	2	–	(2)	**–**
Other movements in gross carrying amount	(34)	–	–	**(34)**
31 December 2018	**98**	**–**	**15**	**113**
Acquired rights of claim				
Gross carrying amount at 1 January 2018	**6**	**17**	**42**	**65**
Assets derecognized or redeemed (excluding write-offs)	(4)	(12)	(51)	**(67)**
Transfers to Stage 1	3	(3)	–	**–**
Transfers to Stage 3	–	(1)	1	**–**
Other movements in gross carrying amount	(5)	(1)	17	**11**
31 December 2018	**–**	**–**	**9**	**9**

(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	**328**	**903**	**27,586**	**28,817**
New purchased or originated assets	521	–	–	**521**
Assets derecognized or redeemed (excluding write-offs)	(148)	(44)	(348)	**(540)**
Transfers to Stage 2	(200)	200	–	**–**
Transfers to Stage 3	(143)	(580)	723	**–**
Net revaluation of ECL allowance	(85)	114	2,791	**2,820**
Unwinding of discount (recorded in interest income)	–	–	2,436	**2,436**
Sale of loans	–	–	(1,825)	**(1,825)**
31 December 2019	**273**	**593**	**31,363**	**32,229**
SME loans (legal entities)				
ECL allowance at 1 January 2019	**1**	**–**	**4,488**	**4,489**
New purchased or originated assets	288	–	–	**288**
Assets derecognized or redeemed (excluding write-offs)	(2)	–	(21)	**(23)**
Transfers to Stage 3	(247)	–	247	**–**
Net revaluation of ECL allowance	6	–	84	**90**
Unwinding of discount (recorded in interest income)	–	–	644	**644**
Sale of loans	–	–	(95)	**(95)**
31 December 2019	**46**	**–**	**5,347**	**5,393**
Trade financing				
ECL allowance at 1 January 2019	**5**	**–**	**2,323**	**2,328**
New purchased or originated assets	5	–	–	**5**
Assets derecognized or redeemed (excluding write-offs)	(3)	–	–	**(3)**
Transfers to Stage 3	(1)	–	1	**–**
Net revaluation of ECL allowance	–	–	(147)	**(147)**
31 December 2019	**6**	**–**	**2,177**	**2,183**
Finance lease receivables				
ECL allowance at 1 January 2019	**11**	**8**	**179**	**198**
New purchased or originated assets	37	–	–	**37**
Transfers to Stage 3	(2)	–	2	**–**
Net revaluation of ECL allowance	(6)	(4)	61	**51**
Amounts written off	–	–	(112)	**(112)**
31 December 2019	**40**	**4**	**130**	**174**
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	**153**	**566**	**1,530**	**2,249**
New purchased or originated assets	165	–	–	**165**
Assets derecognized or redeemed (excluding write-offs)	(25)	(96)	(216)	**(337)**
Transfers to Stage 1	154	(120)	(34)	**–**
Transfers to Stage 2	(66)	96	(30)	**–**
Transfers to Stage 3	(60)	(55)	115	**–**
Net revaluation of ECL allowance	(103)	219	344	**460**
Unwinding of discount (recorded in interest income)	–	–	84	**84**
Amounts written off	(1)	(16)	(91)	**(108)**
Sale of loans	(113)	(48)	(243)	**(404)**
31 December 2019	**104**	**546**	**1,459**	**2,109**
Car loans				
ECL allowance at 1 January 2019	**12**	**183**	**609**	**804**
New purchased or originated assets	222	–	–	**222**
Assets derecognized or redeemed (excluding write-offs)	(3)	(14)	(19)	**(36)**
Transfers to Stage 1	77	(73)	(4)	**–**
Transfers to Stage 2	(51)	55	(4)	**–**
Transfers to Stage 3	(153)	(56)	209	**–**
Net revaluation of ECL allowance	(69)	98	413	**442**
Unwinding of discount (recorded in interest income)	–	–	19	**19**
Amounts written off	–	–	(1)	**(1)**
Sale of loans	(3)	–	(141)	**(144)**
31 December 2019	**32**	**193**	**1,081**	**1,306**
Consumer and cash loans				
ECL allowance at 1 January 2019	**52**	**2**	**672**	**726**
New purchased or originated assets	54	–	–	**54**
Assets derecognized or redeemed (excluding write-offs)	(3)	–	(8)	**(11)**
Transfers to Stage 1	3	(1)	(2)	**–**
Net revaluation of ECL allowance	(5)	2	39	**36**
Unwinding of discount (recorded in interest income)	–	–	51	**51**
Amounts written off	–	–	(1)	**(1)**
Sale of loans	–	–	(51)	**(51)**
31 December 2019	**101**	**3**	**700**	**804**
Credit cards				
ECL allowance at 1 January 2019	**3**	**4**	**329**	**336**
New purchased or originated assets	5	–	–	**5**
Assets derecognized or redeemed (excluding write-offs)	(1)	–	(6)	**(7)**
Transfers to Stage 1	1	(1)	–	**–**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(4)	(3)	7	**–**
Net revaluation of ECL allowance	–	1	(2)	**(1)**
Unwinding of discount (recorded in interest income)	–	–	181	**181**
Amounts written off	–	–	(3)	**(3)**
Sale of loans	–	–	(1)	**(1)**
31 December 2019	**3**	**2**	**505**	**510**

(Millions of Russian rubles)

10. Loans to customers (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
SME loans (individuals)				
ECL allowance at 1 January 2019	**7**	**–**	**15**	**22**
Assets derecognized or redeemed (excluding write-offs)	(2)	–	–	**(2)**
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	**2**	**–**	**29**	**31**
Acquired rights of claim				
ECL allowance at 1 January 2019	**–**	**–**	**8**	**8**
Net revaluation of ECL allowance	–	–	6	**6**
Unwinding of discount (recorded in interest income)	–	–	(2)	**(2)**
Sale of loans	–	–	(10)	**(10)**
31 December 2019	**–**	**–**	**2**	**2**

Movements in allowances for ECL on loans to individuals at FVOCI during the year ended 31 December 2019 are 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	134	–	–	**134**
Transfers to Stage 2	(14)	14	–	**–**
Transfers to Stage 3	(16)	4	12	**–**
Net revaluation of ECL allowance	5	–	–	**5**
Sale of loans	(5)	–	–	**(5)**
31 December 2019	**104**	**18**	**12**	**134**

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	**910**	**2,711**	**12,979**	**–**	**16,600**
New purchased or originated assets	2,207	–	–	–	**2,207**
Assets derecognized or redeemed (excluding write-offs)	327	304	(3)	–	**628**
Transfers to Stage 1	1,302	(1,302)	–	–	**–**
Transfers to Stage 2	(846)	846	–	–	**–**
Transfers to Stage 3	(1,480)	(1,595)	3,075	–	**–**
Net revaluation of ECL allowance	(1,308)	(46)	9,246	–	**7,892**
Transfer from investment securities	–	–	2,793	–	**2,793**
Unwinding of discount (recorded in interest income)	–	–	482	–	**482**
Amounts written off	–	–	(2)	–	**(2)**
Sale of loans	(784)	(15)	(984)	–	**(1,783)**
31 December 2018	**328**	**903**	**27,586**	**–**	**28,817**

(Millions of Russian rubles)

10. Loans to customers (continued)

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
SME loans (legal entities)					
ECL allowance at 1 January 2018	**21**	**–**	**4,122**	**–**	**4,143**
New purchased or originated assets	1	–	–	–	**1**
Assets derecognized or redeemed (excluding write-offs)	(19)	–	(16)	–	**(35)**
Transfers to Stage 3	(1)	–	1	–	**–**
Net revaluation of ECL allowance	(1)	–	160	–	**159**
Unwinding of discount (recorded in interest income)	–	–	333	–	**333**
Amounts written off	–	–	(37)	–	**(37)**
Sale of loans	–	–	(75)	–	**(75)**
31 December 2018	**1**	**–**	**4,488**	**–**	**4,489**
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**
Finance lease receivables					
ECL allowance at 1 January 2018	**40**	**495**	**69**	**–**	**604**
New purchased or originated assets	2	–	–	–	**2**
Assets derecognized or redeemed (excluding write-offs)	(10)	(481)	–	–	**(491)**
Transfers to Stage 2	(3)	3	–	–	**–**
Transfers to Stage 3	–	(13)	13	–	**–**
Net revaluation of ECL allowance	(18)	4	121	–	**107**
Unwinding of discount (recorded in interest income)	–	–	(24)	–	**(24)**
31 December 2018	**11**	**8**	**179**	**–**	**198**

Movements in allowances for ECL on loans to individuals during the year ended 31 December 2018 with a breakdown by respective category are presented in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Mortgage loans				
ECL allowance at 1 January 2018	**113**	**568**	**1,297**	**1,978**
New purchased or originated assets	220	–	–	**220**
Assets derecognized or redeemed (excluding write-offs)	(18)	(103)	(71)	**(192)**
Transfers to Stage 1	198	(161)	(37)	**–**
Transfers to Stage 2	(90)	146	(56)	**–**
Transfers to Stage 3	(40)	(39)	79	**–**
Net revaluation of ECL allowance	(213)	218	433	**438**
Unwinding of discount (recorded in interest income)	–	–	(5)	**(5)**
Amounts written off	(17)	(57)	(25)	**(99)**
Sale of loans	–	(6)	(85)	**(91)**
31 December 2018	**153**	**566**	**1,530**	**2,249**

(Millions of Russian rubles)

10. Loans to customers (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Car loans				
ECL allowance at 1 January 2018	**2**	**84**	**224**	**310**
New purchased or originated assets	486	–	–	**486**
Assets derecognized or redeemed (excluding write-offs)	(1)	(21)	(13)	**(35)**
Transfers to Stage 1	18	(18)	–	**–**
Transfers to Stage 2	(140)	143	(3)	**–**
Transfers to Stage 3	(303)	(15)	318	**–**
Net revaluation of ECL allowance	(13)	37	301	**325**
Amounts written off	–	–	(2)	**(2)**
Sale of loans	(37)	(27)	(216)	**(280)**
31 December 2018	**12**	**183**	**609**	**804**
Consumer and cash loans				
ECL allowance at 1 January 2018	**48**	**4**	**607**	**659**
New purchased or originated assets	1	–	–	**1**
Assets derecognized or redeemed (excluding write-offs)	(8)	–	(13)	**(21)**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(1)	(1)	2	**–**
Net revaluation of ECL allowance	15	2	128	**145**
Amounts written off	–	–	(3)	**(3)**
Sale of loans	(2)	(4)	(49)	**(55)**
31 December 2018	**52**	**2**	**672**	**726**
Credit cards				
ECL allowance at 1 January 2018	**6**	**1**	**294**	**301**
New purchased or originated assets	6	–	–	**6**
Assets derecognized or redeemed (excluding write-offs)	(1)	–	(5)	**(6)**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(6)	(1)	7	**–**
Net revaluation of ECL allowance	(1)	3	41	**43**
Amounts written off	–	–	(4)	**(4)**
Sale of loans	–	–	(4)	**(4)**
31 December 2018	**3**	**4**	**329**	**336**
SME loans (individuals)				
ECL allowance at 1 January 2018	**4**	**–**	**17**	**21**
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**	**–**	**15**	**22**
Acquired rights of claim				
ECL allowance at 1 January 2018	**–**	**3**	**37**	**40**
Assets derecognized or redeemed (excluding write-offs)	–	(2)	(1)	**(3)**
Transfers to Stage 1	1	(1)	–	**–**
Net revaluation of ECL allowance	(1)	1	16	**16**
Sale of loans	–	(1)	(44)	**(45)**
31 December 2018	**–**	**–**	**8**	**8**

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

	31 December 2019	*31 December 2018*
Individuals	112,239	100,876
Manufacturing	21,952	23,096
Finance	17,512	14,304
Trade	16,542	15,171
Construction	14,435	20,642
Services	8,109	7,153
Real estate	4,955	4,797
Agriculture	285	369
Other	1,691	2,046
Total loans to customers	**197,720**	**188,454**

(Millions of Russian rubles)

10. Loans to customers (continued)

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables as at 31 December 2019 is as follows:

	Not later than 1 year	*1 to 5 years*	*Total*
Finance lease receivables	559	1,781	**2,340**
Unearned future finance income on finance lease	(93)	(664)	**(757)**
	466	**1,117**	**1,583**
Allowance for impairment	(7)	(167)	**(174)**
Net investments in finance lease	**459**	**950**	**1,409**

The analysis of finance lease receivables as at 31 December 2018 is as follows:

	Not later than 1 year	*1 to 5 years*	*Total*
Finance lease receivables	615	949	**1,564**
Unearned future finance income on finance lease	(109)	(164)	**(273)**
	506	**785**	**1,291**
Allowance for impairment	(36)	(162)	**(198)**
Net investments in finance lease	**470**	**623**	**1,093**

Net investments in finance lease generally comprise lease contracts on various types of equipment and vehicles.

Modified and restructured loans

The Group 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 Group 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 Group due to the modification were recorded.

Collateral and other credit enhancements

The amount and type of collateral required by the Group 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.

(Millions of Russian rubles)

11. Investment securities

	31 December 2019	*31 December 2018*
Debt securities at FVOCI		
Government bonds	14,106	8,322
Corporate bonds	7,328	17,385
Municipal bonds	–	952
Debt securities at FVOCI	**21,434**	**26,659**
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	6,064
Government bonds	–	2,965
Less – allowance for impairment	(3,114)	(2,812)
Debt securities at amortized cost	**–**	**6,217**

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities at amortized cost				
Gross carrying amount at 1 January 2019	**6,242**	**–**	**2,787**	**9,029**
New purchased or originated assets	7,760	–	–	**7,760**
Assets sold	(632)	–	–	**(632)**
Transfers to other category	(13,853)	–	–	**(13,853)**
Net movement in gross carrying amount	483	–	327	**810**
31 December 2019	**–**	**–**	**3,114**	**3,114**
Debt securities at FVOCI				
Gross carrying amount at 1 January 2019	**37,212**	**–**	**22**	**37,234**
New purchased or originated assets	8,717	–	–	**8,717**
Assets sold	(37,827)	–	–	**(37,827)**
Transfers from other category	14,400	–	–	**14,400**
Net movement in gross carrying amount	(1,069)	–	(21)	**(1,090)**
31 December 2019	**21,433**	**–**	**1**	**21,434**

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

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Debt securities at amortized cost					
Gross carrying amount at 1 January 2018	**11,643**	**8,147**	**–**	**–**	**19,790**
New purchased or originated assets	175	–	–	615	**790**
Assets sold	(7,047)	–	–	–	**(7,047)**
Transfers to Stage 3	–	(8,147)	8,147	–	**–**
Net movement in gross carrying amount	1,471	–	(5,360)	(615)	**(4,504)**
31 December 2018	**6,242**	**–**	**2,787**	**–**	**9,029**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities at FVOCI				
Gross carrying amount at 1 January 2018	**62,829**	**–**	**–**	**62,829**
New purchased or originated assets	102,428	–	–	**102,428**
Assets redeemed	(1,652)	–	–	**(1,652)**
Assets sold	(129,807)	–	–	**(129,807)**
Transfers to Stage 3	(22)	–	22	**–**
Net movement in gross carrying amount	3,436	–	–	**3,436**
31 December 2018	**37,212**	**–**	**22**	**37,234**

(Millions of Russian rubles)

11. Investment securities (continued)

The analysis of movements in the allowances for ECL on investment securities for year ended 31 December 2019 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities at amortized cost				
ECL allowance at 1 January 2019	**25**	**–**	**2,787**	**2,812**
New purchased or originated assets	15	–	–	**15**
Assets sold	(1)	–	–	**(1)**
Transfers to other category	(15)	–	–	**(15)**
Unwinding of discount	–	–	327	**327**
Net revaluation of ECL allowance	(24)	–	–	**(24)**
31 December 2019	**–**	**–**	**3,114**	**3,114**
Debt securities at FVOCI				
ECL allowance at 1 January 2019	**104**	**–**	**22**	**126**
New purchased or originated assets	16	–	–	**16**
Assets sold	(75)	–	–	**(75)**
Transfers from other category	23	–	–	**23**
Net revaluation of ECL allowance	(22)	–	(3)	**(25)**
31 December 2019	**46**	**–**	**19**	**65**

The analysis of movements in the allowances for ECL on investment securities for year ended 31 December 2018 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Debt securities at amortized cost					
ECL allowance at 1 January 2018	**122**	**5,196**	**–**	**–**	**5,318**
New purchased or originated assets	2	–	–	–	**2**
Assets sold	(4)	–	–	–	**(4)**
Transfers to Stage 3	–	(5,196)	5,196	–	**–**
Transfer to loans to customers	–	–	(2,793)	–	**(2,793)**
Net revaluation of ECL allowance	(95)	–	384	–	**289**
31 December 2018	**25**	**–**	**2,787**	**–**	**2,812**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities at FVOCI				
ECL allowance at 1 January 2018	**1,306**	**–**	**–**	**1,306**
New purchased or originated assets	940	–	–	**940**
Assets redeemed	(2)	–	–	**(2)**
Assets sold	(1,692)	–	–	**(1,692)**
Transfers to Stage 3	(22)	–	22	**–**
Net revaluation of ECL allowance	(426)	–	–	**(426)**
31 December 2018	**104**	**–**	**22**	**126**

In June 2019, the Group's management made an operationally significant decision to close debt securities business of Baltinvestbank and to drastically decrease its debt securities portfolio. Due to the change in the business model, debt securities at amortized cost were reclassified to the portfolio of debt securities at FVOCI for their subsequent sale.

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

As at 31 December 2019, the value of bonds of the largest issuer within debt securities at FVOCI was RUB 3,738 million, or 17% of the total value of debt securities at FVOCI (31 December 2018: RUB 8,322 million, or 31%).

(Millions of Russian rubles)

12. Investment property

As at 31 December 2019, investment property comprised land plots and buildings with the carrying amount of RUB 5,938 million (31 December 2018: RUB 8,161 million). As at 31 December 2019, the fair value of the items of investment property was RUB 6,189 million (31 December 2018: RUB 8,775 million).

Movements in investment property are as follows:

	2019	*2018*
Cost		
1 January	**11,412**	**12,258**
Additions	1,442	477
Reclassified from another category	–	773
Disposals	(3,373)	(2,096)
31 December	**9,481**	**11,412**
Accumulated depreciation		
1 January	**326**	**300**
Depreciation charge (Note 26)	70	74
Disposals	(65)	(48)
31 December	**331**	**326**
Accumulated impairment		
1 January	**2,925**	**3,067**
Impairment	1,309	(110)
Disposals	(1,022)	(32)
31 December	**3,212**	**2,925**
Carrying amount		
1 January	**8,161**	**8,891**
31 December	**5,938**	**8,161**

The Group 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, except for a single facility subject to injunctions ruled by the Arbitration court under a litigation. The Group's managements considers the possibility that the court rulings will be reversed as high. The seizure does not prevent the Group from receiving economic benefits. Rental income received from investment property for the year ended 31 December 2019 amounted to RUB 147 million (2018: RUB 176 million).

13. 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	**2,081**	**57**	**1,218**	**93**	**–**	**3,449**	**1,924**
Additions	–	8	38	4,787	40	**4,873**	245
Effect of transition to IFRS 16	–	–	–	–	1,074	**1,074**	–
Modification and reassessment of lease liabilities	–	–	–	–	1,323	**1,323**	–
Effect of translation to presentation currency related to cost or revalued amount	–	–	–	(136)	–	**(136)**	–
Disposals	–	(2)	(184)	(13)	(28)	**(227)**	(3)
31 December 2019	**2,081**	**63**	**1,072**	**4,731**	**2,409**	**10,356**	**2,166**
Accumulated depreciation and amortization							
31 December 2018	**613**	**7**	**967**	**43**	**–**	**1,630**	**1,390**
Depreciation and amortization charge (Note 26)	55	15	70	57	373	**570**	255
Disposals	–	(2)	(184)	(9)	(5)	**(200)**	–
31 December 2019	**668**	**20**	**853**	**91**	**368**	**2,000**	**1,645**
Carrying amount							
31 December 2018	**1,468**	**50**	**251**	**50**	**–**	**1,819**	**534**
31 December 2019	**1,413**	**43**	**219**	**4,640**	**2,041**	**8,356**	**521**

(Millions of Russian rubles)

13. 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*	*Other*	*Total property and equipment*	*Intangible assets*
Cost							
31 December 2017	**2,199**	**65**	**1,265**	**112**	**492**	**4,133**	**1,743**
Additions	–	12	85	8	–	**105**	197
Reclassified	(86)	–	–	–	(476)	**(562)**	–
Disposals	(32)	(20)	(132)	(27)	(16)	**(227)**	(16)
31 December 2018	**2,081**	**57**	**1,218**	**93**	**–**	**3,449**	**1,924**
Accumulated depreciation and amortization							
31 December 2017	**581**	**6**	**1,024**	**57**	**93**	**1,761**	**1,135**
Depreciation and amortization charge (Note 26)	57	14	73	8	21	**173**	262
Reclassified	–	–	–	–	(107)	**(107)**	–
Disposals	(25)	(13)	(130)	(22)	(7)	**(197)**	(7)
31 December 2018	**613**	**7**	**967**	**43**	**–**	**1,630**	**1,390**
Carrying amount							
31 December 2017	**1,618**	**59**	**241**	**55**	**399**	**2,372**	**608**
31 December 2018	**1,468**	**50**	**251**	**50**	**–**	**1,819**	**534**

As at 31 December 2019, property and equipment and intangible assets include fully depreciated and amortized assets in the amount of RUB 2,443 million (31 December 2018: RUB 2,474 million).

14. Other assets

	31 December 2019	*31 December 2018*
Other financial assets		
Settlements under broker and other transactions	1,964	2,631
Accounts receivable under contracts to sell investment property	1,103	7
Derivative financial assets	86	261
Restricted cash	54	54
Variable margin	44	–
Investments in associates	–	154
Allowance for impairment of other financial assets	(453)	(553)
Total other financial assets	**2,798**	**2,554**
Other non-financial assets		
Assets foreclosed as collateral	2,947	942
Prepayments	741	912
Value added tax (VAT)	362	34
Assets of disposal groups	158	166
Accrued income	126	29
Prepaid taxes other than income tax	93	88
Property to transfer to leasing	91	–
Prepaid income tax	64	144
Inventories	63	75
Precious coins	6	6
Petty cash settlements	1	3
Other	169	160
Allowance for impairment of other non-financial assets	(562)	(553)
Total other non-financial assets	**4,259**	**2,006**

In December 2018, as a result of debt settlement, the Group acquired 41.7% in Closed-end Unit Investment Fund RVM Novosaratovka-Development. The Group has a significant influence on this investee and recognizes it as an investment in an associate at equity method. In January 2019, the Group increased its share in Closed-end Unit Investment Fund RVM Novosaratovka-Development to 100% (Note 1).

(Millions of Russian rubles)

14. Other assets (continued)

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	**434**	**–**	**119**	**553**
Transfers to Stage 3	(14)	–	14	**–**
Net revaluation of ECL allowance	(94)	–	(1)	**(95)**
Amounts written off	–	–	(5)	**(5)**
31 December 2019	**326**	**–**	**127**	**453**

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	**105**	**–**	**105**	**210**
Transfers to Stage 3	(93)	–	93	**–**
Net revaluation of ECL allowance	422	–	5	**427**
Amounts written off	–	–	(84)	**(84)**
31 December 2018	**434**	**–**	**119**	**553**

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

	Other non-financial assets
31 December 2018	**553**
Disposals	(206)
Charge	215
31 December 2019	**562**

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

	Other non-financial assets
31 December 2017	**77**
Charge	476
31 December 2018	**553**

The table below shows the fair values of derivative financial instruments, recorded in the consolidated 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 2018, the Group had positions in the following types of derivatives:

	31 December 2019			*31 December 2018*		
	Notional principal	*Fair value*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Swaps – domestic counterparty	21,382	71	(48)	14,550	261	(2)
Forwards – domestic counterparty	800	15	–	1,112	–	(32)
Total derivative assets/liabilities		**86**	**(48)**		**261**	**(34)**

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.

(Millions of Russian rubles)

14. Other assets (continued)

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.

15. Due to other banks

	31 December 2019	*31 December 2018*
Term deposits and loans	7	708
Current accounts and overnight placements of other banks	1	2
Total due to other banks	**8**	**710**

16. Customer accounts

	31 December 2019	*31 December 2018*
State and public organizations		
Current accounts	221	343
Term deposits	16,053	14,819
Total state and public organizations	**16,274**	**15,162**
Legal entities		
Current accounts	15,864	13,854
Term deposits	46,194	57,016
Repurchase agreements	–	15,103
Total legal entities	**62,058**	**85,973**
Individuals		
Current accounts	4,661	4,994
Term deposits	119,572	113,476
Total individuals	**124,233**	**118,470**
Total customer accounts	**202,565**	**219,605**

As at 31 December 2019, customer accounts of RUB 34,013 million, or 16.8% of total customer accounts, were due to the ten largest third-party customers (31 December 2018: RUB 56,465 million, or 25.7%).

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

	31 December 2019	*31 December 2018*
Individuals	124,233	118,470
Construction / real estate	12,414	9,264
DIA	12,071	10,837
Trade	11,653	15,718
Insurance	8,029	14,024
Finance	6,214	23,175
State and public organizations	4,284	4,353
Oil and gas	3,933	408
Manufacturing	3,797	4,509
Services	2,666	1,819
Transport	2,030	8,739
Telecom	1,310	183
Agriculture	304	417
Mining	–	1
Other	9,627	7,688
Total customer accounts	**202,565**	**219,605**

As at 31 December 2019, included in term deposits are term deposits of individuals in the amount of RUB 119,572 million (31 December 2018: RUB 113,476 million). In accordance with the Russian Civil Code, the Group 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.

(Millions of Russian rubles)

16. Customer accounts (continued)

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. Baltinvestbank recognized the attracted funds at fair value of RUB 12,321 million as at the date of their receipt.

In December 2017, the loan provided by DIA in the amount of RUB 9,000 million maturing in 2 year and bearing an interest rate of 6.01% was repaid.

As at 31 December 2019, the carrying amount of the funds raised by the Group from DIA amounted to RUB 12,071 million (31 December 2018: RUB 10,837 million).

In accordance with the agreements, in 2019, loans received 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 Group with the carrying amount of RUB 27,373 million as at 31 December 2019 (31 December 2018: RUB 28,354 million).

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

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).

17. Debt securities issued

	31 December 2019	*31 December 2018*
Subordinated bonds	5,128	5,125
Promissory notes	1,416	1,698
Bonds secured by mortgage loans	679	3,296
Total debt securities issued	**7,223**	**10,119**

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*
Bonds secured by mortgage loans						
RUB	September 2016	December 2043	4,964	10.4%	679	1,371
RUB	December 2014	March 2019	6,967	–	–	1,925
					679	**3,296**
Subordinated bonds						
RUB	April 2016	October 2021	5,000	15.1%	5,128	5,125
					5,128	**5,125**
Total bonds issued					**5,807**	**8,421**

The carrying amount is presented for bonds traded outside the Group, since bonds held by the Group were eliminated from these consolidated financial statements.

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

(Millions of Russian rubles)

18. Other liabilities

	31 December 2019	*31 December 2018*
Other financial liabilities		
Lease liabilities	2,067	–
Accounts payable	545	420
Derivative financial liabilities (Note 14)	48	34
Fees and commission payable for participation in the state program for the additional capitalization of banks	12	12
Settlements on currency conversion operations	–	157
Total other financial liabilities	**2,672**	**623**
Other non-financial liabilities		
Provision for legal claims	2,989	3,607
Provisions for guarantees and commitments (Note 20)	456	350
Other accrued expenses	211	172
Accrued bonuses and unused vacation provision including social security costs	199	412
Payables to employees	147	14
Taxes payable other than income tax	134	152
Finance lease payments received in advance	48	223
Liabilities of disposal groups	33	41
Income tax payable	18	23
Deferred income	3	60
Total other non-financial liabilities	**4,238**	**5,054**

Movements in provisions were as follows:

	Legal claims
31 December 2017	**3,969**
Utilization	(8)
Reversal (Note 27)	(354)
31 December 2018	**3,607**
Utilization	(1)
Reversal (Note 27)	(617)
31 December 2019	**2,989**

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	(57)	(23)	186	**106**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	(1)	–	1	**–**
31 December 2019	**184**	**41**	**231**	**456**

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 of other provisions in the consolidated 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 consolidated statement of profit or loss.

19. 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.

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.

20. 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 further economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. The Group's management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal

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

As at 31 December 2019, the Group was engaged in a number of litigation proceedings. Provision of RUB 2,989 million (31 December 2018: RUB 3,607million) was made as it is likely that such an amount of loss will occur (Note 18).

Taxation

A major part of the Group's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional or 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 Group 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.

(Millions of Russian rubles)

20. Commitments and contingencies (continued)

Taxation (continued)

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 Group'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 Group is able to demonstrate the use of market prices with respect to the controlled transactions. Management believes that the Group fully complies with transfer pricing rules, and the prices in controlled transactions are consistent with market prices.

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

Capital expenditure commitments

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

Operating lease commitments

Where the Group 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	6	468
From 1 to 5 years	12	771
More than 5 years	–	5
Total operating lease commitments	**18**	**1,244**

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 Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group 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 Group 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 Group monitors the term to maturity of credit-related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(Millions of Russian rubles)

20. Commitments and contingencies (continued)

Credit-related commitments (continued)

Outstanding credit-related commitments of the Group are as follows:

	31 December 2019	*31 December 2018*
Guarantees issued	72,837	61,823
Undrawn credit lines	3,111	14,937
Import letters of credit	292	528
Unused limits on guarantee issuance	200	70
Total credit-related commitments	**76,440**	**77,358**

Guarantees issued represent irrevocable commitments of the Group 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. As at 31 December 2018, irrevocable undrawn credit lines amounted to RUB 3,000 million.

Based on the management's assessment of the probability of losses on credit-related commitments, a provision of RUB 456 million was created as at 31 December 2019 (31 December 2018: RUB 350 million). Refer to Note 18.

21. Interest income and expense

	2019	*2018*
Interest income		
Financial assets at amortized cost		
Loans to customers	16,145	18,708
Investment securities	364	1,094
Due from other banks	201	279
Current accounts with other banks	7	6
	16,717	**20,087**
Financial assets at FVOCI		
Investment securities	2,329	3,463
Loans to customers	1,010	–
	3,339	**3,463**
Total interest income calculated using the effective interest rate	**20,056**	**23,550**
Other interest income		
Financial assets at FVPL	38	132
Total interest income	**20,094**	**23,682**

	2019	*2018*
Interest expense		
Term deposits of individuals	6,749	6,824
Term deposits of legal entities	2,934	3,440
Term deposits of state and public organizations	1,617	1,859
Debt securities issued	1,003	1,813
Direct repurchase agreements with banks	602	1,036
Term deposits of other banks	203	723
Direct repurchase agreements with customers	472	259
Lease liabilities	125	–
Current accounts of other banks	6	3
Total interest expense	**13,711**	**15,957**

(Millions of Russian rubles)

22. Fee and commission income and expense

	2019	2018
Guarantees issued	2,050	1,478
Settlement and cash operations and trade financing	516	515
Commission on plastic cards settlements	200	229
Agency agreements	164	162
Letters of credit	134	46
On-line settlement transactions	100	102
Acting as currency control agent	54	72
Safe deposits rental income	46	45
Commission on cash collection	7	3
Transactions with securities	5	5
Other	22	12
Fee and commission income	**3,298**	**2,669**
Agency agreements	412	227
Plastic cards	140	159
Settlement and cash operations and trade financing	106	95
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	27	25
Fee and commission expense	**793**	**607**

23. Net gains from financial assets at FVOCI

	2019	2018
Investment securities		
Government bonds	599	69
Corporate bonds	408	709
Municipal bonds	1	7
Total investment securities	**1,008**	**785**
Loans to customers	105	–
Total net gains from financial assets at FVOCI	**1,113**	**785**

24. Net expense on financial instruments at FVPL

	2019	2018
Trading securities		
Corporate shares	6	100
Corporate bonds	6	(106)
Government bonds	(197)	(105)
Total trading securities	**(185)**	**(111)**
Other	83	(362)
Total net expense on financial instruments at FVPL	**(102)**	**(473)**

As at 31 December 2018, the Group recognized loss of RUB 327 million on other securities included in the assets of Closed-end Unit Investment Fund Promising Investments Fund due to loss of control over a subsidiary (Note 1).

(Millions of Russian rubles)

25. Other income and expenses

Other income

	2019	2018
Rental income	208	199
Net income from activity of non-financial entities	36	20
Gain arising on derecognition of debt securities issued	23	12
Financial result from the sale of subsidiaries	1	923
Income from operations with precious coins	–	1
Other income	42	–
Other income	**310**	**1,155**

The financial result from the sale of subsidiaries for the year ended 31 December 2018 comprises gains from the loss of control over subsidiaries of Closed-end Unit Investment Fund Promising Investments Fund.

Other expenses

	2019	2018
Losses arising on investment property management	338	187
Net (gain)/loss from disposal of investment property	(11)	415
Fulfillment of obligations to tax authorities	–	360
Other expenses	8	436
Other expenses	**335**	**1,398**

Included in “Net (gains)/losses from disposal of investment property” for the year ended 31 December 2018 is the loss from the sale of real estate of the Closed-end Unit Investment Fund Genesis of RUB 423 million.

26. Personnel, administrative and other operating expenses

	2019	2018
Fixed wages and salaries, bonuses and unused vacations	2,597	2,921
Social security costs	670	747
Severance payments	43	120
Other employee benefits	54	97
Personnel expenses	**3,364**	**3,885**
Contributions to state deposit insurance system	778	693
Depreciation of property and equipment and of right-of-use assets (Note 13)	570	173
Taxes other than income tax	390	342
Other expenses related to property and equipment	359	440
IT expenses	276	220
Amortization of intangible assets (Note 13)	255	262
Professional services	230	335
Advertising and marketing services	153	136
Communication expenses	144	148
Depreciation of investment property (Note 12)	70	74
Leases	38	571
Business trip expenses	33	40
Mailing and postal services	30	43
Provision for fees payable to management companies	28	90
Security services	24	24
Other personnel related expenses	14	14
Charity	1	4
Other	260	94
Administrative and other operating expenses	**3,653**	**3,703**

(Millions of Russian rubles)

27. Other provisions

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

	2019	*2018*
ECL allowance for other financial assets	95	(427)
ECL allowance for investment securities	86	893
Total reversal of allowance for impairment of investment securities and other financial assets	**181**	**466**

Net charge of other provisions

	2019	*2018*
Provision for legal claims	617	354
Allowance for impairment of other non-financial assets	(215)	(476)
Allowance or impairment of investment property and other non-current assets	(1,309)	110
Other impairment	(144)	–
Total charge of other provisions	**(1,051)**	**(12)**

28. Taxation

	2019	*2018*
Current tax charge	376	348
Change in deferred income tax	–	608
Income tax expense	**376**	**956**

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.

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*
Loss before income tax expense	**(2,911)**	**(7,602)**
Statutory tax rate	20%	20%
Theoretical income tax benefit at the statutory rate	**(582)**	**(1,520)**
Change in unrecognized deferred tax assets	829	2,334
Income on state securities taxed at different rates	(106)	(151)
Non-deductible expenses	222	280
Other non-temporary differences	13	13
Income tax expense	**376**	**956**

(Millions of Russian rubles)

28. Taxation (continued)

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	4,744	–	2,288	–	7,032	(250)	–	6,782
Allowance for loan impairment and other provisions	3,506	1,001	(179)	–	4,328	(22)	–	4,306
Deferred income/accrued expenses	1,058	166	149	–	1,373	420	–	1,793
Securities	215	1,169	(1,023)	389	750	295	(71)	974
Property and equipment and investment property	903	–	(88)	–	815	165	–	980
Deferred tax asset, gross	**10,426**	**2,336**	**1,147**	**389**	**14,298**	**608**	**(71)**	**14,835**
Unrecognized deferred tax asset	(6,638)	(2,336)	(2,334)	(389)	(11,697)	(829)	190	(12,336)
Deferred tax asset	**3,788**	**–**	**(1,187)**	**–**	**2,601**	**(221)**	**119**	**2,499**
Tax effect of taxable temporary differences								
Effective interest rate accrual	(2,664)	–	579	–	(2,085)	221	–	(1,864)
Other	–	–	–	–	–	–	(119)	(119)
Deferred tax liability	**(2,664)**	**–**	**579**	**–**	**(2,085)**	**221**	**(119)**	**(1,983)**
Deferred tax asset, net	**1,124**	**–**	**(608)**	**–**	**516**	**–**	**–**	**516**

As at 31 December 2019, the Group has RUB 6,782 million of tax losses carried forward (31 December 2018: RUB 7,032 million).

29. Risk management

Introduction

The risk management of the Group comprises a set of processes and procedures to identify, measure and control risks to ensure an efficient operation and sustainable development of the Group. 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 Group 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 Group'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 Group;
- Ensure that the risk and capital management approach used by the Group in its activities complies with the requirements of the Bank of Russia;
- Ensure sustainable development of the Group within its development strategy;
- Maintain risks assumed by the Group at a level determined by the Risk and Capital Management Strategy in accordance with its development strategy.

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

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

(Millions of Russian rubles)

29. Risk management (continued)

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 Group, 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 Group, 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 Board of Directors assists the Board of Directors in monitoring and assessing the effectiveness of risk and capital management of the Group.

Management Board

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

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 Group, 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 Group's risks, the performance of stress testing procedures, the preparation of reporting data on the level of risks assumed by the Group 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 Group.

Internal Audit Function

The Internal Audit Function assesses the effectiveness of the banking risk assessment methodology and banking risk management procedures established by the internal documents of the Group (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.

Members of the Group

Members of the Group organize and perform on-going risk management and capital adequacy at the individual level, provide information necessary for the integrated risk management of the Group.

Committees

The Group has permanent committees that include management bodies and heads of the Bank's structural units (Members of the Group) that assume risks. Absolut Bank (PAO) has the following risk committees:

- 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)

29. Risk management (continued)

Risk management structure (continued)

The risk committees of Baltinvestbank include:

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

Risk management procedures

The Group combines centralized and decentralized risk and capital management approaches to achieve the maximum effectiveness. Authorized bodies of the Bank perform overall risk and capital adequacy management, as well as set risk and capital adequacy requirements for the Members of the Group (including those in terms of limits and restrictions). Members of the Group manage risks and capital adequacy locally, within set limits and authority in accordance with the standards of the Group, considering local specifics. To ensure effective risk management, the Group continuously performs the following procedures:

- Ensures exchange of information among management bodies and structural units of the Group 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 Group'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 Group. 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 Group 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 Group also runs crisis event scenarios, i.e. stress tests.

Monitoring

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

The Group 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 Group's structure of assets and liabilities is consistent with the nature and size of its business. The Group'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 Group, and other types of limits.

29. Risk management (continued)

Risk management procedures (continued)

Reporting

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

- Limitation of risks, including 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 Group 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 Group 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.

Concentration risk

A concentration risk arises due to the Group's exposure to large risks.

The Group annually identifies all types of concentration risk inherent in its operations. Concentration risks inherent in the Group'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 Group 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 Group, 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 Group uses the Herfindahl–Hirschman index (HHI) that characterizes the degree of diversification of the Group's portfolios. To assess the level of significance of concentration risk from individual liquidity sources, the Group sets indicative values (limits) for the maximum and/or minimum share of an individual liquidity source in overall liabilities of the Group. To analyze the level of significance of the risk of concentration of funding per one lender, the Group calculates the percentage of the largest amount of deposits or loans obtained by the Group 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 Group in its assets and liabilities. The Group determines the significance of concentration of market risk through an expert analysis of the Group's portfolio. The significant type of concentration risk in the reporting period is the industry concentration of the loan portfolio of the Group. The Group 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 Group. The Group performs quarterly stress testing procedures in respect of the significant types of concentration risk. 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 Group.

The Group 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 Group. In the reporting period, the Group set limits on capital requirements for industry credit concentration risk and on the Herfindahl-Hirschman index that shows the diversification of the Group's loan portfolio by industry.

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

29. Risk management (continued)

Credit risk

The Group 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 Group in the course of its banking operations, and the effectiveness of its management significantly influences the effectiveness of the Group's operations in general.

The Group 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 Group's capital to cover credit risk.

The Group 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 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 Group performs quantitative assessment of credit risk in accordance with the requirements of the Bank of Russia and the Group'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 Group 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 Group 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 Group.

An important component of credit risk identification and measurement procedures is the performance of stress testing procedures using scenarios assuming negative outcome for the Group 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 Group in stress environment.

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

The Group 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 Group 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 Group 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 Group identifies assets within the scope of the general approach to provisioning and purchased or originated credit-impaired assets (POCI).

(Millions of Russian rubles)

29. Risk management (continued)

Credit risk (continued)

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.

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

(Millions of Russian rubles)

29. Risk management (continued)

Credit risk (continued)

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 Group considers the predictive information based on macroeconomic models and used to calibrate the probability of default.

The Group relies on 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 Group 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 Group 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 Group sets portfolio limits for investments in third-party securities and transactions on financial markets.

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

(Millions of Russian rubles)

29. Risk management (continued)

Credit risk (continued)

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-	10,688	–	–	**10,688**
Total due from other banks	**10,688**	**–**	**–**	**10,688**

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-	18,713	–	–	**18,713**
From B+ to B-	2,720	–	–	**2,720**
Unrated	–	–	1	**1**
Total debt securities at FVOCI	**21,433**	**–**	**1**	**21,434**
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-	7,675	–	–	**7,675**
From BB+ to BB-	1,214	–	–	**1,214**
Total due from other banks	**8,889**	**–**	**–**	**8,889**

(Millions of Russian rubles)

29. 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-	31,896	–	–	**31,896**
From BB+ to BB-	2,524	–	–	**2,524**
From B+ to B-	2,792	–	–	**2,792**
Unrated	–	–	22	**22**
Total debt securities at FVOCI	**37,212**	**–**	**22**	**37,234**
Debt securities at amortized cost				
From BBB+ to BBB-	6,242	–	–	**6,242**
Unrated	–	–	2,787	**2,787**
Total debt securities at amortized cost	**6,242**	**–**	**2,787**	**9,029**

The Group 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 Group 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	
4	From 0.4 to 0.8	High credit quality
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 Group.

(Millions of Russian rubles)

29. 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 Group'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	8,875	1,102	–	**9,977**
Standard credit quality	13,654	4,077	–	**17,731**
Average credit quality	2,480	211	–	**2,691**
Acceptable credit quality	–	2,162	–	**2,162**
Past due but not impaired	–	72	–	**72**
Individually impaired	–	–	38,687	**38,687**
Total corporate loans	**25,113**	**7,624**	**38,687**	**71,424**
SME loans (legal entities)				
Average credit quality	1,546	–	–	**1,546**
Past due but not impaired	14	2	–	**16**
Individually impaired	–	–	6,342	**6,342**
Total SME loans (legal entities)	**1,560**	**2**	**6,342**	**7,904**
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**
Finance lease receivables				
Very high credit quality	43	–	–	**43**
High credit quality	292	–	–	**292**
Standard credit quality	318	92	–	**410**
Average credit quality	664	–	–	**664**
Individually impaired	–	–	174	**174**
Total finance lease receivables	**1,317**	**92**	**174**	**1,583**
Other loans				
Individually impaired	–	–	25	**25**
Total other loans	**–**	**–**	**25**	**25**

The credit quality and the maximum credit risk exposure by type of loans to individuals at amortized cost depending on the Group'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	22,097	481	–	**22,578**
High credit quality	43,143	705	–	**43,848**
Standard credit quality	–	3,988	–	**3,988**
Average credit quality	–	4,031	–	**4,031**
Past due but not impaired	499	1,419	–	**1,918**
Individually impaired	–	–	2,690	**2,690**
Total mortgage loans	**65,739**	**10,624**	**2,690**	**79,053**
Car loans				
Very high credit quality	6,149	–	–	**6,149**
High credit quality	1,819	49	–	**1,868**
Acceptable credit quality	–	473	–	**473**
Individually impaired	–	–	1,272	**1,272**
Total car loans	**7,968**	**522**	**1,272**	**9,762**

(Millions of Russian rubles)

29. Risk management (continued)

Credit risk (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Consumer and cash loans				
Very high credit quality	5	–	–	**5**
High credit quality	209	–	–	**209**
Average credit quality	1,156	–	–	**1,156**
Acceptable credit quality	–	1	–	**1**
Past due but not impaired	2	3	–	**5**
Individually impaired	–	–	1,197	**1,197**
Total consumer and cash loans	**1,372**	**4**	**1,197**	**2,573**
Credit cards				
High credit quality	71	–	–	**71**
Past due but not impaired	3	2	–	**5**
Individually impaired	–	–	507	**507**
Total credit cards	**74**	**2**	**507**	**583**
SME loans (individuals)				
Average credit quality	30	–	–	**30**
Past due but not impaired	–	1	–	**1**
Individually impaired	–	–	29	**29**
Total SME loans (individuals)	**30**	**1**	**29**	**60**
Acquired rights of claim				
High credit quality	1	–	–	1
Individually impaired	–	–	2	**2**
Total acquired rights of claim	**1**	**–**	**2**	**3**

The credit quality and the maximum credit risk exposure by type of loans to individuals at FVOCI depending on the Group'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				
Very high credit quality	1,661	–	–	**1,661**
High credit quality	18,103	68	–	**18,171**
Acceptable credit quality	–	16	–	**16**
Past due but not impaired	243	79	–	**322**
Individually impaired	–	–	35	**35**
Total mortgage loans	**20,007**	**163**	**35**	**20,205**

The credit quality and the maximum credit risk exposure by type of loans to legal entities at amortized cost depending on the Group'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	8,360	1,453	–	**9,813**
Standard credit quality	11,160	5,491	–	**16,651**
Average credit quality	4,347	2,848	–	**7,195**
Acceptable credit quality	–	4,342	–	**4,342**
Past due but not impaired	–	16	–	**16**
Individually impaired	–	–	37,350	**37,350**
Total corporate loans	**23,946**	**14,150**	**37,350**	**75,446**

(Millions of Russian rubles)

29. Risk management (continued)

Credit risk (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
SME loans (legal entities)				
Average credit quality	260	–	–	**260**
Past due but not impaired	–	1	–	**1**
Individually impaired	–	–	5,693	**5,693**
Total SME loans (legal entities)	**260**	**1**	**5,693**	**5,954**
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**
Finance lease receivables				
Very high credit quality	50	–	–	**50**
High credit quality	356	–	–	**356**
Standard credit quality	405	138	–	**543**
Average credit quality	22	–	–	**22**
Individually impaired	–	–	320	**320**
Total finance lease receivables	**833**	**138**	**320**	**1,291**
Other loans				
Individually impaired	–	–	26	**26**
Total other loans	**–**	**–**	**26**	**26**

The credit quality and the maximum credit risk exposure by type of loans to individuals at amortized cost depending on the Group'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	24,052	65	–	**24,117**
High credit quality	54,831	499	–	**55,330**
Standard credit quality	–	2,914	–	**2,914**
Average credit quality	–	2,755	–	**2,755**
Past due but not impaired	245	992	–	**1,237**
Individually impaired	–	–	2,393	**2,393**
Total mortgage loans	**79,128**	**7,225**	**2,393**	**88,746**
Car loans				
Very high credit quality	7,086	–	–	**7,086**
Standard credit quality	–	1,189	–	**1,189**
Average credit quality	–	306	–	**306**
Acceptable credit quality	–	260	–	**260**
Past due but not impaired	–	2	–	**2**
Individually impaired	–	–	700	**700**
Total car loans	**7,086**	**1,757**	**700**	**9,543**
Consumer and cash loans				
High credit quality	831	–	–	**831**
Average credit quality	11	–	–	**11**
Acceptable credit quality	–	2	–	**2**
Past due but not impaired	3	2	–	**5**
Individually impaired	–	–	1,191	**1,191**
Total consumer and cash loans	**845**	**4**	**1,191**	**2,040**

(Millions of Russian rubles)

29. Risk management (continued)

Credit risk (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Credit cards				
High credit quality	87	–	–	**87**
Average credit quality	1	–	–	**1**
Past due but not impaired	3	5	–	**8**
Individually impaired	–	–	329	**329**
Total credit cards	**91**	**5**	**329**	**425**
SME loans (individuals)				
Average credit quality	85	–	–	**85**
Past due but not impaired	12	–	–	**12**
Individually impaired	–	–	16	**16**
Total SME loans (individuals)	**97**	**–**	**16**	**113**
Acquired rights of claim				
Individually impaired	–	–	9	**9**
Total acquired rights of claim	**–**	**–**	**9**	**9**

It is the Group'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 Group'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 Group. The Group 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 Group combines different types of collateral.

The geographical concentration of the Group'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	9,171	1,991	7	**11,169**	15,968	1,866	1	**17,835**
Mandatory cash balances with the CBR	2,196	–	–	**2,196**	2,186	–	–	**2,186**
Trading securities	493	–	–	**493**	480	262	–	**742**
Trading securities pledged under repurchase agreements	–	–	–	**–**	36	–	–	**36**
Due from other banks	10,677	11	–	**10,688**	8,876	13	–	**8,889**
Loans to customers	151,612	519	823	**152,954**	147,183	558	711	**148,452**
Investment securities	20,627	807	–	**21,434**	22,760	10,116	–	**32,876**
Investment securities pledged under repurchase agreements	–	–	–	**–**	10,575	–	–	**10,575**
Other financial assets	2,798	–	–	**2,798**	2,553	–	1	**2,554**
	197,574	**3,328**	**830**	**201,732**	**210,617**	**12,815**	**713**	**224,145**
Liabilities								
Due to other banks	–	1	7	**8**	1	709	–	**710**
Customer accounts	201,474	287	804	**202,565**	218,498	147	960	**219,605**
Debt securities issued	7,223	–	–	**7,223**	10,119	–	–	**10,119**
Other financial liabilities	2,650	22	–	**2,672**	591	30	2	**623**
	211,347	**310**	**811**	**212,468**	**229,209**	**886**	**962**	**231,057**
Net position	**(13,773)**	**3,018**	**19**	**(10,736)**	**(18,592)**	**11,929**	**(249)**	**(6,912)**
Financial commitments and contingencies	**76,440**	**–**	**–**	**76,440**	**76,358**	**1,000**	**–**	**77,358**

(Millions of Russian rubles)

29. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will fail or be unable to meet its obligations when they fall due. To limit this risk, the Group maintains sustainable funding base comprising of term deposits of legal entities and individuals and debt securities issued. The Group 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 Group, 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 Group maintains a required level of cash and cash equivalents to ensure continuous operations and solvency of the Group.
- 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.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group'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 Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group'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	–	–	–	**1**
Customer accounts	93,121	94,681	10,773	16,837	**215,412**
Debt securities issued	535	1,824	6,052	310	**8,721**
Other financial liabilities, including:	635	273	1,212	1,589	**3,709**
Lease liabilities	*28*	*273*	*1,212*	*1,589*	***3,102***
Foreign exchange derivative contracts:					
- Contractual amounts payable	*1,846*	–	–	–	***1,846***
- Contractual amounts receivable	*(1,796)*	–	–	–	***(1,796)***
Total undiscounted financial liabilities	**94,292**	**96,778**	**18,037**	**18,736**	**227,843**

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	360	359	–	–	**719**
Foreign exchange derivative contracts:					
- Contractual amounts payable	*3,417*	*18*	–	–	***3,435***
- Contractual amounts receivable	*(3,385)*	*(18)*	–	–	***(3,403)***
Customer accounts	135,219	60,110	20,986	22,312	**238,627**
Debt securities issued	714	2,861	7,839	1,060	**12,474**
Other financial liabilities (excluding derivative financial instruments)	589	–	–	–	**589**
Total undiscounted financial liabilities	**136,914**	**63,330**	**28,825**	**23,372**	**252,441**

(Millions of Russian rubles)

29. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the contractual expiry by maturity of the Group'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	20,756	15,358	125	**76,440**
31 December 2018	39,272	22,675	15,263	148	**77,358**

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

The Group'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 Group 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.

The responsible collegial bodies set limits on the level of risk that may be accepted. The Group 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 book 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)	(1)
USD	35	50	–	(4)

	Decrease in basis points		*Sensitivity of profit/loss before tax*	
Currency	***2019***	***2018***	***2019***	***2018***
RUB	(125)	(140)	3	2
USD	(35)	(15)	–	1

(Millions of Russian rubles)

29. Risk management (continued)

Market risk (continued)

Market risk− banking (non-trading) portfolio

Price risk

As at 31 December 2019, the Group has no equity instruments sensitive to changes in stock indexes. As at 31 December 2018, the Group has equity instruments sensitive to market position changes. The Group applies VaR (Value at Risk) model for assessment of price risk for equity instruments. VaR allows estimating the maximum probable future losses within the set period of time with the set probability.

Financial instrument	*VaR (99%, 1 month), 2019*	*VaR (99%, 1 month), 2018*
Ordinary shares	−	1

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*		*Sensitivity of equity*	
Currency	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
RUB	125	125	(98)	(114)	(165)	(412)
USD	35	50	−	−	(12)	(117)

	Decrease in basis points		*Sensitivity of NII*		*Sensitivity of equity*	
Currency	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
RUB	(125)	(140)	98	128	165	462
USD	(35)	(15)	−	−	12	35

Currency risk

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

The Group 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 Group maintains the currency risk at a low level through transactions with derivatives.

The tables below indicate the currencies to which the Group 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 Group.

	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	(435)	174	52	174
EUR	13.0	14.0	38	(28)	38	(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)	368	(174)	44	(174)
EUR	(11.0)	(14.0)	(32)	28	32	28

(Millions of Russian rubles)

29. Risk management (continued)

Operational risk

Operational risk is the risk of direct or indirect losses as a result of lacks or errors of the Group'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 Group's information security risk (including cyber risk) and information systems risk are included in the Group's operational risk.

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

- Errors and deficiencies in processes: unreliable and (or) ineffective arrangement of the Group's internal management processes or banking and other transactions, as well as inconsistency of those processes with the nature and size of the Group'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 Group, including the owners and those involved in performing work (rendering services) under a contract concluded with the Group.
- Systems: failures (malfunction) of information, technological and (or) other systems applied by the Group, inadequacy of their capacity (parameters) with the Group'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 Group 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 and Baltinvestbank perform 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 Group 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 Groups performs the following:

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

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

(Millions of Russian rubles)

29. Risk management (continued)

Operational risk (continued)

The Group'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 and Baltinvestbank:

- 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 Group'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.

30. Fair value of financial instruments

For the purpose of fair value disclosures, the Group 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 Group'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 Group'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	–	–	20,205	**20,205**	20,205	–
Derivative financial assets (in other financial assets)	–	86	–	**86**	86	–
Investment securities	18,649	2,784	1	**21,434**	21,434	–
Financial assets for which fair values are disclosed						
Cash and cash equivalents	1,758	9,411	–	**11,169**	11,169	–
Mandatory cash balances with the CBR	–	2,196	–	**2,196**	2,196	–
Due from other banks	–	–	10,688	**10,688**	10,688	–
Loans to customers	–	–	138,099	**138,099**	132,749	5,350
Other financial assets (excluding derivative financial assets)	–	–	2,712	**2,712**	2,712	–
Financial liabilities measured at fair value						
Derivative financial liabilities (in other financial liabilities)	–	48	–	**48**	48	–
Financial liabilities for which fair values are disclosed						
Due to other banks	–	–	8	**8**	8	–
Customer accounts	–	–	207,496	**207,496**	202,565	(4,931)
Debt securities issued	–	7,236	5	**7,241**	7,223	(18)
Other financial liabilities (excluding derivative financial liabilities)	–	–	2,624	**2,624**	2,624	–
Total unrecognized change in fair value						**401**

(Millions of Russian rubles)

30. Fair value of financial instruments (continued)

The table below analyses the fair values of the Group'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 Group's financial assets and liabilities. The Group 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	727	–	15	**742**	742	–
Trading securities pledged under repurchase agreements	36	–	–	**36**	36	–
Derivative financial assets (in other financial assets)	–	261	–	**261**	261	–
Investment securities	25,821	816	22	**26,659**	26,659	–
Investment securities pledged under repurchase agreements	10,575	–	–	**10,575**	10,575	–
Financial assets for which fair values are disclosed						
Cash and cash equivalents	2,225	15,610	–	**17,835**	17,835	–
Mandatory cash balances with the CBR	–	2,186	–	**2,186**	2,186	–
Due from other banks	–	–	8,889	**8,889**	8,889	–
Loans to customers	–	–	153,407	**153,407**	148,452	4,955
Other financial assets (excluding derivative financial assets)	–	–	2,293	**2,293**	2,293	–
Investment securities	5,983	–	–	**5,983**	6,217	(234)
Financial liabilities measured at fair value						
Derivative financial liabilities (in other financial liabilities)	–	34	–	**34**	34	–
Financial liabilities for which fair values are disclosed						
Due to other banks	–	–	708	**708**	710	2
Customer accounts	–	–	222,013	**222,013**	219,605	(2,408)
Debt securities issued	–	9,122	1,045	**10,167**	10,119	(48)
Other financial liabilities (excluding derivative financial liabilities)	–	–	589	**589**	589	–
Total unrecognized change in fair value						**2,267**

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	**15**	**22**	**37**
Disposals	(27)	–	**(27)**
Revaluation	12	(21)	**(9)**
31 December 2019	**–**	**1**	**1**

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	**25**	**2,753**	**2,778**
Transfer to debt securities at amortized cost at the transition to IFRS 9	–	(2,753)	**(2,753)**
Transfers to Level 3	–	22	**22**
Revaluation	(10)	–	**(10)**
31 December 2018	**15**	**22**	**37**

(Millions of Russian rubles)

30. Fair value of financial instruments (continued)

The Group determined the fair value of investments in corporate shares using a multiplier method and a net assets method. An increase (decrease) in the multiplier applied by the Group in the valuation model by 1.0% will result in an increase (decrease) in the carrying amount of those corporate shares by RUB 0.1 million. The cost of underlying assets can be used as unobservable inputs when measuring the fair value of the corporate shares classified within Level 3 of the fair value hierarchy.

The Group determined the fair value of investments in corporate bonds using the discounted cash flow model. The cost of the underlying asset can be used as unobservable inputs when measuring the fair value of the corporate bonds classified within Level 3 of the fair value hierarchy.

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 Group'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 Group 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 Group 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.

31. 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	15, 16	Repurchase agreements	35	15,068	**15,103**
Total			**35**	**15,068**	**15,103**

(Millions of Russian rubles)

31. Transferred financial assets (continued)

As at 31 December 2019, the Group 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.

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group 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.

Similarly, the Group 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 Group.

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

32. 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 Group 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 29 for the Group'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	11,169	–	–	–	–	–	–	**11,169**
Mandatory cash balances with the CBR	760	287	1,001	93	55	–	–	**2,196**
Trading securities	493	–	–	–	–	–	–	**493**
Due from other banks	10,688	–	–	–	–	–	–	**10,688**
Loans to customers	5,716	7,165	29,536	71,682	31,033	7,822	–	**152,954**
Investment securities	21,434	–	–	–	–	–	–	**21,434**
Investment property	–	–	–	–	–	–	5,938	**5,938**
Property and equipment and right-of-use assets	–	–	–	–	–	–	8,356	**8,356**
Intangible assets	–	–	–	–	–	–	521	**521**
Deferred income tax asset	–	–	–	–	–	–	516	**516**
Other financial assets	1,944	63	194	597	–	–	–	**2,798**
Other non-financial assets	–	–	–	–	–	–	4,259	**4,259**
Total financial assets	**52,204**	**7,515**	**30,731**	**72,372**	**31,088**	**7,822**	**19,590**	**221,322**
Due to other banks	8	–	–	–	–	–	–	**8**
Customer accounts	70,890	24,326	86,605	9,778	10,966	–	–	**202,565**
Debt securities issued	231	297	1,722	4,754	219	–	–	**7,223**
Other financial liabilities	636	9	136	643	1,248	–	–	**2,672**
Other non-financial liabilities	–	–	–	–	–	–	4,238	**4,238**
Total financial liabilities	**71,765**	**24,632**	**88,463**	**15,175**	**12,433**	**–**	**4,238**	**216,706**
Net liquidity gap	**(19,561)**	**(17,117)**	**(57,732)**	**57,197**	**18,655**	**7,822**	**15,352**	**4,616**
Securities available for repurchase transactions within 12 months	**6,703**	**–**	**–**	**–**	**–**	**–**	**–**	
Cumulative liquidity gap	**(12,858)**	**(29,975)**	**(87,707)**	**(30,510)**	**(11,855)**	**(4,033)**	**11,319**	

(Millions of Russian rubles)

32. 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	17,835	–	–	–	–	–	–	**17,835**
Mandatory cash balances with the CBR	861	498	616	169	42	–	–	**2,186**
Trading securities	742	–	–	–	–	–	–	**742**
Trading securities pledged under repurchase agreements	36	–	–	–	–	–	–	**36**
Due from other banks	8,889	–	–	–	–	–	–	**8,889**
Loans to customers	5,380	14,337	33,511	64,674	24,950	5,600	–	**148,452**
Investment securities	26,659	–	–	2,487	3,730	–	–	**32,876**
Investment securities pledged under repurchase agreements	10,575	–	–	–	–	–	–	**10,575**
Investment property	–	–	–	–	–	–	8,161	**8,161**
Property and equipment	–	–	–	–	–	–	1,819	**1,819**
Intangible assets	–	–	–	–	–	–	534	**534**
Deferred income tax asset	–	–	–	–	–	–	516	**516**
Other financial assets	2,554	–	–	–	–	–	–	**2,554**
Other non-financial assets	–	–	–	–	–	–	2,006	**2,006**
Total financial assets	**73,531**	**14,835**	**34,127**	**67,330**	**28,722**	**5,600**	**13,036**	**237,181**
Due to other banks	1	356	353	–	–	–	–	**710**
Customer accounts	88,619	44,790	57,621	18,776	9,799	–	–	**219,605**
Debt securities issued	152	503	2,750	5,660	1,054	–	–	**10,119**
Other financial liabilities	593	30	–	–	–	–	–	**623**
Other non-financial liabilities	–	–	–	–	–	–	5,054	**5,054**
Total financial liabilities	**89,365**	**45,679**	**60,724**	**24,436**	**10,853**	**–**	**5,054**	**236,111**
Net liquidity gap	**(15,834)**	**(30,844)**	**(26,597)**	**42,894**	**17,869**	**5,600**	**7,982**	**1,070**
Securities available for repurchase transactions within 12 months	**8,273**	**–**	**–**	**–**	**–**	**–**	**–**	
Cumulative liquidity gap	**(7,561)**	**(38,405)**	**(65,002)**	**(22,108)**	**(4,239)**	**1,361**	**9,343**	

As at 31 December 2019 and 2018, the Group 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 Group;
- High-quality mortgage portfolio (Note 29) helps the Group rise long-term financing through its securitization. The Group 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 Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group'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 Group'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 Group's management defines the liquidity risk as acceptable in view of the balance between the return and the liquidity risk.

33. Business combinations

In November 2019, the Group acquired 100% shares of Ashenvale Aviation Limited. The company mainly engages in operating and financial leasing of aircrafts. The main objective of acquiring Ashenvale Aviation Limited was business diversification.

(Millions of Russian rubles)

33. Business combinations (continued)

The fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition were as follows:

	Fair value recognized on acquisition
Cash and cash equivalents	29
Property and equipment	3,904
Other financial assets	149
Total assets	**4,082**
Due to other banks	58
Other financial liabilities	4
Total liabilities	**62**
Total fair value of identifiable net assets	**4,020**
Fair value of consideration given	–
Derecognition of pre-existing relations	4,020
Less fair value of identifiable net assets	(4,020)
Goodwill arising on acquisition	**–**

The cash flows on acquisition of Ashenvale Aviation Limited were as follows:

Cash paid on acquisition	–
Cash and cash equivalents held by the acquired entity	29
Net cash inflow	**29**

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.

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.

(Millions of Russian rubles)

34. Related party disclosures (continued)

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

	31 December 2019				
	Parent	*Entities under common control*	*Key management personnel*	*State-controlled entities*	*Other related parties*
Consolidated statement of financial position					
Cash and cash equivalents	–	–	–	6,788	–
Mandatory cash balances with the CBR	–	–	–	2,196	–
Gross amount of loans to customers (contractual interest rates: 31 December 2019: 9.0%-19.0% p.a.)	–	–	630	701	392
Allowance for impairment of loans to customers	–	–	(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: 6.0%-6.49% p.a.)	–	–	–	10,670	–
Investment securities at FVOCI (contractual interest rates: 31 December 2019: 2.5%-9.5% p.a.)	–	–	–	18,310	–
Property and equipment and right-of-use assets	–	1,712	–	–	–
Other financial assets	–	1,203	–	181	18
Other non-financial assets	–	–	–	3	–
Allowance for impairment of other financial assets	–	(217)	–	–	–
Customer accounts (contractual interest rates: 31 December 2019: 0%-8.0% p.a.)	373	3,278	128	16,819	7,239
Other financial liabilities	–	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				
	Parent	*Entities under common control*	*Key management personnel*	*State-controlled entities*	*Other related parties*
Consolidated statement of financial position					
Cash and cash equivalents	–	–	–	13,690	–
Mandatory cash balances with the CBR	–	–	–	2,186	–
Gross amount of loans to customers (contractual interest rates: 31 December 2018: 8.5%-19.0% p.a.)	–	137	87	109	659
Allowance for impairment of loans to customers	–	(9)	–	(2)	(10)
Trading securities (contractual interest rates: 31 December 2018: 8.8% p.a.)	–	–	–	465	–
Trading securities pledged under repurchase agreements (contractual interest rates: 31 December 2018: 8.8% p.a.)	–	–	–	36	–
Due from other banks (contractual interest rates: 31 December 2018: 6.7%-7.9% p.a.)	–	–	–	7,662	–
Investment securities at FVOCI (contractual interest rates: 31 December 2018: 2.5%-13.5% p.a.)	–	2,792	–	18,521	187
Investment securities at FVOCI pledged under repurchase agreements (contractual interest rates: 31 December 2018: 7.51%-8.8% p.a.)	–	–	–	10,575	–
Debt securities at amortized cost (contractual interest rates: 31 December 2018: 4.2%-8.5% p.a.)	–	–	–	4,162	–
Allowance for impairment of securities	–	–	–	(23)	–
Other financial assets	–	–	–	331	1
Other non-financial assets	–	2	–	5	–
Customer accounts (contractual interest rates: 31 December 2018: 0%-8.30% p.a.)	8,464	2,288	85	30,640	14,024
Due to other banks (contractual interest rates: 31 December 2018: none)	–	–	–	1	–
Other financial liabilities	–	–	–	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				
	Parent	*Entities under common control*	*Key management personnel*	*State-controlled entities*	*Other related parties*
Consolidated statement of profit or loss					
Interest income	–	206	12	2,404	45
Interest expense	(482)	(246)	(6)	(2,056)	(628)
Allowance for loan impairment	–	9	(52)	(9)	7
Fee and commission income	–	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	–	37	–	31	(4)
Net losses from operations with derivatives	–	–	–	(1,824)	–
Allowance for impairment of securities	–	29	–	57	–
Net gains from derecognition of financial assets at amortized cost	–	–	–	4	–
Other income	–	–	–	2	–
Administrative and other operating expenses	–	(284)	(1)	(797)	(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				
	Parent	*Entities under common control*	*Key management personnel*	*State-controlled entities*	*Other related parties*
Consolidated statement of profit or loss					
Interest income	–	362	29	3,018	7
Interest expense	(488)	(89)	(6)	(2,880)	(115)
Allowance for loan impairment	–	4	13	(2)	(10)
Fee and commission income	1	4	1	48	40
Fee and commission expense	–	–	–	(15)	–
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	–	99	–	(83)	–
Other income	–	–	–	2	–
Administrative and other operating expenses	–	(367)	(1)	(719)	–
Provision for credit-related commitments	–	3	–	(61)	(8)

Compensation of key management personnel comprised the following:

	2019	*2018*
Salaries and other short-term benefits	237	239
Severance payments	2	9
Social security costs	41	45
Total compensation to key management personnel	**280**	**293**

35. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from the Group'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	**16,203**	**–**	**16,203**
Cash flows from redemption/issue	(9,483)	–	**(9,483)**
Interest expense accrued	1,701	–	**1,701**
Carrying amount at 31 December 2018	**8,421**	**–**	**8,421**
Effect of applying IFRS 16	–	1,065	**1,065**
Cash flows from redemption/issue	(3,488)	(464)	**(3,952)**
Interest expense accrued	874	125	**999**
Other	–	1,341	**1,341**
Carrying amount at 31 December 2019	**5,807**	**2,067**	**7,874**

(Millions of Russian rubles)

36. Capital adequacy

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

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group 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.

The equity (capital) adequacy ratios of the Group as at 31 December 2019 and 2018 calculated in accordance with the current capital requirements set by the CBR are presented in the table below:

	Prudential ratio	*31 December 2019*	*31 December 2018*
Common equity		14,922	13,840
Core capital		14,922	13,840
Supplementary capital		567	5,344
Equity (capital)		**15,489**	**19,184**
Risk-weighted assets		**305,486**	**305,962**
Capital adequacy (%)			
Common equity adequacy (N20.1)	>4.5%	4.69%	4.44%
Core capital adequacy (N20.2)	>6.0%	4.69%	4.44%
Equity (capital) adequacy (N20.0)	>8.0%	5.07%	6.27%

As at 31 December 2019 and 2018, the Group failed to comply with the capital adequacy ratios due to the negative value of equity (capital) of Baltinvestbank currently undergoing financial rehabilitation. The Group's management believes that financial rehabilitation of Baltinvestbank will have a significant positive effect on its capitalization and restore the Group's ability to comply with the CBR's capital adequacy requirements in full.

As at 31 December 2019 and 2018, the Bank's equity adequacy ratios calculated individually pursuant to 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 (N1.1)	>4.5%	9.29%	7.33%
Core capital adequacy (N1.2)	>6.0%	9.29%	7.33%
Equity (capital) adequacy (N1.0)	>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 consolidated 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).

(Millions of Russian rubles)

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 Group 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 Group monitors current developments and takes appropriate measures. The Group's management is currently assessing the possible impact of the changing micro- and macroeconomic environment on the Group's financial position and performance.