Independent auditor's report
on the financial statements of
CentroCredit Bank
for the year ended 31 December 2019

April 2020

Translation from the original Russian version

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Contents

Independent auditor's report

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To the shareholders and the Board of Directors of
CentroCredit Bank

Report on the audit of the financial statements

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibility for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including international independence standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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.

Responsibility of management and the Board of Directors for the financial statements

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

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

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

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Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 ISA 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 financial statements.

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

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

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

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

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

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

1) Whether the Bank complied as at 1 January 2020 with the prudential ratios established by the Bank of Russia;
2) Whether the internal control and risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
   - Subordination of risk management function;
   - 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; 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 bodies of the Bank in respect of the Bank's compliance with risk limits and equity (capital) adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

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

The findings from our work are provided below.

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

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

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

Compliance by the internal control and risk management systems of the Bank with the requirements set forth by the Bank of Russia in relation to these systems

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2019, the Bank's internal audit function was subordinated and accountable to the Board of Directors, and the Bank's risk management function was not subordinated or accountable to the departments that take the relevant risks.

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- We found that the Bank's internal documents effective as at 31 December 2019 that establish the methodologies for detecting and managing credit, market and concentration risks, that are significant to the Bank, and stress testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2019, the Bank had a reporting system pertaining to credit, market and concentration risks that were significant to the Bank, and pertaining to its equity (capital).
- We found that the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during the year ended 31 December 2019 with regard to the management of credit, market and concentration risks of the Bank complied with the Bank's internal documents and that those reports included observations made by the Bank's risk management and internal audit functions in respect of the effectiveness of relevant risk management methodologies.
- We found that, as at 31 December 2019, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and equity (capital) adequacy requirements. For the purpose of control over the efficiency and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2019, the Bank's Board of Directors and executive management bodies regularly reviewed the reports prepared by the Bank's risk management and internal audit functions.

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

MARIJA IGNATJEVA
Partner
Ernst & Young LLC

27 April 2020

Details of the audited entity

Name: CentroCredit Bank
Record made in the State Register of Legal Entities on 16 September 2002, State Registration Number 1027739198387.
Address: Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, building 1.

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-regulated 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.

Statement of financial position

as at 31 December 2019

(thousands of Russian rubles)

	Note	*2019*	*2018*
Assets			
Cash and accounts with the Bank of Russia	5	4,256,666	2,462,311
Financial assets at fair value through profit or loss	6	29,546,375	11,764,172
Financial assets at fair value through profit or loss pledged under repurchase agreements	6	52,096,668	51,429,488
Amounts due from credit institutions	7	4,696,344	8,189,562
Loans to customers	8	13,590,841	17,685,858
Property and equipment and right-of-use assets		282,828	78,091
Other assets	11	982,472	804,093
Total assets		**105,452,194**	**92,413,575**
Liabilities			
Amounts due to credit institutions	12	35,680,797	50,557,291
Amounts due to customers	13	27,628,651	13,419,965
Debt securities issued	14	763,303	708,055
Other provisions	10	724,208	908,202
Current income tax liabilities		106,802	60,584
Deferred income tax liabilities	9	1,519,968	−
Other liabilities	11	639,211	354,807
Total liabilities		**67,062,940**	**66,008,904**
Equity			
Share capital	15	6,946,140	6,946,140
Revaluation reserve for securities at fair value through other comprehensive income	15	(9)	−
Retained earnings		31,443,123	19,458,531
Total equity		**38,389,254**	**26,404,671**
Total equity and liabilities		**105,452,194**	**92,413,575**

Signed and authorized for release on behalf of the Management Board of the Bank

L.V. Zimina — Chairman of the Management Board

O.Yu. Pavlova — Chief Accountant − Head of the Accounting and Reporting Department

27 April 2020

The accompanying notes 1-29 are an integral part of these financial statements.

Statement of profit or loss

for the year ended 31 December 2019

(thousands of Russian rubles)

	Note	*2019*	*2018*
Interest income	17	7,089,520	6,642,106
Interest expense	17	(3,806,864)	(3,146,044)
Net interest income		**3,282,656**	**3,496,062**
Credit loss expense	10	(1,509,252)	(472,158)
Net interest income after credit loss expense		**1,773,404**	**3,023,904**
Fee and commission income	19	611,443	516,038
Fee and commission expense	19	(97,333)	(70,449)
Net gains/(losses) from financial instruments at fair value through profit or loss	18	15,637,426	(4,755,332)
Net gains from precious metals		7,654	108,817
Net gains/(losses) from foreign currencies:		207,230	(417,639)
- Dealing		(91,258)	34,791
- Translation differences		298,488	(452,430)
Dividends received	20	2,740,442	1,989,947
Other income	21	742,750	114,090
Non-interest income/(expense)		**19,849,612**	**(2,514,528)**
Personnel expenses	22	(746,630)	(738,676)
Depreciation and amortization		(78,544)	(35,776)
Other operating expenses	22	(2,316,087)	(383,123)
Other expenses from impairment and provisions	10	(84,024)	–
Non-interest expense		**(3,225,285)**	**(1,157,575)**
Profit/(loss) before income tax expense		**18,397,731**	**(648,199)**
Income tax expense	9	(2,671,012)	(267,507)
Profit/(loss) for the year		**15,726,719**	**(915,706)**

The accompanying notes 1-29 are an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2019

(thousands of Russian rubles)

	Note	*2019*	*2018*
Profit/(loss) for the year		**15,726,719**	**(915,706)**
Other comprehensive loss			
Change in revaluation reserve for securities at fair value through other comprehensive income	15	(9)	–
Other comprehensive loss, net of tax		**(9)**	**–**
Total comprehensive income/(loss) for the year		**15,726,710**	**(915,706)**

The accompanying notes 1-29 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2019

(thousands of Russian rubles)

	Share capital	*Revaluation reserve for securities at fair value through other comprehensive income*	*Retained earnings*	*Total equity*
1 January 2018	**6,946,140**	**(12,096)**	**21,419,879**	**28,353,923**
Effect of transition to IFRS 9	–	12,096	(603,401)	**(591,305)**
Balance at 1 January 2018 restated under IFRS 9	**6,946,140**	**–**	**20,816,478**	**27,762,618**
Loss for the year	–	–	(915,706)	**(915,706)**
Total comprehensive loss for the year	**–**	**–**	**(915,706)**	**(915,706)**
Dividends to shareholders of the Bank (Note 15)	–	–	(442,241)	**(442,241)**
31 December 2018	**6,946,140**	**–**	**19,458,531**	**26,404,671**
Profit for the year	–	–	15,726,719	**15,726,719**
Other comprehensive income for the year (Note 15)	–	(9)	–	**(9)**
Total comprehensive income for the year	**–**	**(9)**	**15,726,719**	**15,726,710**
Dividends to shareholders of the Bank (Note 15)	–	–	(3,742,127)	**(3,742,127)**
31 December 2019	**6,946,140**	**(9)**	**31,443,123**	**38,389,254**

The accompanying notes 1-29 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2019

(thousands of Russian rubles)

	Note	*2019*	*2018*
Cash flows from operating activities			
Interest received		6,337,473	6,522,214
Interest paid		(3,345,543)	(3,281,666)
Fees and commissions received		611,443	516,038
Fees and commissions paid		(97,333)	(70,449)
Gains less losses from financial assets at fair value through profit or loss		2,724,240	(1,061,130)
Gains less losses from precious metals		59,023	352,603
Realized gains less losses from dealing in foreign currencies		(91,258)	34,791
Dividends received		2,204,020	1,738,377
Other income received		701,119	112,770
Personnel expenses paid		(720,183)	(721,069)
Other operating expenses paid		(443,390)	(377,671)
Cash flows from operating activities before changes in operating assets and liabilities		**7,939,611**	**3,764,808**
Net (increase)/decrease in operating assets			
Obligatory reserve with the Bank of Russia		(126,143)	63,096
Financial assets at fair value through profit or loss		(5,756,563)	(18,815,049)
Amounts due from credit institutions		847	(7,451)
Loans to customers		1,160,078	(4,149,991)
Other assets		(56,238)	(131,105)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(14,762,942)	27,927,104
Amounts due to customers		14,932,519	(1,397,495)
Debt securities issued		17,744	(3,842,240)
Other liabilities		(31,072)	104,184
Net cash flows from operating activities before income tax		**3,317,841**	**3,515,861**
Income tax paid		(786,941)	(183,878)
Net cash from operating activities		**2,530,900**	**3,331,983**
Cash flows from investing activities			
Purchase of property and equipment, right-of-use assets and intangible assets		(94,246)	(32,313)
Proceeds from sale of property and equipment, right-of-use assets and intangible assets		38,559	1,320
Purchase of investment property		(32,500)	–
Proceeds from sale of investment property		–	31,777
Net cash (used in)/from investing activities		**(88,187)**	**784**
Cash flows from financing activities			
Dividends paid to shareholders of the Bank		(3,742,264)	(442,214)
Total cash outflow from lease liabilities		(49,542)	–
Net cash used in financing activities		**(3,791,806)**	**(442,214)**
Effect of exchange rates changes on cash and cash equivalents		(480,392)	406,351
Effect of changes in expected credit losses on cash and cash equivalents		6,690	(18,281)
Net (decrease)/increase in cash and cash equivalents		**(1,822,795)**	**3,278,623**
Cash and cash equivalents, beginning	5	10,482,956	7,204,333
Cash and cash equivalents, ending	5	**8,660,161**	**10,482,956**

The accompanying notes 1-29 are an integral part of these financial statements.

(thousands of Russian rubles)

1. Principal activities

CentroCredit joint-stock commercial bank (the "Bank") was formed in 1989. In 2015, the Bank changed its legal form from closed joint-stock company to joint-stock company in order to bring its incorporation documents in line with Chapter 4 of the Civil Code of the Russian Federation as required by Federal Law No. 99-FZ *On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation, and on Recognizing Some Provisions of Russian Legislative Acts to be Void* dated 5 May 2014.

The Bank operates under a general banking license issued by the Central Bank of Russia (the "CBR" or the "Bank of Russia") on 17 December 2014, as well as the CBR license for operations with precious metals (issued on 17 December 2014). The Bank also holds the following licenses related to its principal activity:

- License of a professional participant of the securities market for dealer activities No. 177-06344-010000 dated 19 September 2003;
- License of a professional participant of the securities market for broker activities No. 177-06333-100000 dated 19 September 2003;
- License of a professional participant of the securities market for custody services No. 177-06413-000100 dated 26 September 2003.

The Bank accepts deposits from legal entities and individuals and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's main office is in Moscow. The Bank has 4 additional offices, 8 internal structural divisions and a representative office in London (United Kingdom). The Bank's registered legal address is Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, building 1.

Starting 11 November 2004, the Bank is a member of the deposit insurance system. The system operates under federal laws and regulations and is governed by the State Corporation Deposit Insurance Agency. Insurance covers the Bank's liabilities to individual depositors for the amount up to 1,400 thousand of Russian rubles for each individual in case of business failure or revocation of the CBR banking license.

As at 31 December 2019 and 2018, the Bank employed 466 and 469 people, respectively.

As at 31 December 2019 and 2018, the Bank's shareholders were as follows:

Shareholder	*2019, %*	*2018, %*
CENTRORIVER HOLDINGS LTD	64.23	64.23
Trial LLC	13.81	13.81
Andrey Igorevich Tarasov	11.96	11.96
Ilya Yuryevich Korbashov	9.96	9.96
Other	0.04	0.04
Total	**100.00**	**100.00**

As at 31 December 2019 and 2018, the Bank's ultimate controlling party is Andrey Igorevich Tarasov.

Andrey Igorevich Tarasov, the Bank's shareholder, is Chairman of the Board of Directors. Ilya Yuryevich Korbashov, the Bank's shareholder, is a member of the Board of Directors.

2. Basis of preparation

General

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

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS. The financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies below. For example, securities at fair value through profit or loss, derivative financial instruments and investment property have been measured at fair value. These financial statements are presented in thousands of Russian rubles ("RUB"), unless otherwise indicated.

These financial statements will be disclosed at the Bank's web site (www.ccb.ru) not later than in 30 days from the deadline for its presentation to the participants (shareholders, founders) or owners of the entity's assets in accordance with Part 7 of Article 4 of Law No. 208-FZ *On the Consolidated Financial Statements*.

(thousands of Russian rubles)

3. Summary of accounting policies

Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment are described below.

IFRS 16 Leases

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

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

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application on 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to apply a recognition exemption for leases with a lease term of 12 months or less at the commencement date which do not contain a purchase option (short-term leases), as well as for leases in which the underlying asset is of low value (leases of 'low-value' assets).

(a) Nature of the effect of adopting IFRS 16

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise it was classified as an operating lease.

Finance leases were capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of 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 lease expenses in profit or loss on a straight-line basis over the lease term. Any prepaid and accrued lease payments were recognized in other assets and other liabilities, respectively.

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

Leases previously classified as finance leases

The Bank did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., right-of-use assets and lease liabilities equal the lease assets and lease liabilities recognized under IAS 17). The requirements of IFRS 16 have been applied to these leases since 1 January 2019.

Leases previously classified as operating leases

The Bank recognized right-of-use assets and lease liabilities for leases previously classified as operating leases, except for short-term leases and leases of low-value assets. 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, right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The Bank also applied the available practical expedients wherein it:

- Applied the short-term leases exemption to leases with a lease term that ends within 12 months from the date of initial application;
- Excluded 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 contained an option to extend or terminate the lease.

Starting 1 January 2019, after the initial application of IFRS 16, the Bank recognized right-of-use assets of RUB 216,083 thousand in the *Property and equipment and right-of-use assets* line of the statement of financial position; the associated lease liability of the same amount was recorded in other liabilities.

Lease liabilities as at 1 January 2019 can be reconciled to operating lease commitments as at 31 December 2018 as follows:

	1 January 2019
Operating lease payables	**283,441**
Adjustments to lease payments	
Future lease payments over the term of the lease extension option, if the option is reasonably certain to be exercised	21,187
Practical expedient: short-term leases	(23)
Practical expedient: underlying low-value assets	(296)
Future lease payments under IFRS 16	**304,309**
Effect of discounting	(88,226)
Lease liabilities at 1 January 2019	**216,083**

(b) Summary of new accounting policies

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

i. Bank as lessee

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

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. 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.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Lease payments are discounted using the contractual interest rate. Where such an interest rate cannot be calculated, the discount rate is determined on the basis of the zero coupon yield curve and the credit spread. 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, a change in the lease term, a change in in-substance fixed lease payments or a change in the assessment of the option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that is considered of low value (i.e., below RUB 300 thousand). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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

The Bank determines the lease term as a 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.

The Bank applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognized in the statement of financial position, statement of profit or loss and statement of cash flows

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

	Right-of-use assets				*Lease*
	Buildings	***Land***	***Vehicles***	***Total***	***liabilities***
At 1 January 2019	**213,851**	**2,186**	**46**	**216,083**	**216,083**
Additions	16,426	937	−	**17,363**	17,349
Modification and remeasurement of lease liabilities	17,434	3,734	(1)	**21,167**	21,167
Depreciation expense	(40,629)	(722)	(29)	**(41,380)**	−
Interest expense	−	−	−	**−**	13,465
Payments	−	−	−	**−**	(49,515)
Disposals	(997)	−	−	**(997)**	(27)
At 31 December 2019	**206,085**	**6,135**	**16**	**212,236**	**218,522**

The Bank recognized expenses of RUB 7,060 thousand from short-term leases, leases of low-value assets and variable lease payments for the year ended 31 December 2019.

In 2019, the total cash outflow related to leases amounted to RUB 49,542 thousand. In 2019, the Bank also had non-cash additions of right-of-use assets and lease liabilities of RUB 38,530 thousand.

ii. Operating − Bank as lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Lease income arising is accounted for on a straight-line basis over the lease term 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 − Bank as lessor

The Bank 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 the lease receivables.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

Upon adoption of the interpretation, the Bank considered whether it had any uncertain tax treatments, particularly those relating to transfer pricing. The Bank's tax filings in different jurisdictions include transfer pricing deductions; therefore, tax authorities may challenge these tax treatments. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have any impact on the Bank's financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments had no impact on the Bank's 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 for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, as well as the discount rate used to remeasure that net defined benefit liability (asset).

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

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

The amendments clarify that an entity should apply 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 financial statements of the Bank as the Bank does not have any long-term interests in its associates or joint ventures.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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 applies 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 remeasures its entire previously held interest in the joint operation.

An entity should apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early adoption permitted.

These amendments had no impact on the Bank's financial statements, as it was not involved in any transactions 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.

An entity should apply those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early adoption permitted.

These amendments had no impact on the Bank's financial statements, as it was not involved in any transactions where joint control is obtained.

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.

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

Since the Bank's current practice is in line with these amendments, they had no effect on its 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. An entity should apply the amendments to annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

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

Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI and non-financial assets, such as investment property, at fair value at each reporting date. Fair values of financial instruments are disclosed in Note 24.

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.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

The Bank uses various fair value measurement methods depending on the type of the *Financial Instrument* and *Inputs* available for the instrument at the time of measurement. In doing so, the Bank maximizes the use of relevant *Observable Inputs* and minimizes the use of *Unobservable Inputs*, focusing on **Level 1 Inputs**.

Classification of fair value measurements is based on the fair value hierarchy (Level 1, 2 or 3). The levels correlate to the possibility of direct measurement of fair value using market data and reflect the materiality of the inputs used for the fair value measurement.

- **Level 1 Inputs** − quoted (unadjusted) prices in active markets for *Financial Instruments* which are available to the Bank at the date of measurement. A quoted price in an active market represents the most reliable evidence of the fair value and is used to measure the unadjusted fair value every time it is available.
- **Level 2 Inputs** − (adjusted) *Inputs* observable for *Financial Instruments*, either directly or indirectly, excluding quoted prices taken to Level 1.
- **Level 3 Inputs** − unobservable *Inputs* for measured *Financial Instruments*, and *Inputs*, which the Bank cannot classify as Level 1 or Level 2 data.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether they need to be transferred 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.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the settlement date, i.e. the date that the asset is delivered or liability is assumed. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

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

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments as at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

All financial liabilities are classified as measured at amortized cost, except:

a) Financial liabilities at fair value through profit or loss;

b) Financial guarantees;

c) Liabilities on loans bearing a below-market interest rate.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated.
- 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, value and timing of sales are also important aspects of the Bank's assessment.

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

The SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of the 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 conduct the SPPI test, the Bank applies judgment 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 principal amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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 revenue and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured 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 measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which 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 recycled to profit or loss upon derecognition of the asset.

Equity instruments at FVOCI

At initial recognition of certain investments in equity instruments, the Bank sometimes makes an irrevocable decision to reclassify them in equity instruments at FVOCI if they meet the definition of an equity instrument according to IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses from these equity instruments are never recycled to profit or loss. In this case, gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and loan commitments

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

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

Loan commitments and letters of credits are contractual commitments, under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these commitments are in the scope of the ECL requirements.

Reclassification of financial assets and liabilities

The Bank does not reclassify financial assets after their initial recognition, apart from exceptional cases, when the Bank changes the business model for managing the financial assets. Financial liabilities are never reclassified.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Bank of Russia, excluding obligatory reserves, and amounts due from credit institutions on current, clearing and deposit accounts, as well as reverse repurchase agreements with credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at bid prices set by the Bank of Russia, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in bid prices set by the Bank of Russia are recorded as translation differences from precious metals in net gains/(losses) from precious metals.

Repurchase and reverse repurchase agreements

Repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repos”) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between the sale price and the repurchase price is treated as interest income or expense.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially 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. The fair value of standardized exchange-traded contracts providing for the daily transfer of the variation margin, is determined as the amount of claims for (obligation to pay) a variation margin at the end of the operating day. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Offsetting of financial instruments

Financial assets and liabilities should be offset and the net amount should be presented in the 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 statement of financial position.

Restructured loans

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

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

- A change in the currency of the loan;
- A change in the 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 changes in cash flows discounted at the original effective interest rate, the Bank recognizes a gain or loss from modification in the statement of profit or loss to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as a result of modification, it will remain in Stage 3 until the date it is fully repaid or until the elimination of circumstances causing the asset's classification as Stage 3.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognized in the statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its right to receive cash flows from the asset, or assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement, and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Write-off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

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 profit or loss.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amount.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

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

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and structures	20
Furniture and equipment	3
Bank equipment	4
Vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Investment property

Investment property is land or buildings or parts of buildings held to earn rental income or for capital appreciation, which is not used by the Bank or held for sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. The fair value of the Bank's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the statement of profit or loss within other income. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of profit or loss and presented within other income or other operating expenses.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

Intangible assets include the trademark, website, computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 1.1 to 35 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the state pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Share capital

Share capital

Ordinary shares and non-redeemable preferred shares with discretionary dividends are both classified as equity.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contingencies

Contingent liabilities are not recognized in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

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

Interest and similar income and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI and calculates expenses on financial liabilities measured at amortized cost by applying the effective interest rate to the gross carrying amount of financial assets, other than credit-impaired financial assets, and to the amortized cost of financial liabilities, respectively. The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts.

The Bank does not always apply the EIR method to financial assets and financial liabilities if the difference between the amortized cost determined on the basis of the EIR method and the amortized cost calculated using the straight-line method is insignificant (less than 10%). Such instruments include financial assets and financial liabilities maturing on demand or within up to one year upon initial recognition, including maturing in the following reporting year.

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

In case of purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest revenue applying the effective interest rate adjusted for credit risk to the amortized cost of the financial asset. The effective interest rate adjusted for 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 revenue from all financial assets at FVPL is recognized using a contractual interest rate within other interest income in the statement of profit or loss.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

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.

Dividend income

Revenue is recognized when the Bank’s right to receive the payment is established.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Foreign currency translation

The financial statements are presented in Russian rubles, which are the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as net gains from foreign currencies − translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate set by the Bank of Russia on the date of the transaction are included in gains less losses from foreign currencies. The official exchange rates of the Bank of Russia at 31 December 2019 and 2018 were RUB 61.9057 and RUB 69.4706 to USD 1 and RUB 69.3406 and RUB 79.4605 to EUR 1, respectively.

Standards issued but not yet effective

The new standards, amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank plans to adopt these new standards, amendments and interpretations, if relevant, 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 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 Bank will continue to assess the potential effect of IFRS 17 on its 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 Bank 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 Bank's financial statements.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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

The amendments to IFRS 9, IAS 39 and IFRS 7 include a number of reliefs, which apply to all hedging relationships that are directly affected by the 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 over whether a forecast transaction is 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 any significant impact on the Bank's financial statements.

4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant judgments and estimates used are as follows:

Fair values of financial instruments

As described in Note 24, the Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments (loans at fair value through profit or loss). Note 24 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. Management of the Bank believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Valuation of investment property

The Bank records land and buildings within investment property at fair value. For this purpose, the Bank engages an independent qualified appraiser. The most recent revaluation of investment property was carried out as at 31 December 2019 by an independent qualified appraiser (KG Lair LLC) applying an appropriate valuation methodology and information on transactions with similar real estate properties in the same location.

Impairment losses from financial assets

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL/impairment losses and assessing a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with 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 Bank's internal credit grading model, which assigns PDs to individual grades.
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the 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 interrelations 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 economic inputs for ECL calculation models.

(thousands of Russian rubles)

4. Significant accounting judgments and estimates (continued)

Leases − determining the discount rate

The Bank cannot readily determine the interest rate implicit in the lease; therefore, it estimates the discount rate based on observable inputs and makes certain estimates specific to the Bank. Where such an interest rate cannot be calculated, the discount rate is determined on the basis of the zero coupon yield curve and the credit spread.

Leases − determining the lease term

Certain leases are perpetual and subject to automatic renewal if neither party sends a termination notice to the other party. The Bank has an option under some of its leases to lease the assets for an additional term. The Bank applies judgment to determine whether it is reasonably certain to exercise the extension option. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal option.

Deferred tax asset recognition

A deferred tax asset is the amount of income tax which may be offset against future income taxes and is recorded in the statement of financial position. A deferred income tax asset is recorded to the extent that the realization of the related tax benefit is probable. According to the Bank's management, it cannot be deemed highly probable that taxable profit will be available in the future.

5. Cash and accounts with the Bank of Russia

Cash comprises:

	2019	*2018*
Accounts with the Bank of Russia	2,891,677	986,742
Cash on hand	1,364,989	1,475,569
Cash and accounts with the Bank of Russia	**4,256,666**	**2,462,311**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the Bank of Russia, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such a deposit is significantly restricted by the statutory legislation.

As at 31 December 2019 and 31 December 2018, the obligatory reserve with the Bank of Russia amounted to RUB 239,654 thousand and RUB 113,511 thousand, respectively.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	2019	*2018*
Current and clearing accounts with credit institutions (Note 7)	4,393,337	5,492,136
Cash and accounts with the Bank of Russia	4,256,666	2,462,311
Time deposits with credit institutions up to 90 days (Note 7)	321,909	371,668
Reverse repurchase agreements with credit institutions up to 90 days (Note 7)	−	2,351,474
Less allowance for ECL	(11,591)	(18,281)
	8,960,321	**10,659,308**
Less:		
Obligatory reserve with the Bank of Russia	(239,654)	(113,511)
Encumbered current and clearing accounts with credit institutions	(60,506)	(62,841)
Cash and cash equivalents	**8,660,161**	**10,482,956**

All balances of cash and cash equivalents are taken to Stage 1.

(thousands of Russian rubles)

6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2019	*2018*
Debt securities		
Russian state bonds	13,289,194	1,356,245
Corporate bonds	486,302	–
	13,775,496	**1,356,245**
Equity securities		
Corporate shares	14,722,086	9,773,498
Shares of resident banks	760,438	315,343
Depository receipts for corporate shares	282,835	294,000
	15,765,359	**10,382,841**
Derivative financial assets	5,520	25,086
Financial assets at fair value through profit or loss	**29,546,375**	**11,764,172**

Financial assets at fair value through profit or loss pledged under repurchase agreements comprise:

	2019	*2018*
Debt securities		
Russian state bonds	38,144,304	41,251,184
	38,144,304	**41,251,184**
Equity securities		
Corporate shares	9,852,048	10,178,304
Depository receipts for corporate shares	2,501,410	–
Shares of resident banks	1,598,906	–
	13,952,364	**10,178,304**
Financial assets at fair value through profit or loss pledged under repurchase agreements	**52,096,668**	**51,429,488**

Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset 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.

	2019			*2018*		
	Notional	*Fair value*		*Notional*	*Fair value*	
	amount	*Asset*	*Liability*	*amount*	*Asset*	*Liability*
Foreign exchange contracts						
Futures − foreign	483,612	–	–	698,645	–	–
Futures − domestic	371,434	–	–	5,363,886	–	–
Credit derivative financial instruments						
Credit default swaps − foreign	6,420,851	5,520	–	7,135,018	24,699	–
Contracts for derivatives						
RTS Index futures − domestic	3,547,818	–	–	–	–	–
Contracts for precious metals						
Precious metal forwards − domestic	–	–	–	42,608	387	–
Total derivative assets/liabilities		**5,520**	**–**		**25,086**	**–**

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

(thousands of Russian rubles)

6. Financial assets at fair value through profit or loss (continued)

Derivative financial instruments (continued)

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

Forwards and futures

Forwards and futures 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. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The fair value of standardized exchange-traded contracts providing for the daily transfer of the variation margin, is determined as the amount of claims for (obligation to pay) a variation margin at the end of the operating day.

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.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2019	*2018*
Current and clearing accounts with credit institutions	4,393,337	5,492,136
Time deposits with credit institutions up to 90 days	321,909	371,668
Reverse repurchase agreements with credit institutions up to 90 days	–	2,351,474
	4,715,246	**8,215,278**
Less allowance for ECL	(18,902)	(25,716)
Amounts due from credit institutions	**4,696,344**	**8,189,562**

As at 31 December 2019, the Bank placed RUB 3,269,214 thousand (31 December 2018: RUB 4,417,240 thousand) and RUB 672,262 thousand (31 December 2018: RUB 697,777 thousand) on current and clearing accounts with NCI NCC (JSC) and international OECD banks, respectively.

As at 31 December 2019, time deposits with credit institutions included RUB 321,909 thousand (31 December 2018: RUB 371,668 thousand) placed with an OECD bank.

As at 31 December 2019, the Bank did not enter into any reverse repurchase agreements.

As at 31 December 2018, the Bank entered into reverse repurchase agreements with a Russian credit institution.

	2019		*2018*	
	Carrying amount of loans	*Fair value of collateral*	*Carrying amount of loans*	*Fair value of collateral*
Russian state bonds	–	–	2,301,442	2,479,005
Clearing participation certificate	–	–	50,032	50,000
Total	**–**	**–**	**2,351,474**	**2,529,005**

Movements in the gross carrying amount and respective ECL as at 31 December 2019 are presented in the table below.

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2019	**8,208,083**	**–**	**7,195**	**8,215,278**
Assets recognized during the period	7,663,416	–	–	**7,663,416**
Assets disposed or redeemed (except for write-offs)	(10,769,980)	–	(71)	**(10,770,051)**
Translation differences	(393,397)	–	–	**(393,397)**
31 December 2019	**4,708,122**	**–**	**7,124**	**4,715,246**

(thousands of Russian rubles)

7. Amounts due from credit institutions (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2019	**18,521**	**–**	**7,195**	**25,716**
Assets recognized during the period	20,731	–	–	**20,731**
Assets disposed or redeemed (except for write-offs)	(25,420)	–	(71)	**(25,491)**
Changes in models and inputs used for ECL calculations	(1,136)	–	–	**(1,136)**
Translation differences	(918)	–	–	**(918)**
31 December 2019	**11,778**	**–**	**7,124**	**18,902**

Movements in the gross carrying amount and respective ECL as at 31 December 2018 are presented in the table below.

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2018	**4,823,241**	**–**	**–**	**4,823,241**
Assets recognized during the period	5,015,465	–	–	**5,015,465**
Assets disposed or redeemed (except for write-offs)	(1,623,428)	–	–	**(1,623,428)**
Transfers to Stage 3	(7,195)	–	7,195	**–**
At 31 December 2018	**8,208,083**	**–**	**7,195**	**8,215,278**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2018	**8,600**	**–**	**–**	**8,600**
Assets recognized during the period	7,131	–	–	**7,131**
Assets disposed or redeemed (except for write-offs)	(1,892)	–	–	**(1,892)**
Transfers to Stage 3	(2,644)	–	2,644	**–**
Effect on period-end ECL due to transfers between stages during the period	–	–	4,551	**4,551**
Changes in models and inputs used for ECL calculations	7,326	–	–	**7,326**
At 31 December 2018	**18,521**	**–**	**7,195**	**25,716**

8. Loans to customers

Loans to customers comprise:

	2019	*2018*
Loans to legal entities	20,903,800	19,421,436
Loans to individuals	4,014,115	3,712,204
Net investment in finance leases	1,315,446	1,316,610
Reverse repurchase agreements	1,231,339	6,094,907
Total loans to customers	**27,464,700**	**30,545,157**
Less allowance for ECL	(15,203,367)	(14,318,736)
Loans to customers at amortized cost	**12,261,333**	**16,226,421**
Loans to customers at FVPL	1,329,508	1,459,437
Loans to customers	**13,590,841**	**17,685,858**

Information on fair value measurement of loans to customers at FVPL is presented in Note 24.

(thousands of Russian rubles)

8. Loans to customers (continued)

Movements in the gross carrying amount and respective ECL on loans to legal entities as at 31 December 2019 are presented below.

Loans to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2019	**3,006,808**	**13,478,408**	**2,936,220**	**–**	**19,421,436**
New assets, including under available credit facilities	13,557,400	1,906,330	–	–	**15,463,730**
Assets disposed or redeemed (except for write-offs)	(7,473,275)	(5,162,099)	(546,691)	–	**(13,182,065)**
Assets sold during the period	–	–	(805,592)	–	**(805,592)**
Transfers to Stage 1	1,211,943	(1,211,943)	–	–	**–**
Transfers to Stage 2	(1,491,166)	1,491,166	–	–	**–**
Transfers to Stage 3	(36,500)	(190,497)	226,997	–	**–**
Unwinding of discount	–	–	103,354	–	**103,354**
Changes in contractual cash flows due to modification not resulting in derecognition	1,042	(144,538)	–	–	**(143,496)**
Translation differences	(9,367)	–	55,800	–	**46,433**
At 31 December 2019	**8,766,885**	**10,166,827**	**1,970,088**	**–**	**20,903,800**

Loans to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2019	**1,005,216**	**6,706,326**	**2,936,220**	**–**	**10,647,762**
New assets, including under available credit facilities	4,347,587	499,393	–	–	**4,846,980**
Assets disposed or redeemed (except for write-offs)	(1,638,414)	(2,164,547)	(546,691)	–	**(4,349,652)**
Assets sold during the period	–	–	(805,292)	–	**(805,292)**
Transfers to Stage 1	478,916	(478,916)	–	–	**–**
Transfers to Stage 2	(202,614)	202,614	–	–	**–**
Transfers to Stage 3	(350)	(142,874)	143,224	–	**–**
Effect on period-end ECL due to transfers between stages during the period	(360,659)	218,067	83,773	–	**(58,819)**
Unwinding of discount (recognized in interest income)	–	–	103,354	–	**103,354**
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	(55,166)	(168,429)	(299)	–	**(223,894)**
Translation differences	(5,620)	–	55,800	–	**50,180**
At 31 December 2019	**3,568,896**	**4,671,634**	**1,970,089**	**–**	**10,210,619**

(thousands of Russian rubles)

8. Loans to customers (continued)

Movements in the gross carrying amount and respective ECL on loans to individuals as at 31 December 2019 are presented below.

Loans to individuals	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2019	**2,812,952**	**436,275**	**462,977**	**–**	**3,712,204**
New assets, including under available credit facilities	1,788,723	173,069	–	–	**1,961,792**
Assets disposed or redeemed (except for write-offs)	(24,699)	(1,425,409)	(122,340)	–	**(1,572,448)**
Assets sold during the period	–	–	(55,110)	–	**(55,110)**
Transfers to Stage 2	(2,615,187)	2,615,344	(157)	–	**–**
Transfers to Stage 3	(3,483)	(106,477)	109,960	–	**–**
Unwinding of discount	–	–	29,280	–	**29,280**
Changes in contractual cash flows due to modification not resulting in derecognition	–	(1,455)	(14)	–	**(1,469)**
Amounts written off	–	–	(50,365)	–	**(50,365)**
Translation differences	(792)	(45)	(8,932)	–	**(9,769)**
At 31 December 2019	**1,957,514**	**1,691,302**	**365,299**	**–**	**4,014,115**

Loans to individuals	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2019	**1,666,839**	**205,787**	**462,977**	**–**	**2,335,603**
New assets, including under available credit facilities	1,060,224	150,603	–	–	**1,210,827**
Assets derecognized or redeemed (except for write-offs)	(2,462)	(1,020,045)	(122,340)	–	**(1,144,847)**
Assets sold during the period	–	–	(55,110)		**(55,110)**
Transfers to Stage 2	(1,568,134)	1,568,291	(157)	–	**–**
Transfers to Stage 3	(387)	(21,896)	22,283	–	**–**
Effect on period-end ECL due to transfers between stages during the period	–	391,805	87,677	–	**479,482**
Unwinding of discount (recognized in interest income)	–	–	29,280	–	**29,280**
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	332,418	321,525	(14)	–	**653,929**
Amounts written off	–	–	(50,365)	–	**(50,365)**
Translation differences	(31)	(34)	(8,932)	–	**(8,997)**
At 31 December 2019	**1,488,467**	**1,596,036**	**365,299**	**–**	**3,449,802**

Movements in the gross carrying amount and respective ECL on reverse repurchase agreements as at 31 December 2019 are presented below.

Reverse repurchase agreements	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2019	**6,094,907**	**–**	**–**	**–**	**6,094,907**
Assets recognized during the period	15,369,663	–	–	–	**15,369,663**
Assets disposed or redeemed (except for write-offs)	(20,233,231)	–	–	–	**(20,233,231)**
At 31 December 2019	**1,231,339**	**–**	**–**	**–**	**1,231,339**

(thousands of Russian rubles)

8. Loans to customers (continued)

Reverse repurchase agreements	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2019	**139,948**	**–**	**–**	**–**	**139,948**
Assets recognized during the period	4,608,777	–	–	–	**4,608,777**
Assets disposed or redeemed (except for write-offs)	(4,379,323)	–	–	–	**(4,379,323)**
At 31 December 2019	**369,402**	**–**	**–**	**–**	**369,402**

Movements in the gross carrying amount and respective ECL on net investment in finance leases as at 31 December 2019 are presented below.

Net investment in finance leases	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2019	**–**	**1,316,610**	**–**	**–**	**1,316,610**
New assets, including under available credit facilities	7,555	73,006	–	–	**80,561**
Assets disposed or redeemed (except for write-offs)	(791)	(78,135)	–	–	**(78,926)**
Changes in contractual cash flows due to modification not resulting in derecognition	–	(2,799)	–	–	**(2,799)**
At 31 December 2019	**6,764**	**1,308,682**	**–**	**–**	**1,315,446**

Net investment in finance leases	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2019	**–**	**1,195,423**	**–**	**–**	**1,195,423**
Assets recognized during the period	2,266	65,411	–	–	**67,677**
Assets disposed or redeemed (except for write-offs)	(237)	(69,939)	–	–	**(70,176)**
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	–	(19,380)	–	–	**(19,380)**
At 31 December 2019	**2,029**	**1,171,515**	**–**	**–**	**1,173,544**

Movements in the gross carrying amount and respective ECL on loans to legal entities as at 31 December 2018 are presented below.

Loans to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2018	**1,727,822**	**10,961,602**	**3,244,469**	**–**	**15,933,893**
New assets, including under available credit facilities	6,384,168	142,746	–	–	**6,526,914**
Assets disposed or redeemed (except for write-offs)	(1,051,378)	(1,881,467)	(203,638)	–	**(3,136,483)**
Assets sold during the period	–	–	(176,152)	–	**(176,152)**
Transfers to Stage 2	(3,855,315)	4,455,527	(600,212)	–	**–**
Transfers to Stage 3	(198,489)	(200,000)	398,489	–	**–**
Unwinding of discount	–	–	273,264	–	**273,264**
At 31 December 2018	**3,006,808**	**13,478,408**	**2,936,220**	**–**	**19,421,436**

(thousands of Russian rubles)

8. Loans to customers (continued)

Loans to legal entities	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL at 1 January 2018	**244,621**	**5,039,035**	**3,209,976**	**–**	**8,493,632**
New assets, including under available credit facilities	1,602,823	59,862	–	–	**1,662,685**
Assets disposed or redeemed (except for write-offs)	(100,858)	(572,777)	(199,788)	–	**(873,423)**
Assets sold during the period	–	–	(176,152)	–	**(176,152)**
Transfers to Stage 2	(453,782)	1,053,994	(600,212)	–	**–**
Transfers to Stage 3	(134,978)	(44,480)	179,458	–	**–**
Effect on period-end ECL due to transfers between stages during the period	–	1,241,344	219,032	–	**1,460,376**
Unwinding of discount (recognized in interest income)	–	–	273,264	–	**273,264**
Changes in models and inputs used for ECL calculations	(152,610)	(70,652)	30,642	–	**(192,620)**
At 31 December 2018	**1,005,216**	**6,706,326**	**2,936,220**	**–**	**10,647,762**

Movements in the gross carrying amount and respective ECL on loans to individuals as at 31 December 2018 are presented below.

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount at 1 January 2018	**5,233,001**	**–**	**350,908**	**–**	**5,583,909**
New assets, including under available credit facilities	290,317	–	–	–	**290,317**
Assets disposed or redeemed (except for write-offs)	(2,274,091)	–	(35,435)	–	**(2,309,526)**
Assets sold during the period	–	–	(7,548)	–	**(7,548)**
Transfers to Stage 2	(436,275)	436,275	–	–	**–**
Unwinding of discount	–	–	142,364	–	**142,364**
Amounts written off	–	–	(362)	–	**(362)**
Translation differences	–	–	13,050	–	**13,050**
At 31 December 2018	**2,812,952**	**436,275**	**462,977**	**–**	**3,712,204**

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL at 1 January 2018	**2,378,533**	**–**	**350,908**	**–**	**2,729,441**
New assets, including under available credit facilities	169,145	–	–	–	**169,145**
Assets disposed or redeemed (except for write-offs)	(1,079,797)	–	(35,382)	–	**(1,115,179)**
Assets sold during the period	–	–	(7,548)	–	**(7,548)**
Transfers to Stage 2	(48,776)	48,776	–	–	**–**
Effect on period-end ECL due to transfers between stages during the period	–	157,011	–	–	**157,011**
Unwinding of discount (recognized in interest income)	–	–	142,364	–	**142,364**
Changes in models and inputs used for ECL calculations	247,734	–	(36)	–	**247,698**
Amounts written off	–	–	(362)	–	**(362)**
Translation differences	–	–	13,033	–	**13,033**
At 31 December 2018	**1,666,839**	**205,787**	**462,977**	**–**	**2,335,603**

(thousands of Russian rubles)

8. Loans to customers (continued)

Movements in the gross carrying amount and respective ECL on reverse repurchase agreements as at 31 December 2018 are presented below.

Reverse repurchase agreements	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2018	**4,240,356**	**–**	**–**	**–**	**4,240,356**
Assets recognized during the period	6,094,907	–	–	–	**6,094,907**
Assets disposed or redeemed (except for write-offs)	(4,240,356)	–	–	–	**(4,240,356)**
At 31 December 2018	**6,094,907**	**–**	**–**	**–**	**6,094,907**

Reverse repurchase agreements	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2018	**1,272,107**	**–**	**–**	**–**	**1,272,107**
Assets recognized during the period	139,948	–	–	–	**139,948**
Assets disposed or redeemed (except for write-offs)	(1,272,107)	–	–	–	**(1,272,107)**
At 31 December 2018	**139,948**	**–**	**–**	**–**	**139,948**

Movements in the gross carrying amount and respective ECL on net investment in finance leases as at 31 December 2018 are presented below.

Net investment in finance leases	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2018	**–**	**1,342,301**	**–**	**–**	**1,342,301**
Changes in contractual cash flows due to modification not resulting in derecognition	–	(25,691)	–	–	**(25,691)**
At 31 December 2018	**–**	**1,316,610**	**–**	**–**	**1,316,610**

Net investment in finance leases	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2018	**–**	**1,310,797**	**–**	**–**	**1,310,797**
Changes in contractual cash flows due to modification not resulting in derecognition	–	(24,800)	–	–	**(24,800)**
Changes in models and inputs used for ECL calculations	–	(90,574)	–	–	**(90,574)**
At 31 December 2018	**–**	**1,195,423**	**–**	**–**	**1,195,423**

The contractual amount outstanding on loans and advances to customers at amortized cost that were written off during the year ended 31 December 2019 but were still subject to enforcement activity amounted to RUB 50,365 thousand (2018: RUB 362 thousand).

Undiscounted ECL at initial recognition on acquired credit-impaired loans and advances to customers that were initially recognized during the years ended 31 December 2019 and 2018 are as follows:

	2019	*2018*
Loans to legal entities	1,654,759	–
Loans to individuals	16,933	–
Total undiscounted ECL at initial recognition of POCI assets	**1,671,692**	**–**

(thousands of Russian rubles)

8. Loans to customers (continued)

Modified and restructured loans

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

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 effective interest rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below shows Stage 2 and Stage 3 assets that were renegotiated during the period and, as a result, are recognized as restructured loans, and the associated losses incurred by the Bank due to the modification.

	2019	*2018*
Loans to customers modified during the period		
Amortized cost before modification	5,762,188	–
Net modification loss/gain	(144,965)	–
Loans to customers modified since initial recognition		
Gross carrying amount at 1 January of loans to customers for which impairment allowance calculation was changed to 12-month ECL measurement	2,808,896	–

Collateral and other credit enhancements

The amount and type of collateral required 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 reverse repurchase transactions, securities;
- For commercial lending, charges over real estate properties, securities issued by the Bank and vehicles;
- For retail lending, mortgages over residential properties and charges over vehicles and securities.

Management regularly monitors the market value of collateral and, if necessary, requests additional collateral in accordance with the underlying agreement.

The Bank generally does not take account of the fair value of collateral to reduce ECL.

During 2019, the Bank did not take possession of any assets in exchange for receivables from borrowers. In 2018, the Bank obtained assets through foreclosure and accord and satisfaction agreements relating to loans to customers in the amount of RUB 20,910 thousand. Assets acquired through foreclosure in 2018 are recognized as investment property within other assets (Note 11).

As at 31 December 2019 and 2018, loans to customers included reverse repurchase agreements maturing on 10 January 2020 and 9 January 2019, respectively. The fair value of assets received as collateral and the carrying amount of receivables under reverse repurchase agreements comprised:

	2019		*2018*	
	Carrying amount of loans	*Fair value of collateral*	*Carrying amount of loans*	*Fair value of collateral*
Corporate equity securities	746,226	834,245	–	–
Corporate debt securities	485,113	539,117	–	–
Debt securities of the Russian Federation	–	–	6,094,907	6,661,579
Total	**1,231,339**	**1,373,362**	**6,094,907**	**6,661,579**

(thousands of Russian rubles)

8. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2019, the total outstanding amount of loans to four major independent borrowers was RUB 12,941,842 thousand, or 44.9% of the Bank's gross loan portfolio (31 December 2018: RUB 16,402,446 thousand, or 51.3% of the gross loan portfolio). As at 31 December 2019, an allowance for impairment of RUB 6,502,853 thousand (31 December 2018: RUB 4,900,723 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	2019	*2018*
Private companies	24,745,999	28,269,371
Individuals	4,048,209	3,735,223
	28,794,208	**32,004,594**

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

	2019	*2018*
Construction (infrastructure facilities)	6,927,531	6,193,622
Real estate	4,130,985	4,198,705
Individuals	4,048,209	3,735,223
Transport	2,948,818	2,348,644
Mining	2,737,342	2,476,636
Trade	2,259,746	2,252,377
Finance	1,631,399	6,695,119
Agribusiness	1,399,429	2,304,660
Machine building	1,157,791	1,064,054
Other	1,552,958	735,554
	28,794,208	**32,004,594**

Finance lease receivables

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

	Less than 1 year	*1 to 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	123,441	897,282	573,887	**1,594,610**
Unearned future finance income on finance leases	(4,936)	(147,435)	(126,793)	**(279,164)**
Net investment in finance leases	**118,505**	**749,847**	**447,094**	**1,315,446**

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

	Less than 1 year	*1 to 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	60,468	755,725	870,006	**1,686,199**
Unearned future finance income on finance leases	(2,851)	(153,958)	(212,780)	**(369,589)**
Net investment in finance leases	**57,617**	**601,767**	**657,226**	**1,316,610**

As at 31 December 2019, the allowance for ECL on finance leases amounted to RUB 1,173,544 thousand (31 December 2018: RUB 1,195,423 thousand).

(thousands of Russian rubles)

9. Taxation

The corporate income tax expense comprises:

	2019	*2018*
Current tax charge	1,151,044	683,423
Deferred tax charge/(credit) − origination and reversal of temporary differences	1,519,968	(415,916)
Income tax expense	**2,671,012**	**267,507**

Russian legal entities have to file individual corporate income tax declarations. The standard income tax rate for companies (including banks) comprised 20% in 2019 and 2018. The corporate income tax rate applicable to interest (coupon) income on state and municipal bonds was 15% in 2019 and 2018. Dividends are subject to Russian income tax at a standard rate of 13%, which can be reduced to 0% subject to certain criteria.

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

	2019	*2018*
(Loss)/profit before tax	**18,397,731**	**(648,199)**
Statutory tax rate	20%	20%
Theoretical income tax (benefit)/expense at the statutory tax rate	**3,679,546**	**(129,640)**
Effect of different tax rates	(376,357)	(289,346)
Non-deductible expenditures	39,766	14,550
Change in deferred tax assets not recognized in the statement of financial position	(671,943)	671,943
Income tax expense	**2,671,012**	**267,507**

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*		
	1 January 2018	*Effect of adopting IFRS 9*	*In the statement of profit or loss*	*In other comprehensive income*	*31 December 2018*	*In the statement of profit or loss*	*In other comprehensive income*	*31 December 2019*
Tax effect of deductible temporary differences								
Financial assets at fair value through profit or loss	253,042	(2,762)	654,075	−	904,355	(904,355)	−	−
Loans to customers	−	−	9,352	−	9,352	261,532	−	270,884
Revaluation of loans to customers at fair value through profit or loss	−	72,413	442,257	−	514,670	(81,487)	−	433,183
Available-for-sale investments	1,317	(1,317)	−	−	−	−	−	−
Property and equipment and right-of-use assets	10,998	−	(408)	−	10,590	(10,590)	−	−
Investment property	83,964	−	(56,000)	−	27,964	64,889	−	92,853
Other assets	52,218	−	(52,218)	−	−	119	−	119
Debt securities issued	−	−	9	−	9	(9)	−	−
Other liabilities	9,122	−	45,054	−	54,176	35,369	−	89,545
Other allowances for ECL	197,952	(44,651)	37,897	−	191,198	(30,999)	−	160,199
Tax losses carried forward	−	−	484,541	−	484,541	112,699	−	597,240
Other	194,164	3,187	(197,351)	−	−	8,588	−	8,588
Gross deferred tax assets	**802,777**	**26,870**	**1,367,208**	**−**	**2,196,855**	**(544,244)**	**−**	**1,652,611**
Deferred tax assets not recognized in the statement of financial position	(2,419)	2,419	(671,943)	−	(671,943)	671,943	−	−
Deferred tax asset	**800,358**	**29,289**	**695,265**	**−**	**1,524,912**	**127,699**	**−**	**1,652,611**
Tax effect of taxable temporary differences								
Financial assets at fair value through profit or loss	−	−	−	−	−	1,661,431	−	1,661,431
Loans to customers	51,197	61,340	(112,537)	−	−	−	−	−
Allowance for ECL on loans to customers	892,782	(182,901)	537,436	−	1,247,317	92,349	−	1,339,666
Property and equipment and right-of-use assets	−	−	−	−	−	32,038	−	32,038
Other assets	−	−	28,849	−	28,849	(28,849)	−	−
Debt securities issued	13,748	−	(13,748)	−	−	1,293	−	1,293
Allowance for impairment of securities	409,397	−	(203,027)	−	206,370	(68,219)	−	138,151
Other	−	−	42,376	−	42,376	(42,376)	−	−
Deferred tax liability	**1,367,124**	**(121,561)**	**279,349**	**−**	**1,524,912**	**1,647,667**	**−**	**3,172,579**
Deferred tax liability	**566,766**	**(150,850)**	**(415,916)**	**−**	**−**	**1,519,968**	**−**	**1,519,968**

(thousands of Russian rubles)

10. Credit loss expense and other impairment and provisions

The table below shows ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2019.

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Simplified approach*	*Total*
Cash and accounts with the Bank of Russia	5	–	–	–	–	–	**–**
Amounts due from credit institutions	7	(6,743)	–	(71)	–	–	**(6,814)**
Loans to customers	8	2,616,791	(668,351)	(285,676)	–	–	**1,662,764**
Other financial assets	11	–	–	–	–	37,296	**37,296**
Financial guarantees	16	(165,379)	(60,969)	–	–	–	**(226,348)**
Loan commitments	16	3,989	34,112	–	–	–	**38,101**
Other provisions	10	–	–	–	–	4,253	**4,253**
Total credit loss expense		**2,448,658**	**(695,208)**	**(285,747)**	**–**	**41,549**	**1,509,252**

The allowance for ECL on assets is deducted from the carrying amount of the respective assets. Provisions for financial guarantees, loan commitments and other provisions are recorded in other provisions in the statement of financial position.

Movements in other provisions are analyzed below.

	Financial guarantees and loan commitments	*Other financial assets*	*Total*
ECL at 1 January 2018	**740,179**	**–**	**740,179**
Charge	156,033	11,990	**168,023**
At 31 December 2018	**896,212**	**11,990**	**908,202**
Charge/(reversal)	(188,247)	4,253	**(183,994)**
At 31 December 2019	**707,965**	**16,243**	**724,208**

The table below shows ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2018.

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Simplified approach*	*Total*
Cash and accounts with the Bank of Russia	5	–	–	–	–	–	**–**
Amounts due from credit institutions	7	9,921	–	7,195	–	–	**17,116**
Loans to customers	8	(1,083,258)	1,757,704	(393,253)	–	–	**281,193**
Other financial assets	11	–	–	–	–	5,826	**5,826**
Financial guarantees	16	(88,644)	184,980	(707)	–	–	**95,629**
Loan commitments	16	(1,776)	62,180	–	–	–	**60,404**
Other provisions	10	–	–	–	–	11,990	**11,990**
Total credit loss expense		**(1,163,757)**	**2,004,864**	**(386,765)**	**–**	**17,816**	**472,158**

Movements in other provisions are shown below.

	Fines and penalties on guarantees issued	*Total*
At 1 January 2019	**–**	**–**
Charge	84,024	**84,024**
At 31 December 2019	**84,024**	**84,024**

Provisions for guarantees issued are recorded in other liabilities (Note 11).

(thousands of Russian rubles)

11. Other assets and liabilities

Other assets comprise:

	2019	*2018*
Other financial assets		
Dividends receivable	225,581	7,044
Settlements on broker operations	89,855	126,271
Settlements with suppliers and other debtors	71,189	42,442
Commemorative coins receivable	23,534	36,364
Other financial assets	25,994	15,103
	436,153	**227,224**
Less allowance for ECL	(57,883)	(22,070)
Total other financial assets	**378,270**	**205,154**
Other non-financial assets		
Investment property	524,400	523,700
Intangible assets	66,200	60,418
Precious metals	7,704	8,601
Prepaid taxes other than income tax	3,348	3,502
Other non-financial assets	2,550	2,718
Total other non-financial assets	**604,202**	**598,939**
Other assets	**982,472**	**804,093**

Movements in allowances for ECL on other financial assets for the year ended 31 December 2019 are analyzed below.

	2019	*2018*
ECL at 1 January	**22,070**	**17,722**
Charge	37,296	5,826
Write-off against allowance	(1,483)	(1,478)
At 31 December	**57,883**	**22,070**

Investment property

Movements in investment property were as follows:

	2019	*2018*
Balance at 1 January	**523,700**	**547,820**
Additions	32,500	20,910
Disposals	–	(37,640)
Revaluation recognized in profit or loss	(31,800)	(7,390)
Balance at 31 December	**524,400**	**523,700**

Investment property includes land and buildings.

As at 31 December 2019, the fair value of investment property is based on the results of the valuation performed by an independent certified appraiser. The Bank has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain or enhance them.

Amounts recorded in profit or loss:

	2019	*2018*
Rental income derived from investment property	62,159	4,614
Direct operating expenses (including repairs and maintenance) arising from investment property	(13,003)	(13,059)
	49,156	**(8,445)**

(thousands of Russian rubles)

11. Other assets and liabilities (continued)

Investment property (continued)

Other liabilities comprise:

	2019	*2018*
Other financial liabilities		
Finance lease liabilities	218,522	–
Provisions for guarantees issued	84,024	–
Carrying amount of guarantees	2,173	7,989
Dividends payable	402	540
Other financial liabilities	25,378	22,122
Total other financial liabilities	**330,499**	**30,651**
Other non-financial liabilities		
Settlements with customers	151,901	197,042
Settlements with employees	138,133	111,686
Current tax liabilities other than income tax	11,334	9,065
Other non-financial liabilities	7,344	6,363
Total other non-financial liabilities	**308,712**	**324,156**
Other liabilities	**639,211**	**354,807**

12. Amounts due to credit institutions

As at 31 December 2019, amounts due to credit institutions included repurchase agreements with Russian credit institutions of RUB 35,680,797 thousand maturing on 13 January 2020 (31 December 2018: RUB 50,557,291 thousand maturing on 11 January 2019).

The carrying amount and fair value of securities pledged under repurchase agreements are disclosed in Note 25.

13. Amounts due to customers

Amounts due to customers comprise:

	2019	*2018*
Repurchase agreements	10,879,466	–
Current accounts	7,920,203	7,812,319
Brokerage accounts	5,069,351	2,355,849
Time deposits	3,759,631	3,251,797
Amounts due to customers	**27,628,651**	**13,419,965**

As at 31 December 2019, amounts due to customers of RUB 20,541,955 thousand, or 74.4%, were due to ten largest customers (2018: RUB 7,572,749 thousand, or 56.4%).

Included in time deposits are deposits of individuals in the amount of RUB 2,818,977 thousand (2018: RUB 3,212,796 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a time 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.

The carrying amount and fair value of securities pledged under repurchase agreements are disclosed in Note 24.

Amounts due to customers include accounts with the following types of customers:

	2019	*2018*
Private companies	23,333,887	8,721,264
Individuals	3,791,944	4,028,964
Employees	502,820	669,737
Amounts due to customers	**27,628,651**	**13,419,965**

(thousands of Russian rubles)

13. Amounts due to customers (continued)

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

	2019	*2018*
Financial services	20,208,404	6,272,152
Individuals	3,791,944	4,028,964
Construction	820,180	1,055,005
Trade	524,792	456,867
Employees	502,820	669,737
Real estate	348,557	245,827
Wood processing	287,338	129,321
Mining	249,361	46,941
Chemical industry	222,846	3,338
Transport	155,837	144,098
Other	516,572	367,715
Amounts due to customers	**27,628,651**	**13,419,965**

14. Debt securities issued

Debt securities issued comprise:

	2019	*2018*
Savings certificates	583,969	644,510
Promissory notes	179,334	63,545
Debt securities issued	**763,303**	**708,055**

Interest-bearing promissory notes and savings certificates issued by the Bank as at 31 December 2019 bear annual interest rates ranging from 1.3% to 13.2% (31 December 2018: from 5.75% to 13.2%) and mature through 18 April 2028 (31 December 2018: through 18 April 2028).

15. Equity

The authorized, issued and fully paid share capital comprises:

	Number of shares		*Nominal amount*		*Inflation adjustment*	*Total*
	Preferred	*Ordinary*	*Preferred*	*Ordinary*		
At 31 December 2018	48	17,168,974	5	6,695,900	250,235	**6,946,140**
At 31 December 2019	48	17,168,974	5	6,695,900	250,235	**6,946,140**

The share capital of the Bank was contributed by the shareholders in Russian rubles and they are entitled to dividends and any capital distribution in Russian rubles.

At the shareholders' meeting held in October 2019, the Bank declared and paid dividends for the nine months of 2019 in the amount of RUB 809,003 thousand from the profit for the nine months of 2019 (RUB 47.12 per ordinary share and RUB 11.78 per preferred share).

At the shareholders' meeting held in July 2019, the Bank declared and paid dividends for the first half of 2019 in the amount of RUB 850,208 thousand from the profit for the first half of 2019 (RUB 49.52 per ordinary share and RUB 12.38 per preferred share).

At the shareholders' meeting held in April 2019, the Bank declared and paid dividends for 2018 from retained earnings from prior years totaling RUB 2,082,942 thousand (RUB 121.32 per ordinary share and RUB 30.33 per preferred share).

At the shareholders' meeting held in June 2018, the Bank declared and paid dividends for 2017 in the amount of RUB 442,273 thousand from the profit for 2017 and a part of retained earnings from prior years (RUB 25.76 per ordinary share and RUB 6.44 per preferred share).

(thousands of Russian rubles)

15. Equity (continued)

Dividends which have not been demanded by shareholders within the timeframe established by Russian law amounted to RUB 26 thousand (2018: RUB 32 thousand).

As at 31 December 2019, the revaluation reserve for securities at fair value through other comprehensive income of RUB 9 thousand was included in equity. Securities at fair value through other comprehensive income are recorded in other assets in the statement of financial position.

16. 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.

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

Legal

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

Taxation

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

As at 31 December 2019, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

The Bank's commitments and contingencies comprise the following:

	2019	***2018***
Credit-related commitments		
Guarantees	8,289,699	9,808,014
Loan commitments	2,380,315	807,582
	10,670,014	**10,615,596**
Operating lease commitments		
Less than 1 year	–	6,906
1 to 5 years	–	–
Over 5 years	–	–
	–	**6,906**
Less allowance for impairment	(707,965)	(896,212)
Commitments and contingencies	**9,962,049**	**9,726,290**

(thousands of Russian rubles)

16. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Movements in the nominal amount of financial guarantees and the related ECL for the year ended 31 December 2019 are presented below.

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Exposure at 1 January 2019	**6,091,651**	**3,715,656**	**707**	**9,808,014**
New guarantees, including under previously concluded framework agreements	7,289,124	5,031,577	–	**12,320,701**
Guarantees derecognized or expired (except for write-offs)	(5,499,045)	(6,550,502)	(1,493)	**(12,051,040)**
Transfers to Stage 1	266,450	(266,450)	–	**–**
Transfers to Stage 2	(2,249,859)	2,249,859	–	**–**
Transfers to Stage 3	(1,244,226)	–	1,244,226	**–**
Amounts paid	(491,856)	(52,601)	(1,243,440)	**(1,787,897)**
Translation differences	(79)	–	–	**(79)**
At 31 December 2019	**4,162,160**	**4,127,539**	**–**	**8,289,699**

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2019	**454,924**	**305,538**	**–**	**760,462**
New guarantees, including under previously concluded framework agreements	433,632	518,812	–	**952,444**
Guarantees derecognized or expired (except for write-offs)	(412,374)	(731,400)	(786)	**(1,144,560)**
Transfers to Stage 1	70,576	(70,576)	–	**–**
Transfers to Stage 2	(106,477)	106,477	–	**–**
Transfers to Stage 3	(12,779)	–	12,779	**–**
Effect on period-end ECL due to transfers between stages during the period	(22,796)	54,639	1,231,447	**1,263,290**
Changes in models and inputs used for ECL calculations	(82,772)	101,526	–	**18,754**
Amounts paid	(35,781)	(40,447)	(1,243,440)	**(1,319,668)**
Translation differences	3,392	–	–	**3,392**
At 31 December 2019	**289,545**	**244,569**	**–**	**534,114**

Movements in the nominal amount of loan commitments and the related ECL for the year ended 31 December 2019 are presented below.

Loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Exposure at 1 January 2019	**345,307**	**462,275**	**–**	**807,582**
New commitments, including under previously extended credit lines	9,405,886	1,865,373	–	**11,271,259**
Commitments derecognized or expired (except for write-offs)	(7,841,911)	(1,851,061)	–	**(9,692,972)**
Transfers to Stage 1	131,511	(131,511)	–	**–**
Transfers to Stage 2	(260,070)	260,070	–	**–**
Translation differences	(5,554)	–	–	**(5,554)**
At 31 December 2019	**1,775,169**	**605,146**	**–**	**2,380,315**

(thousands of Russian rubles)

16. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2019	**30,306**	**105,444**	**–**	**135,750**
New commitments, including under previously extended credit lines	2,239,706	442,847	–	**2,682,553**
Commitments derecognized or expired (except for write-offs)	(2,058,275)	(458,337)	–	**(2,516,612)**
Transfers to Stage 1	28,695	(28,695)	–	**–**
Transfers to Stage 2	(16,273)	16,273	–	**–**
Effect on period-end ECL due to transfers between stages during the period	(16,676)	27,787	–	**11,111**
Changes in models and inputs used for ECL calculations	(172,702)	34,237	–	**(138,465)**
Translation differences	(486)	–	–	**(486)**
At 31 December 2019	**34,295**	**139,556**	**–**	**173,851**

Movements in the nominal amount of financial guarantees and the related ECL as at 31 December 2018 are presented below.

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Exposure at 1 January 2018	**5,761,047**	**817,928**	**707**	**6,579,682**
New guarantees, including under previously concluded framework agreements	10,793,598	–	–	**10,793,598**
Guarantees derecognized or expired (except for write-offs)	(6,767,700)	(797,566)	–	**(7,565,266)**
Transfers to Stage 2	(3,695,294)	3,695,294	–	**–**
At 31 December 2018	**6,091,651**	**3,715,656**	**707**	**9,808,014**

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2018	**543,568**	**120,558**	**707**	**664,833**
New guarantees, including under previously concluded framework agreements	858,930	–	–	**858,930**
Guarantees derecognized or expired (except for write-offs)	(624,556)	(118,610)	–	**(743,166)**
Transfers to Stage 2	(133,840)	133,840	–	**–**
Effect on period-end ECL due to transfers between stages during the period	–	169,563	–	**169,563**
Changes in models and inputs used for ECL calculations	(189,178)	187	(707)	**(189,698)**
At 31 December 2018	**454,924**	**305,538**	**–**	**760,462**

Movements in the nominal amount of loan commitments and the related ECL as at 31 December 2018 are presented below.

Loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Exposure at 1 January 2018	**364,035**	**186,772**	**–**	**550,807**
New commitments, including under previously extended credit lines	1,367,359	11,746	–	**1,379,105**
Commitments derecognized or expired (except for write-offs)	(1,048,976)	(73,354)	–	**(1,122,330)**
Transfers to Stage 2	(337,111)	337,111	–	**–**
At 31 December 2018	**345,307**	**462,275**	**–**	**807,582**

(thousands of Russian rubles)

16. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2018	**32,082**	**43,264**	**–**	**75,346**
New commitments, including under previously extended credit lines	495,534	3,594	–	**499,128**
Commitments derecognized or expired (except for write-offs)	(434,618)	(18,751)	–	**(453,369)**
Transfers to Stage 2	(56,044)	56,044	–	**–**
Effect on period-end ECL due to transfers between stages during the period	–	27,791	–	**27,791**
Changes in models and inputs used for ECL calculations	(6,648)	(6,498)	–	**(13,146)**
At 31 December 2018	**30,306**	**105,444**	**–**	**135,750**

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

17. Net interest income

Net interest income comprises the following:

	2019	*2018*
Financial assets at amortized cost		
Loans to customers	3,205,453	3,314,689
Amounts due from banks (including under reverse repurchase agreements)	44,263	29,765
Interest income calculated using the effective interest rate	**3,249,716**	**3,344,454**
Financial assets at fair value through profit or loss	3,573,405	2,917,745
Loans to customers at FVPL	266,399	379,907
Other interest income	**3,839,804**	**3,297,652**
Interest income	**7,089,520**	**6,642,106**
Amounts due to credit institutions	3,166,658	2,752,609
Amounts due to customers	573,020	186,401
Debt securities issued	53,721	207,034
Interest expense calculated using the effective interest rate	**3,793,399**	**3,146,044**
Lease liabilities	13,465	–
Other interest expense	**13,465**	**–**
Interest expense	**3,806,864**	**3,146,044**
Net interest income	**3,282,656**	**3,496,062**

18. Net gains/(losses) from financial instruments at fair value through profit or loss

Net gains/(losses) from assets and liabilities at fair value through profit or loss comprise:

	2019	*2018*
Securities at fair value through profit or loss	13,916,819	(4,307,264)
Derivative financial instruments	1,382,126	(141,039)
Loans to customers at FVPL	338,481	(307,029)
Net gains/(losses) from financial instruments at fair value through profit or loss	**15,637,426**	**(4,755,332)**

(thousands of Russian rubles)

19. Net fee and commission income

Net fee and commission income comprises:

	2019	*2018*
Brokerage services	295,319	127,157
Issuance of bank guarantees	192,353	234,097
Settlement and cash operations	48,990	61,996
Cash transfers	38,116	44,451
Foreign currency operations	19,909	23,709
Other	16,756	24,628
Fee and commission income	**611,443**	**516,038**
Settlement operations	36,654	18,876
Cash transfers	26,787	26,929
Agency fees	10,789	8,976
Depositary services	6,365	5,298
Cash operations	4,613	4,837
Foreign currency operations	2,383	2,596
Other	9,742	2,937
Fee and commission expense	**97,333**	**70,449**
Net fee and commission income	**514,110**	**445,589**

20. Dividends received

Dividends received include the following:

	2019	*2018*
Dividends from investments in shares of		
Russian companies	2,536,027	1,775,943
Russian credit institutions	160,002	193,202
Non-resident entities	44,413	20,802
	2,740,442	**1,989,947**

In 2019, the Bank received dividends from Russian entities totaling RUB 2,536,027 thousand, including RUB 397,915 thousand from Nizhnekamskneftekhim PJSC, RUB 379,051 thousand from Tatneft PJSC and RUB 190,116 thousand from GMK Norilskiy Nikel PJSC.

In 2018, the Bank received dividends from Russian entities totaling RUB 1,775,943 thousand, including RUB 281,672 thousand from GMK Norilskiy Nikel PJSC, RUB 238,425 thousand from Bashneft PJSC and RUB 166,538 thousand from Unipro PJSC.

21. Other income

Other income is generated from the following:

	2019	*2018*
Assignment of claims	626,769	–
Rental fees	75,442	54,060
Debt securities issued	51	50,890
Other	40,488	9,140
	742,750	**114,090**

(thousands of Russian rubles)

22. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2019	*2018*
Employee compensation	603,028	598,173
Social security costs	143,602	140,503
Personnel expenses	**746,630**	**738,676**
Loan modification expenses and other expenses from recognition of POCI assets	1,794,600	–
Fines (including income tax penalties)	136,078	28
Occupancy and rent	73,381	96,447
Legal, consulting and professional services	49,678	52,849
Communications	48,682	46,265
Operating taxes	44,928	45,796
Deposit insurance	32,489	25,743
Change in fair value of investment property	31,800	7,390
Entertainment	16,622	27,341
Maintenance of investment property	13,003	13,059
Charity	11,462	4,488
Office supplies	10,888	11,964
Business travel and related expenses	8,176	7,344
Marketing and advertising	7,825	9,149
Repair and maintenance	7,657	15,505
Insurance	2,155	1,183
Other	26,663	18,572
Other operating expenses	**2,316,087**	**383,123**

23. Risk management

Introduction

Risk and capital management system is a part of the Bank's overall corporate governance structure, and is aimed at sustainable development of the Bank in accordance with the *Bank's Strategy* approved by the Board of Directors.

Risk management is performed in accordance with *Risks and Capital Management Strategy* in the course of internal capital adequacy assessment procedures (ICAAP).

Risk management structure

The Bank's organizational structure is set up to avoid conflict of interest and ensures *allocation of risk-taking and risk management duties* and responsibilities of collegial bodies, divisions and responsible employees as follows:

- In accordance with the *Strategy*, risk-taking *divisions* maintain a reasonable risk to yield ratio and carry out follow-up monitoring of decisions taken;
- Risk management *divisions* develop risk management standards and support data flow arrangement, determine respective limits, monitor risk exposures and generate reports for the governance bodies of the Bank;
- The *risk management audit* evaluates the efficiency of the risk management system and communicates deficiencies identified in the risk management system and measures to address them to the Bank's governance bodies (the Management Board, Board of Directors).

The *Bank's internal bodies that accept risks* include the following governance bodies:

General Shareholders' Meeting

- Makes decisions in respect of increase/decrease of share capital, share split/consolidation, issue/conversion of bonds and other issuable securities;
- Makes decisions in respect of the dividend distribution;
- Approves the Bank's Charter.

23. Risk management (continued)

Introduction (continued)

Board of Directors

- Determines the development priorities, including approval of the *Development Strategy and budget parameters*;
- Approves key components and criteria of the risk and capital management system, including the *Risk Strategy* and such parameters as *risk appetite* and *target levels of risks*. It also approves *risk and capital management guidelines* in respect of risks that are significant for the Bank;
- Determines staffing of risk-taking committees;
- Reviews and assesses limit compliance reports and results of capital adequacy stress testing;
- Makes decisions on changes in equity in accordance with its competencies set forth in the Bank's Charter, including decisions on raising additional capital in the form of subordinated loans;
- Assesses efficiency of the risk management and capital adequacy system in general.

Management Board

- Approves *risk and capital management procedures* in respect of all types of risks inherent to the Bank's operations (other than significant ones), including segregation of duties and responsibilities of divisions and certain employees that may include setting limits on the types of risks and/or transactions;
- Approves limits for certain types of transactions, assets and risks;
- Ensures conditions for efficient operation of the ICAAP system in general and sustaining capital adequacy on the level that allows mitigation of inherent risks in line with the Bank's business needs.

Chairman of the Management Board

- Ensures completion of internal capital adequacy assessment procedures (ICAAP);
- Reviews current ICAAP reporting;
- Makes decisions to submit issues for review by the Board of Directors, Management Board, authorized committees.

In addition to the governance bodies that accept risks directly, the following *Management Board's committees and divisions are involved in the risk acceptance process*, including the preliminary expertise (to find out whether they comply with internal regulations and applicable laws), calculation, assessment of their impact on the final performance indicators, etc.:

The *Assets and Liabilities Committee (ALCO)* approves limits for certain types of transactions, assets and risks (and allocates the planned amount of credit risk among the respective divisions), reviews interim reports prepared in the course of ICAAP, and determines capital requirements for transactions performed by the Bank's divisions.

The *Credit Committee* makes decisions on credit transactions and sets limits for borrowers (group of related borrowers) and the terms of each particular credit-related transaction (except for repurchase transactions and other financial market transactions exposed to credit risk) and transaction support.

The *Client Committee* considers and makes decisions on the introduction of new banking products/services, including based on the systematization of the results of expert reviews performed by the Legal Department and other departments of the Bank to verify compliance with applicable legislation and internal regulatory documents.

The *Main Treasury Transactions Department (the Treasury)* brings the Bank's asset and derivative structure in line with the Bank's Development Strategy, manages portfolios of funds raised and placed, sets internal rates for raising and placing funds, manages liquidity, as well as determines tools and ways of hedging the Bank's inherent market risk.

(thousands of Russian rubles)

23. Risk management (continued)

Introduction (continued)

The *Bank's internal functions responsible for risk management* include the following:

Risk Assessment Department

- Designs, implements, supports and improves the Bank's risk management system in general. It also designs methodologies to identify, calculate and monitor risks (both significant and insignificant), forms an opinion on their mitigation and participates in determining certain stress testing parameters;
- Determines fair values of credit claims for IFRS purposes and controls existence and condition of property pledged as collateral for the *commercial loan portfolio*;
- Participates in preparing the ICAAP documentation;
- Prepares an aggregate report on significant risks inherent to the Bank's operations for the Bank's sole executive body and collegial executive body to ensure proper management decision-making;
- Assists to update risk assessment models and risk management models applied.

General Financial Department

- Prepares drafts of the *Bank's Development Strategy* and *Budget*, other business-planning documents that consider target *risk appetite* and limits imposed;
- Prepares suggestions for limits values, *risk appetite*, *target risk indicators*, ensures approval of suggested parameters by the respective risk-taking divisions;
- Calculates, monitors and interprets the Bank's performance indicators (for the entire Bank and for separate business segments), prepares analytical materials (management accounts) for the Bank's management decision-making;
- Controls some of the Bank's risks and ensures comprehensive control over compliance with limits on all risks accepted by the Bank, including aggregate stress testing of the capital adequacy;
- Ensures methodological support of the identification and assessment of certain risk types, as well as forms an opinion on risk mitigation procedures.

The *Internal Control Function* is responsible for regulatory risk management.

The *Consolidated Financial Statements Unit* of the Accounting and Reporting Department calculates prudential ratios in accordance with the instructions of the Bank of Russia and provides this information to the General Financial Department and the sole executive body in order to ensure control and timely management decision-making.

The Bank's only *division responsible for the audit of the risk management system* is the *Internal Audit Function*, which exercises, on an ongoing basis, preliminary, current and subsequent control over the compliance of the risk management process with the approved internal documents and the requirements established by the Bank of Russia.

Risk measurement and reporting systems

Risk identification and assessment of their effect for ICAAP purposes is performed annually and ends before the start of a new annual business-planning cycle. If internal and external factors affecting the Bank's risk structure change significantly (e.g., the Bank's asset structure or the CBR's key rate has been changed significantly), the Bank may conduct extraordinary risk identification and impact assessment procedures.

The Bank has respective risk management policies and procedures, risk measurement methodology and methodology to assess capital requirements, as well as a limit system to ensure control over such risks.

In the course of ICAAP, the Bank determines its *risk appetite* and sets the *planned level of capital*.

The Bank's *risk appetite* planning is based on a set of internal and external factors, including the current risk and capital structure, amount of significant risks, planned balance sheet structure, risk stress testing results, regulatory recommendations and planned regulatory amendments, known macroeconomic and investment activity forecasts, and other economic and political factors.

A mandatory component of the *risk appetite* is a *capital buffer* for any risks that cannot be measured reliably (for example, non-financial risks) and for any unexpected stress events that may cause a reduction in the Bank's capital. It is set by the Bank's Board of Directors for a certain planning horizon (as a rule, every year before the beginning of the annual business planning cycle).

(thousands of Russian rubles)

23. Risk management (continued)

Introduction (continued)

In planning its capital, the Bank relies on its long-term *Strategy* and short-term financial budgets (with a 12-month planning horizon).

For the purposes of the follow-up risk management and control under ICAAP, *planned capital* and planned *risk appetite* are transformed into a *limit system*, which constitutes a set of limits broken down by business line, type of significant risks and risk-taking business unit, and other limits required to assess the current level of risks and to plan an adequate management response.

The *limit system* is a multilevel structure comprising limits for assets (investments) and limits for risk exposure (potential loss limits) in both absolute and relative terms.

The Bank's internal control system includes *components and tools to maintain control* over the limit compliance, namely, a *range of red flags showing a level of the risks utilization*.

Risk mitigation

If the Bank reaches a set *red flag* and/or *fails to comply with the set limits* of any level, the respective information is immediately communicated to the Bank's Board of Directors, Management Board, Assets and Liabilities Committee, heads of the Risk Assessment Department and the Treasury.

The Bank developed corrective procedures for each *red flag* (by type of respective risks), including risk mitigation procedures and/or procedures to relocate and increase equity.

The Risk Assessment Department systematizes information on compliance with limits of significant risks that also includes their utilization (whether red flags are reached) on a daily basis.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its borrowers or counterparties failed to discharge their contractual obligations (improperly fulfilled their contractual obligations).

The objective of credit risk management is to maintain a level of risk accepted by the Bank based on its strategic development objectives. Credit risk is also managed in order to:

- Identify, measure and determine the level of credit risk acceptable for the Bank;
- Take measures to maintain an appropriate level of credit risk so that it does not threaten the financial stability of the Bank and interests of its creditors and depositors;
- Ensure on-going control over the credit risk accepted by the Bank.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty (except for collectively assessed counterparties) a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

(thousands of Russian rubles)

23. Risk management (continued)

Credit risk (continued)

Where financial instruments are recorded at fair value, the carrying amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure expected cash shortfalls, discounted at the EIR or an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that an entity expects to receive. The mechanics of ECL calculations are outlined below and the key elements are as follows:

Probability of default (PD)	The *Probability of Default* (PD) is an estimate of the likelihood of default over a given time horizon. The probability of default may be assessed either for 12 months, or for the life of the financial instrument.
Exposure at default (EAD)	The *Exposure at Default* (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest whether scheduled by contract or otherwise, as well as expected repayment of loans issued and interest accrued on overdue payments.
Loss given default (LGD)	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD and is assumed as 100% for all groups of unsecured assets. When assessing the final loss given default, the Bank considers collateral under a "simple" approach recommended by the Basel Committee on Banking Supervision of the Bank for International Settlements.

The allowance for ECL is calculated based on the credit losses expected to arise over the life of the asset (lifetime ECL), if there has been a significant increase in credit risk since the initial recognition, otherwise the allowance is based on the 12 months' expected credit losses (12-month ECL). The 12-month ECL are the portion of lifetime ECL that represent the ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. Lifetime and 12-month ECL are assessed individually.

The Bank has established a policy to perform an assessment, at the end of each quarter, of whether a financial instrument's credit risk has increased significantly since initial recognition, including by considering the changes in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans as follows:

Stage 1	At initial recognition of a loan, the Bank recognizes an allowance in the amount equal to 12-month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. A number of non-financial factors (e.g., no statements provided by the borrower, a default experienced by an entity within the group of borrower-related entities, etc.) may significantly increase the amount of the allowance.
Stage 2	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the lifetime ECL. Stage 2 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3. A number of non-financial factors (e.g., no statements provided by the borrower, a default experienced by an entity within the group of borrower-related entities, etc.) may significantly increase the amount of the allowance.
Stage 3	Loans considered credit-impaired. The Bank records an allowance for the full amount.
POCI	Purchased or originated credit-impaired (POCI) assets are financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at initial recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. The allowance for ECL is only recognized or derecognized to the extent that there is a subsequent change in the lifetime ECL.

(thousands of Russian rubles)

23. Risk management (continued)

Credit risk (continued)

Definition of default

The decision that a borrower (and all its financial instruments) is default is taken by the Credit Committee of the Bank on a collegial basis in the course of the analysis of circumstances indicating a potential default. The default is determined if any of the following conditions applies, unless such condition is technical/insignificant.

Conditions considered to determine default:

- Bankruptcy (defined as the circumstances where the borrower is under supervision, bankruptcy management, financial rehabilitation, undergoing liquidation process (except due to a merger or a change in the legal form) based on the court decision, or when the Bank or the borrower has filed for the borrower's bankruptcy);
- Seizure by a third party of most of the borrower's core assets, without which the borrower cannot operate to settle its liabilities;
- A decision of the Bank's authorized body on early repayment of any borrower's liability to the Bank;
- Cross default, i.e. a default on any other liability of the same borrower;
- A refusal or moratorium, whereby the borrower refuses to make a payment or challenges the binding character of the liability;
- Assignment (cession) of a borrower's liability entailing significant losses for the Bank (more than 10% of the principal and/or interest accrued for the use of lent funds);
- A significant (more than 10% of the principal and/or interest accrued for the use of lent funds) partial write-off of the borrower's payables to the Bank (forgiveness of a portion of the debt);
- Restructuring of the debt (postponing repayment of the principal and/or interest till maturity if the loan initially provided for repayment by installments; reduction of the effective interest rate to a level lower than the minimum of the market range) due to financial difficulties of the borrower and simultaneous reduction of its credit rating to CC or lower;
- Sustained insolvency, i.e. the borrower's failure to repay any amount of the principal and/or interest within the timeframe established by the agreement, with payments falling overdue by more than 90 consecutive calendar days (except for technical delays), as well as delays of more than 90 calendar days in discharging liabilities of a comparable amount to third parties;
- A decision of an arbitration court and/or tax authorities on the seizure of the borrower's settlement accounts (whether the amount or the duration of the seizure is significant, as well as whether the entity is likely to implement the decision of a respective body within a short timeframe to stop the seizure are considered on a case-by-case basis).

Internal rating and PD estimation process

The internal rating models are developed by the Bank's independent Risk Assessment Department. The models incorporate both quantitative and qualitative information that could affect the borrower's behavior. Where practical, they also build on information from the national and international external rating agencies. Internal ratings and PDs assigned to each counterparty (including collective PDs) are also based on forward-looking macroeconomic scenarios (including stressed scenarios), as well as the lifetime probability of default for assets characterized by a significant increase in credit risk since initial recognition.

A 30-90 delay in payments under any of the borrower's financial instruments at the assessment date constitutes an impairment indicator which can affect the level of credit risk.

Treasury and interbank relationships

The Bank's treasury and interbank relationships comprise relationships with such counterparties as financial services institutions, banks, broker-dealers, exchanges and clearing-houses. To assess these relationships, the Bank's Risk Assessment Department relies on external ratings assigned by international and/or Russian rating agencies.

(thousands of Russian rubles)

23. Risk management (continued)

Credit risk (continued)

Corporate lending

Corporate borrowers are assessed based on an internal model that takes into account various historical, current and forward-looking information such as:

- Financial information, including actual and expected results, solvency ratios, liquidity ratios and any other ratios relevant to assess financial performance of the customer;
- Internal information on the debt servicing quality, restructuring, purpose of the loan and sources of its repayment;
- Macroeconomic information (the USD to RUB exchange rate, provisioning rate, number of days overdue with regard to the banking system, etc.);
- Any other reasonable and supportable information on the quality of governance and prospects of the borrower that is relevant for assessing the entity's performance.

The Bank's internal credit rating grades are as follows:

Rating grade (internal)	***Credit rating (equivalent to the international one)***	***PD range, %***	***Internal grade***
1 2 3	BBB- and higher	Up to 0.4	High
4 5 6 7 8 9	BB+ to B-	0.4-9.5	Standard
10 11 12 13 14 15 16 17 18	CCC+ and lower	9.5-100.0	Low
19	D	100.0	Default

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank believes that credit risk on a financial instrument has increased significantly since its initial recognition if at least one of the following factors is identified:

- The borrower's internal credit rating as at the assessment date is determined at CCC+ or lower and has decreased since the date of initial recognition.
- The borrower's internal credit rating as at the assessment date has decreased by more than 3 grades as compared with its internal rating grade as at the date of initial recognition.
- The debt has been restructured due to circumstances other than the customer's financial difficulties (not a default indicator).

(thousands of Russian rubles)

23. Risk management (continued)

Credit risk (continued)

Grouping financial assets measured on a collective basis

Depending on the factors below, the Bank calculates ECL either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- Commercial loans;
- Loans to individuals exceeding 1% of the Bank's equity;
- Treasury and interbank relationships (e.g., amounts due from banks, cash equivalents and debt investment securities at amortized cost and at FVOCI);
- Financial assets reclassified as POCI assets upon the derecognition of the original loan and the recognition of a new loan as a result of debt restructuring.

Asset classes where the Bank calculates ECL on a collective basis include:

- Loans to individuals not exceeding 1% of the Bank's equity;
- Trade receivables;
- Fees and commissions receivable;
- Receivables arising from other transactions and other financial and business operations.

The Bank groups these exposures into homogeneous portfolios, based on the asset class and loan type (for loans to individuals).

Loans to individuals

The Bank assesses ECL on loans to individuals on a collective basis, except for certain loans exceeding the quantitative criterion. Loans to individuals are allocated to respective portfolios grouping the Bank's products such as:

- Loans to the Bank's employees;
- Overdrafts on bank cards;
- Other loans.

Portfolios are further subdivided into subportfolios of restructured loans, a portfolio of non-performing loans to individuals and a portfolio of defaulted loans.

The Bank classifies the portfolio of non-performing loans and subportfolios of restructured loans as Stage 2, and the portfolio of defaulted loans as Stage 3. All other portfolios (standard) are classified as Stage 1.

The total probability of default of individual borrowers are estimated on a collective basis based on a respective projected average annual reference frequency of defaults determined in accordance with the internal methodology, excluding investment loans to individuals, non-performing loans to individuals, and defaulted loans (ECL on defaulted loans equaling 100%), bearing imputed rates.

(thousands of Russian rubles)

23. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank via an internal credit rating system, as described above. The table below shows the credit quality by class of assets for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

31 December 2019	*Note*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Accounts with the Bank of Russia	5	**1,364,989**	**–**	**–**	**1,364,989**
High grade		1,364,989	–	–	**1,364,989**
Amounts due from credit institutions	7	**4,708,121**	**–**	**7,125**	**4,715,246**
High grade		4,637,775	–	–	**4,637,775**
Standard grade		60,990	–	–	**60,990**
Low grade		9,356	–	–	**9,356**
Default		–	–	7,125	**7,125**
Loans to customers at amortized cost	8	**11,960,475**	**13,168,839**	**2,335,386**	**27,464,700**
- Loans to legal entities		*8,766,886*	*10,166,826*	*1,970,088*	***20,903,800***
Standard grade		2,651,468	2,339,190	–	**4,990,658**
Low grade		6,115,418	7,827,636	–	**13,943,054**
Default		–	–	1,970,088	**1,970,088**
- Reverse repurchase agreements		*1,231,339*	–	–	***1,231,339***
Low grade		1,231,339	–	–	**1,231,339**
- Loans to individuals		*1,957,515*	*1,691,302*	*365,298*	***4,014,115***
Loans assesses individually		1,872,659	1,489,321	–	**3,361,980**
Defaulted loans		–	–	365,298	**365,298**
Investment loans		50,000	189,884	–	**239,884**
Overdrafts on bank cards		16,279	–	–	**16,279**
Loans to employees		7,329	3,268	–	**10,597**
Non-performing loans		–	788	–	**788**
Other loans		11,248	8,041	–	**19,289**
- Net investment in finance leases		*4,735*	*1,310,711*	–	***1,315,446***
Low grade		4,735	1,310,711	–	**1,315,446**
Financial guarantees	16	**4,162,160**	**4,127,539**	–	**8,289,699**
High grade		38,000	–	–	**38,000**
Standard grade		3,142,915	3,449,033	–	**6,591,948**
Low grade		981,245	678,506	–	**1,659,751**
Loan commitments	16	**1,775,170**	**605,145**	**–**	**2,380,315**
Standard grade		324,675	167,869	–	**492,544**
Low grade		1,363,954	337,673	–	**1,701,627**
Not rated		86,541	99,603	–	**186,144**
Total		**23,970,915**	**17,901,523**	**2,342,511**	**44,214,949**

(thousands of Russian rubles)

23. Risk management (continued)

Credit risk (continued)

31 December 2018	*Note*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Accounts with the Bank of Russia	5	**986,742**	**–**	**–**	**986,742**
High grade		986,742	–	–	**986,742**
Amounts due from credit institutions	7	**8,208,083**	**–**	**7,195**	**8,215,278**
High grade		8,133,618	–	–	**8,133,618**
Standard grade		65,124	–	–	**65,124**
Low grade		9,341	–	–	**9,341**
Default		–	–	7,195	**7,195**
Loans to customers at amortized cost	8	**11,914,667**	**15,231,293**	**3,399,197**	**30,545,157**
- Loans to legal entities		*3,006,808*	*13,478,408*	*2,936,220*	***19,421,436***
Standard grade		1,284,304	1,422,411	–	**2,706,715**
Low grade		1,722,504	12,055,997	–	**13,778,501**
Default		–	–	2,936,220	**2,936,220**
- Reverse repurchase agreements		*6,094,907*	–	–	***6,094,907***
Low grade		6,094,907	–	–	**6,094,907**
- Loans to individuals		*2,812,952*	*436,275*	*462,977*	***3,712,204***
Loans to employees		5,532	3,268	–	**8,800**
Overdrafts on bank cards		19,343	–	–	**19,343**
Other loans		14,710	291,275	–	**305,985**
Defaulted loans to individuals		–	–	462,977	**462,977**
Loans assesses individually		2,773,367	141,732	–	**2,915,099**
- Net investment in finance leases		–	*1,316,610*	–	***1,316,610***
Low grade		–	1,316,610	–	**1,316,610**
Financial guarantees	16	**6,091,651**	**3,715,656**	**707**	**9,808,014**
High grade		37,500	–	–	**37,500**
Standard grade		3,821,063	3,040,252	–	**6,861,315**
Low grade		2,233,088	675,404	–	**2,908,492**
Default		–	–	707	**707**
Loan commitments	16	**345,307**	**462,275**	**–**	**807,582**
High grade		–	–	–	**–**
Standard grade		262,214	129,158	–	**391,372**
Low grade		83,093	333,117	–	**416,210**
Total		**27,546,450**	**19,409,224**	**3,407,099**	**50,362,773**

See Note 8 for more details on the allowance for impairment of loans to customers.

Financial guarantees, letters of credit and loan commitments are also tested for impairment and a provision for expected credit losses is calculated in a similar manner as for loans.

(thousands of Russian rubles)

23. Risk management (continued)

Credit risk (continued)

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

	2019				*2018*			
	Russia	*OECD*	*Non-OECD*	*Total*	*Russia*	*OECD*	*Non-OECD*	*Total*
Assets								
Cash and accounts with the Bank of Russia	4,256,666	–	–	**4,256,666**	2,462,311	–	–	**2,462,311**
Financial assets at fair value through profit or loss	78,486,708	3,019,246	137,089	**81,643,043**	62,708,106	485,554	–	**63,193,660**
Amounts due from credit institutions	3,702,533	993,176	635	**4,696,344**	7,120,450	1,068,375	737	**8,189,562**
Loans to customers	13,590,841	–	–	**13,590,841**	11,730,900	–	5,954,958	**17,685,858**
Other financial assets	285,515	92,755	–	**378,270**	76,433	128,721	–	**205,154**
Total financial assets	**100,322,263**	**4,105,177**	**137,724**	**104,565,164**	**84,098,200**	**1,682,650**	**5,955,695**	**91,736,545**
Property and equipment and right-of-use assets	282,828	–	–	**282,828**	78,091	–	–	**78,091**
Other non-financial assets	604,202	–	–	**604,202**	598,939	–	–	**598,939**
Total non-financial assets	**887,030**	**–**	**–**	**887,030**	**677,030**	**–**	**–**	**677,030**
Total assets	**101,209,293**	**4,105,177**	**137,724**	**105,452,194**	**84,775,230**	**1,682,650**	**5,955,695**	**92,413,575**
Liabilities								
Amounts due to credit institutions	35,680,797	–	–	**35,680,797**	50,557,291	–	–	**50,557,291**
Amounts due to customers	19,265,867	7,033	8,355,751	**27,628,651**	7,840,257	161,104	5,418,604	**13,419,965**
Debt securities issued	763,303	–	–	**763,303**	708,055	–	–	**708,055**
Other financial liabilities	330,499	–	–	**330,499**	30,651	–	–	**30,651**
Total financial liabilities	**56,040,466**	**7,033**	**8,355,751**	**64,403,250**	**59,136,254**	**161,104**	**5,418,604**	**64,715,962**
Other provisions	724,208	–	–	**724,208**	908,202	–	–	**908,202**
Current income tax liabilities	106,802	–	–	**106,802**	60,584	–	–	**60,584**
Deferred income tax liabilities	1,519,968	–	–	**1,519,968**	–	–	–	**–**
Other non-financial liabilities	–	308,712	–	**308,712**	254,417	632	69,107	**324,156**
Total non-financial liabilities	**2,350,978**	**308,712**	**–**	**2,659,690**	**1,223,203**	**632**	**69,107**	**1,292,942**
Total liabilities	**58,391,444**	**315,745**	**8,355,751**	**67,062,940**	**60,359,457**	**161,736**	**5,487,711**	**66,008,904**
Net assets and liabilities	**42,817,849**	**3,789,432**	**(8,218,027)**	**38,389,254**	**24,415,773**	**1,520,914**	**467,984**	**26,404,671**

Market risk

Market risk is a risk that the Bank will incur a financial loss due to an adverse change of the market (fair) value of securities or due to unfavorable fluctuations of parameters of deals that comprise derivative financial instruments, adverse fluctuations of foreign exchange rates, interest rates, precious metal prices, commodities and raw materials prices, as well as other market indicators affecting the Bank's open positions.

The Bank is exposed to market risk as it enters into transactions with financial instruments of the trading portfolio on both an organized (exchange) market and an unorganized (over-the-counter) market, and has open currency positions formed by balance sheet and off-balance sheet assets and liabilities.

Market risks are subject to ongoing monitoring by the Bank's management as they are complex and difficult to manage. High volatility of equity and foreign exchange markets requires the Bank to assess assets exposed to market risks using a reasonable approach, and put in place methodologically rigorous and consistently applied market risk assessment guidelines and related risk management mechanisms, including an effective action plan in case of unfavorable changes in market parameters.

The purpose of market risk management is to maintain an adequate structure and value of exposed assets, as well as the target level of the Bank's capital in light of market factor changes. This task involves the implementation of a set of measures aimed at market risk optimization and control, including monitoring compliance with the set limits and risk appetite.

Market risk management is an ongoing process, extending from the preparation of the Bank's Budget for a planned period through the formation and movements in market assets in accordance with the approved Budget and Development Strategy of the Bank.

(thousands of Russian rubles)

23. Risk management (continued)

Market risk (continued)

The target market risk exposure (risk appetite) is determined annually in the course of standard procedures for capital planning and allocating as a threshold of risk-weighted assets as at the planned dates. This value is adjusted if needed in the course of ICAAP.

Limiting risks constitutes restricting the level of risk that the Bank is willing to accept to a certain value. The Bank sets such limits on market risks on the basis of the approved parameters of its *Risks and Capital Management Strategy*, i.e. based on the risk appetite and the risk capital assigned to cover market risk. The Bank's system of market risk limits has multiple layers and comprises the following:

- Limits on aggregate market risk and on certain types of market risks;
- Limits on values and positions;
- Limits on maximum loss;
- Limits on the open currency position;
- Other limits and restrictions.

Market risk limits are established by decision of the respective authorized bodies of the Bank (Board of Directors, Assets and Liabilities Committee) depending on the limit type/level. Compliance with the established limits is monitored on a regular basis (including daily monitoring).

As part of limit monitoring procedures, the Bank establishes red flags; when they are approached, certain corrective measures are taken depending on the limit type/level and on its utilization (how close the value is to the red flag).

Control and analytical functions in respect of monitoring market risks are distributed among the *Risk Assessment Department*, *General Financial Department* and governance bodies in accordance with their competencies. Therefore, when accepting risk management roles, the conflict of interest is eliminated by the segregation of duties and responsibilities among collegial bodies, divisions and responsible employees.

Market risk is measured by obtaining a numeric value characterizing possible losses the Bank may incur as a result of such risk and by comparing this value with the respective risk capital (i.e. with a portion of capital the Bank plans to use in order to cover market risk) in order to determine whether it is sufficient to cover those losses.

The Bank calculates aggregate market risk value on a daily basis.

As an alternative calculation method, the Bank also applies other (internal) market risk valuation techniques as follows:

- Market risk valuation techniques based on value at risk (VaR).

VaR is a method used in measuring the maximum loss due to the realization of market risk that will not be exceeded at a given confidence level and over a specified time horizon.

Based on recommendations of the Basel Committee on Banking Supervision, the Bank uses VaR with a 99% confidence level and a 10-day projection horizon. Therefore, for risk measurement purposes, the Bank assumes, with a 99% confidence level, that its maximal loss over a 10-day projection horizon will not be exceeded.

Expected loss is determined for the entire trading portfolio, for certain components of the trading portfolio and for each financial instrument (security) included in the trading portfolio.

The Bank assesses its VaR-based expected loss for the trading portfolio on a daily basis.

The analysis of VaR-based expected loss for the trading portfolio is as follows:

	2019	***2018***
VaR (trading portfolio)	2,703,527	2,226,371

The Risk Assessment Department performs stress testing procedures on a regular basis (at least quarterly) by modeling market behavior under the influence of unfavorable (shock) events and its impact on the trading portfolio. An unfavorable event is understood as a sharp change in macroeconomic parameters and external characteristics, adverse events in economic sectors that are most significant for the Bank, and adverse movements in any other market indicators which affect the value of the respective assets (interest rates, exchange rates, etc.).

(thousands of Russian rubles)

23. Risk management (continued)

Market risk (continued)

The difference between the current value of the trading portfolio and the "stress" value reflects the loss for the trading portfolio caused by stress events.

The Risk Assessment Department prepares a report on the results of the quarterly stress testing, together with proposals to mitigate market risk, as appropriate, and submits it to the Board of Directors, the Bank's executive bodies, Assets and Liabilities Committee, head of the Treasury and heads of other divisions concerned, as prescribed by the *Risks and Capital Management Strategy*.

Stress testing results must be considered by the Bank's management bodies in making follow-up strategic and tactical decisions, including those on measures to manage market risk.

Mitigation of market risks assumes a set of measures aimed at reducing the probability of events or circumstances that cause losses and/or reducing (limiting) the amount of potential losses from market risk.

The general approaches to market risk mitigation include the following:

- Reasonable decision-making on any transaction;
- Implementation and application of a consistent approach to the acceptance and monitoring of market risk;
- Compliance with the segregation of duties principle in terms of acceptance and measurement of market risk;
- Normalizing transactions and deals with financial instruments.

The specific approaches to market risk mitigation include the following:

- Entering into a matched bargain with derivatives for the purpose of insurance against possible losses;
- Diversification of investments in financial instruments sensitive to changes in market indicators.

Interest rate risk

Interest rate risk is the risk that the Bank will incur a financial loss due to adverse changes in interest rates of open positions in the debt securities and other instruments within its trading portfolio sensitive to interest rates fluctuations.

Interest rate sensitivity analysis

The sensitivity of the Bank's financial result and equity to movements in the fair value of debt securities within the Bank's trading portfolio due to changes in interest rates (prepared based on a simplified scenario of 125 basis points (bp) parallel shifts (up and down) in yield curves (1 January 2019: 100 basis points)) is presented in the table below.

Change	***Effect on financial result 2019***	***Effect on equity 2019***
+125 bp parallel rise	(6,489,975)	(6,489,975)
-125 bp parallel fall	6,489,975	6,489,975

Change	***Effect on financial result 2018***	***Effect on equity 2018***
+100 bp parallel rise	(3,334,738)	(3,334,738)
-100 bp parallel fall	3,334,738	3,334,738

Stock exchange risk

Stock exchange risk is the risk that the Bank will incur a financial loss due to an adverse change in the fair value of stock exchange financial instruments (securities and derivatives) due to factors related to the securities' issuer and overall fluctuations of the financial instruments' quotes at the stock exchange.

For the purpose of additional analysis of stock exchange risk, the Bank uses a valuation technique that includes evaluation of a decline in the trading portfolio's value by calculation of the expected loss for its components that are exposed to such risk.

(thousands of Russian rubles)

23. Risk management (continued)

Stock exchange risk (continued)

The expected loss is determined on the basis of VaR with a 99% confidence level and a 10-day projection horizon.

The analysis of expected losses by components of the trading portfolio that are exposed to stock exchange risk is as follows:

	2019	*2018*
VAR (shares portfolio)	1,375,769	1,096,288

Sensitivity analysis in respect of stock exchange risk

The effect on the financial result and equity (as a result of changes in the fair value of equity instruments) due to a reasonably possible change in prices for equity securities within the trading portfolio is as follows:

Change in equity price	*Effect on financial result 2019*	*Effect on equity 2019*
19% increase in prices	4,635,667	4,635,667
19% decrease in prices	(4,635,667)	(4,635,667)

Change in equity price	*Effect on financial result 2018*	*Effect on equity 2018*
15% increase in prices	3,055,450	3,055,450
15% decrease in prices	(3,055,450)	(3,055,450)

Currency risk

Currency risk is the risk that the Bank may incur financial losses due to adverse changes in foreign exchange rates and/or gold prices under the Bank's open positions in foreign currencies and/or gold.

In order to evaluate *currency risk* due to the revaluation of its open currency positions, the Bank applies the VaR method.

The expected loss is determined for positions in foreign currencies (for all currencies in aggregate or for specific currencies) and gold.

VaR is determined using the Monte Carlo method calculated via Bloomberg's information system. VaR is determined on the basis of a 99% confidence level and a 5-day projection horizon.

The Bank believes that forecasting foreign exchange rates and gold prices fluctuations for a longer period is not reasonable as the high liquidity of the above currency instruments helps to adjust the currency risk in a short period of time (namely in no more than two working days).

For the purpose of VaR calculation, the Bank also eliminates sharp fluctuations of foreign exchange rates and gold prices in the planning horizon.

According to the applicable regulations of the Bank of Russia, currency risk is limited by open positions in certain currencies and precious metals.

The Bank strives to minimize its open currency positions to mitigate currency risk.

VaR for the Bank's open currency positions is as follows:

	2019	*2018*
VAR	7,796	35,442

(thousands of Russian rubles)

23. Risk management (continued)

Currency risk (continued)

Analysis of sensitivity to changes in foreign currency exchange rates

Weakening of the Russian ruble against the currencies in the table below would affect the financial result and equity as follows:

Currency	*Effect on financial result 2019*	*Effect on equity 2019*
13% appreciation of USD	(2,043)	(2,043)
13% appreciation of EUR	(4,114)	(4,114)

Currency	*Effect on financial result 2018*	*Effect on equity 2018*
30% appreciation of USD	(296,653)	(296,653)
30% appreciation of EUR	26,293	26,293

Strengthening of the Russian ruble against the above currencies as at 31 December 2019 and 31 December 2018 would produce the reverse effect if all other variables were held constant.

VaR calculations are based on the Bank's open currency position.

The Bank's assets and liabilities, by currency, are shown below.

31 December 2019	*RUB*	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and accounts with the Bank of Russia	3,641,980	188,822	170,746	255,118	**4,256,666**
Financial assets at fair value through profit or loss	78,631,685	2,796,272	215,086	–	**81,643,043**
Amounts due from credit institutions	2,511,357	1,335,226	787,430	62,331	**4,696,344**
Loans to customers	13,584,124	1,783	4,934	–	**13,590,841**
Other financial assets	285,565	73,245	98	19,362	**378,270**
Total financial assets	**98,654,711**	**4,395,348**	**1,178,294**	**336,811**	**104,565,164**
Property and equipment and right-of-use assets	267,012	–	–	15,816	**282,828**
Other non-financial assets	596,498	–	–	7,704	**604,202**
Total non-financial assets	**863,510**	**–**	**–**	**23,520**	**887,030**
Total assets	**99,518,221**	**4,395,348**	**1,178,294**	**360,331**	**105,452,194**
Liabilities					
Amounts due to credit institutions	33,856,072	1,824,725	–	–	**35,680,797**
Amounts due to customers	23,283,174	2,684,062	1,458,473	202,942	**27,628,651**
Debt securities issued	607,323	155,980	–	–	**763,303**
Other financial liabilities	314,107	128	448	15,816	**330,499**
Total financial liabilities	**58,060,676**	**4,664,895**	**1,458,921**	**218,758**	**64,403,250**
Other provisions	722,750	1,213	245	–	**724,208**
Current income tax liabilities	106,802	–	–	–	**106,802**
Deferred income tax liabilities	1,519,968	–	–	–	**1,519,968**
Other non-financial liabilities	265,568	42,550	594	–	**308,712**
Total non-financial liabilities	**2,615,088**	**43,763**	**839**	**–**	**2,659,690**
Total liabilities	**60,675,764**	**4,708,658**	**1,459,760**	**218,758**	**67,062,940**
Open balance sheet position	**38,842,457**	**(313,310)**	**(281,466)**	**141,573**	**38,389,254**
Open position on spot deals and derivative financial instruments	(509,185)	294,251	214,609	325	**–**
Open position	**38,333,272**	**(19,059)**	**(66,857)**	**141,898**	**38,389,254**

(thousands of Russian rubles)

23. Risk management (continued)

Currency risk (continued)

31 December 2018	*RUB*	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and accounts with the Bank of Russia	1,644,978	336,754	316,132	164,447	**2,462,311**
Financial assets at fair value through profit or loss	62,732,805	–	294,000	166,855	**63,193,660**
Amounts due from credit institutions	6,442,887	1,071,252	521,974	153,449	**8,189,562**
Loans to customers	17,635,561	1,864	48,433	–	**17,685,858**
Other financial assets	75,927	124,343	78	4,806	**205,154**
Total financial assets	**88,532,158**	**1,534,213**	**1,180,617**	**489,557**	**91,736,545**
Property and equipment	78,091	–	–	–	**78,091**
Other non-financial assets	598,939	–	–	–	**598,939**
Total non-financial assets	**677,030**	**–**	**–**	**–**	**677,030**
Total assets	**89,209,188**	**1,534,213**	**1,180,617**	**489,557**	**92,413,575**
Liabilities					
Amounts due to credit institutions	50,557,291	–	–	–	**50,557,291**
Amounts due to customers	7,431,930	3,981,754	1,714,261	292,020	**13,419,965**
Debt securities issued	708,055	–	–	–	**708,055**
Other financial liabilities	30,044	73	534	–	**30,651**
Total financial liabilities	**58,727,320**	**3,981,827**	**1,714,795**	**292,020**	**64,715,962**
Other provisions	908,202	–	–	–	**908,202**
Current income tax liabilities	60,584	–	–	–	**60,584**
Other non-financial liabilities	275,117	48,394	645	–	**324,156**
Total non-financial liabilities	**1,243,903**	**48,394**	**645**	**–**	**1,292,942**
Total liabilities	**59,971,223**	**4,030,221**	**1,715,440**	**292,020**	**66,008,904**
Open balance sheet position	**29,237,965**	**(2,496,008)**	**(534,823)**	**197,537**	**26,404,671**
Open position on spot deals and derivative financial instruments	(1,972,081)	1,491,304	568,619	(87,842)	**–**
Open position	**27,265,884**	**(1,004,704)**	**33,796**	**109,695**	**26,404,671**

Liquidity risk

Liquidity risk is the risk that the Bank will fail to fulfill its liabilities in full and on a timely manner.

Strategic asset and liability management, including that aimed to support the target liquidity level, is the responsibility of the *Bank's Management Board* which determines funding sources and investment areas. Operational liquidity management is the responsibility of the Bank's Treasury and involves maintaining such a structure and quality of assets and liabilities that allow the Bank to ensure an adequate level of liquidity in a prompt manner without a marked decline in the profitability of banking transactions and a deterioration of the Bank's other performance indicators. The *General Financial Department* prepares a set of analytical materials for management decision making purposes and performs the stress testing of the Bank's liquidity in line with approved scenarios and stress test parameters. When planned transactions have certain parameters, the Bank's departments that place and raise funds must obtain approval for their actions from a supervising body (in most cases, the Treasury) which may suspend a planned transaction in the event of its negative impact on liquidity.

(thousands of Russian rubles)

23. Risk management (continued)

Liquidity risk (continued)

The level of the Bank's liquidity required for the proper performance of obligations as they fall due is assessed by type of liquidity: instant, current, medium-term and long-term liquidity. Depending on the Bank's needs and taking into account the applicable requirements of the Bank of Russia, the Bank uses four methods to assess the liquidity level:

- Calculation of financial ratios;
- Calculation of the short-term liquidity indicator;
- Stress testing;
- Comparison of assets and liabilities by maturity.

To assess instant, current and long-term liquidity, the Bank uses ratios N2, N3 and N4 calculated in accordance with the methodology established by the Bank of Russia. The *Consolidated Financial Statements Unit* of the *Accounting and Reporting Department* calculates these liquidity ratios on a daily basis. Ratios with detailed breakdowns are immediately transferred to the Bank's Treasury.

The stress-testing method is used to assess the level of current liquidity and determine expected loss from liquidity risk that are considered when planning the required capital in the course of ICAAP. The parameters of scenarios are revised as planned, and the scenario of a stress test developed by the working group and its parameters are approved by the Bank's Management Board. The General Financial Department makes calculations for stress tests in line with the approved scenario at least once in three months.

To assess medium-term and long-term liquidity, the Bank compares the remaining maturities of assets and liabilities.

When a liquidity deficit is identified, the Bank may do the following:

- Take liability management measures (e.g. use previously opened credit facilities, raise loans under repurchase agreements or using securities as collateral);
- Take asset management measures (e.g. review the lending policy, consider the possibility to sell the securities portfolio);
- Take organizational measures (e.g. reduce management expenses).

In the reporting period, the estimated instant and current liquidity ratios exceeded the minimum acceptable values, and the long-term liquidity ratio did not exceed the limits established by the Bank of Russia.

The N2 ratio (instant liquidity, acceptable minimum value of 15.0%) as at 31 December 2019 was 70.8% (31 December 2018: 64.7%).

The N3 ratio (current liquidity, acceptable minimum value of 50.0%) as at 31 December 2019 was 99.1% (31 December 2018: 76.8%).

The N4 ratio (long-term liquidity, acceptable maximum value of 120.0%) as at 31 December 2019 was 11.2% (31 December 2018: 10.6%).

(thousands of Russian rubles)

23. Risk management (continued)

Liquidity risk (continued)

The tables below show the analysis of liquidity risk as at 31 December 2019 and 2018.

31 December 2019	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*
Assets							
Cash and accounts with the Bank of Russia	4,017,012	–	–	–	–	239,654	**4,256,666**
Financial assets at fair value through profit or loss	81,643,043	–	–	–	–	–	**81,643,043**
Amounts due from credit institutions	4,642,758	–	–	–	–	53,586	**4,696,344**
Loans to customers	1,041,042	350,508	5,983,435	6,173,232	42,043	581	**13,590,841**
Other financial assets	377,614	7	–	26	–	623	**378,270**
Total financial assets	**91,721,469**	**350,515**	**5,983,435**	**6,173,258**	**42,043**	**294,444**	**104,565,164**
Property and equipment and right-of-use assets	–	–	–	–	–	282,828	**282,828**
Other non-financial assets	13,602	–	–	–	–	590,600	**604,202**
Total non-financial assets	**13,602**	**–**	**–**	**–**	**–**	**873,428**	**887,030**
Total assets	**91,735,071**	**350,515**	**5,983,435**	**6,173,258**	**42,043**	**1,167,872**	**105,452,194**
Liabilities							
Amounts due to credit institutions	35,680,797	–	–	–	–	–	**35,680,797**
Amounts due to customers	27,628,651	–	–	–	–	–	**27,628,651**
Debt securities issued	763,303	–	–	–	–	–	**763,303**
Other financial liabilities	19,599	21	26,853	6,224	193,778	84,024	**330,499**
Total financial liabilities	**64,092,350**	**21**	**26,853**	**6,224**	**193,778**	**84,024**	**64,403,250**
Other provisions	62,518	118,849	334,035	208,784	22	–	**724,208**
Current income tax liabilities	106,802	–	–	–	–	–	**106,802**
Deferred income tax liabilities	–	–	–	–	–	1,519,968	**1,519,968**
Other non-financial liabilities	206,441	–	38,872	63,399	–	–	**308,712**
Total non-financial liabilities	**375,761**	**118,849**	**372,907**	**272,183**	**22**	**1,519,968**	**2,659,690**
Total liabilities	**64,468,111**	**118,870**	**399,760**	**278,407**	**193,800**	**1,603,992**	**67,062,940**
Net assets and liabilities	**27,266,960**	**231,645**	**5,583,675**	**5,894,851**	**(151,757)**	**(436,120)**	**38,389,254**
Accumulated gap	**27,266,960**	**27,498,605**	**33,082,280**	**38,977,131**	**38,825,374**	**38,389,254**	

(thousands of Russian rubles)

23. Risk management (continued)

Liquidity risk (continued)

31 December 2018	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Total*
Assets							
Cash and accounts with the Bank of Russia	2,348,800	–	–	–	–	113,511	**2,462,311**
Financial assets at fair value through profit or loss	63,193,660	–	–	–	–	–	**63,193,660**
Amounts due from credit institutions	8,134,157	–	–	–	–	55,405	**8,189,562**
Loans to customers	5,989,704	1,456,700	5,968,519	4,019,095	202,985	48,855	**17,685,858**
Other financial assets	205,119	–	–	35	–	–	**205,154**
Total financial assets	**79,871,440**	**1,456,700**	**5,968,519**	**4,019,130**	**202,985**	**217,771**	**91,736,545**
Property and equipment	–	–	–	–	–	78,091	**78,091**
Other non-financial assets	75,239	–	–	–	–	523,700	**598,939**
Total non-financial assets	**75,239**	**–**	**–**	**–**	**–**	**601,791**	**677,030**
Total assets	**79,946,679**	**1,456,700**	**5,968,519**	**4,019,130**	**202,985**	**819,562**	**92,413,575**
Liabilities							
Amounts due to credit institutions	50,557,291	–	–	–	–	–	**50,557,291**
Amounts due to customers	13,419,965	–	–	–	–	–	**13,419,965**
Debt securities issued	708,055	–	–	–	–	–	**708,055**
Other financial liabilities	18,434	6,620	5,357	240	–	–	**30,651**
Total financial liabilities	**64,703,745**	**6,620**	**5,357**	**240**	**–**	**–**	**64,715,962**
Other provisions	84,069	281,092	370,884	172,157	–	–	**908,202**
Current income tax liabilities	60,584	–	–	–	–	–	**60,584**
Deferred income tax liabilities	–	–	–	–	–	–	**–**
Other non-financial liabilities	238,660	6,081	18,751	60,664	–	–	**324,156**
Total non-financial liabilities	**383,313**	**287,173**	**389,635**	**232,821**	**–**	**–**	**1,292,942**
Total liabilities	**65,087,058**	**293,793**	**394,992**	**233,061**	**–**	**–**	**66,008,904**
Net assets and liabilities	**14,859,621**	**1,162,907**	**5,573,527**	**3,786,069**	**202,985**	**819,562**	**26,404,671**
Accumulated gap	**14,859,621**	**16,022,528**	**21,596,055**	**25,382,124**	**25,585,109**	**26,404,671**	

Financial assets at fair value through profit or loss were classified into the “Less than 1 month” category, as management believes that all these assets can be realized within one month in the ordinary course of business.

Amounts due to customers and debt securities issued include time deposits of individuals and savings certificates. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (refer to Note 13). The Bank also classifies time deposits of legal entities into the “Less than 1 month” category.

Analysis of financial liabilities by remaining contractual maturities

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

31 December 2019	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	35,738,742	–	–	–	**35,738,742**
Amounts due to customers	26,470,236	1,169,108	3,142	–	**27,642,486**
Debt securities issued	23,354	156,769	285,915	542,528	**1,008,566**
Other financial liabilities	34,299	44,164	155,485	180,900	**414,848**
Total undiscounted financial liabilities	**62,266,631**	**1,370,041**	**444,542**	**723,428**	**64,804,642**

(thousands of Russian rubles)

23. Risk management (continued)

Liquidity risk (continued)

31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	50,654,246	–	–	–	**50,654,246**
Amounts due to customers	11,344,945	2,096,697	–	–	**13,441,642**
Debt securities issued	141,488	5,319	174,450	699,374	**1,020,631**
Other financial liabilities	28,498	41,851	105,146	–	**175,495**
Total undiscounted financial liabilities	**62,169,177**	**2,143,867**	**279,596**	**699,374**	**65,292,014**

The table below shows the contractual maturities of the Bank's credit-related commitments and contingencies. Each loan commitment is included in the time band containing the earliest date it can be drawn down. For financial guarantees, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2019	2,197,735	2,878,671	5,590,678	2,930	**10,670,014**
2018	3,473,791	4,066,698	3,075,107	–	**10,615,596**

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

To diversify its funding sources, manage liquidity risk and ensure sufficient solvency, the Bank, within its strategy, sets indicative limits on certain types of liquidity sources with account of the following:

- Restrictions (strict limits) on borrowings via certain instruments (for example, borrowings under repurchase agreements) may negatively affect the Bank's financial stability and prevent its access to sufficient liquid funds within a short timeframe.
- There are no indicative limits on concentrations of funding sources in one geographical area or economic sector, for the source determined by the Bank as the main source of liquidity is to raise funds in stock exchange markets against pledged securities from the Bank's portfolio (repos); the Bank's portfolio comprises, at all times, available highly liquid securities (shares of "blue chips," government bonds).
- Funds attracted as deposits and placed on individual and corporate settlement accounts in order to guarantee timely fulfillment of obligations to creditors and depositors must not exceed the Bank's equity.
- Balances on customers' brokerage accounts, being of a temporary nature, cannot be regarded as sources of funding.

The General Financial Department carries out daily monitoring of the amount of funds raised. The Bank's management bodies are informed whenever concentration limits, by source of funding, are approached in order to design and implement measures to mitigate liquidity risk, including the following:

- Analysis of the situation, forecasting the course of events allowing for business plan and asset/liability structure adjustments;
- Analysis and identification of alternative funding sources to reduce the concentration of one type of sources.

Reports on liquidity risk prepared in the reporting period in the form of a stress test of the Bank's balance sheet show that upon occurrence of stress events, the implementation of the respective planned measures will fully allow the Bank to ensure an adequate level of liquidity.

The Bank has an emergency liquidity recovery plan which prescribes the following types of measures to handle liquidity shortages:

- Organizational measures;
- Asset management measures;
- Liability management measures.

(thousands of Russian rubles)

23. Risk management (continued)

Operational risk

Operational risk is the risk that the credit institution will incur losses arising from unreliability of and deficiency in internal management procedures, failure of information and other systems, or external events affecting the credit institution's operations.

The purpose of operational risk management is to maintain the risk accepted by the Bank at the level defined by the Bank subject to its strategic objectives. The priority is to ensure, to a maximum extent, the safeguarding of assets and equity by mitigation (avoidance) of potential losses.

The Bank's operational risk management includes the following stages: identification, measurement, monitoring, control and mitigation of operational risk.

Operational risk is identified through preparation and subsequent review of the Bank's operational risks profile. To identify operational risk, the Risk Assessment Department uses the self-assessment method, by structural unit of the Bank.

Measurement of operational risk assumes assessment of the probability of events or circumstances leading to operational losses, and estimation of the size of potential losses. The Bank performs both quantitative and qualitative measurement of its operational risk. The Accounting and Reporting Department calculates the operational risk exposure for the purpose of reporting to the Bank of Russia. The Risk Assessment Department performs qualitative assessment of operational risk by preparing its operational risk map.

For monitoring purposes, the Bank uses a system of indicators showing the operational risk exposure both at the level of the Bank as a whole and at the level of divisions exposed to operational risk. For each indicator the Bank's *Management Board* sets limits (red flags) that help to identify operational risks significant for the Bank and adequately address them in a timely manner.

Control over the compliance with the established operational risk management rules and procedures is maintained as a part of the internal control system. The controllers include the Bank's governance bodies (*Board of Directors, Management Board*), the *Internal Audit Function*, the *Risk Assessment Department*, as well as heads of all divisions of the Bank making decisions that affect operational risk.

For the purposes of monitoring the Bank's operational risk, it has and continuously updates the analytical database of all identified cases of operational risk realization. The analytical database of incurred operational losses comprises quarterly reports that include reasons for events that took place in the reporting quarter and that resulted in the realization of operational risk, and the risk indicators.

The key method of mitigating operational risk controlled at the Bank level is to develop and/or review the organizational structure and internal policies and procedures for banking and other operations so as to eliminate (mitigate) operational risk factors.

The Bank organizes and sets internal control procedures over the operations of the Bank's divisions that are relevant to the scope of their operations. The control system determines the efficiency of segregation of duties, access rights, as well as approval, documentation and reconciliation procedures, and compliance with laws and regulations issued by the Bank of Russia.

24. Fair value measurement

Fair value measurement procedures

Classification of fair value measurements is based on the fair value hierarchy (Level 1, 2 or 3). The levels correlate to the possibility of direct measurement of fair value using market data and reflect the materiality of inputs used for the fair value measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets which are available to the Bank at the measurement date;
- Level 2 inputs are inputs other than Level 1 quoted prices, that are observable on the market either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(thousands of Russian rubles)

24. Fair value measurement (continued)

Fair value measurement procedures (continued)

To measure fair values, the Bank maximizes the use of observable inputs and minimizes the use of unobservable inputs.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Fair value hierarchy

	Fair value measurement using			
31 December 2019	***Level 1 inputs***	***Level 2 inputs***	***Level 3 inputs***	***Total***
Assets measured at fair value				
Financial assets at fair value through profit or loss:	81,588,130	54,913	−	**81,643,043**
Russian state bonds	51,433,498	−	−	**51,433,498**
Corporate bonds	486,302	−	−	**486,302**
Equity securities	29,668,330	49,393	−	**29,717,723**
Derivative financial instruments, including:	−	5,520	−	**5,520**
- Credit default swaps − foreign	−	*5,520*	−	***5,520***
Loans to customers at FVPL	−	−	1,329,508	**1,329,508**
Investment property	−	−	524,400	**524,400**
Assets for which fair values are disclosed				
Cash and accounts with the Bank of Russia	−	−	4,256,666	**4,256,666**
Amounts due from credit institutions	−	−	4,696,344	**4,696,344**
Loans to customers	−	−	12,096,897	**12,096,897**
Other financial assets	−	−	378,270	**378,270**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	−	−	35,680,797	**35,680,797**
Amounts due to customers	−	−	27,623,298	**27,623,298**
Debt securities issued	−	−	782,322	**782,322**
Other financial liabilities	−	−	330,499	**330,499**

	Fair value measurement using			
31 December 2018	***Level 1 inputs***	***Level 2 inputs***	***Level 3 inputs***	***Total***
Assets measured at fair value				
Financial assets at fair value through profit or loss:	62,033,058	1,160,602	−	**63,193,660**
Russian state bonds	42,607,429	−	−	**42,607,429**
Equity securities	19,425,629	1,135,516	−	**20,561,145**
Derivative financial instruments, including:	−	25,086	−	**25,086**
- Credit default swaps − foreign	−	*24,699*	−	***24,699***
- Forwards (precious metals) − domestic	−	*387*	−	***387***
Loans to customers at FVPL	−	−	1,459,437	**1,459,437**
Investment property	−	−	523,700	**523,700**
Assets for which fair values are disclosed				
Cash and accounts with the Bank of Russia	−	−	2,462,311	**2,462,311**
Amounts due from credit institutions	−	−	8,189,562	**8,189,562**
Loans to customers	−	−	16,353,961	**16,353,961**
Other financial assets	−	−	205,154	**205,154**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	−	−	50,557,291	**50,557,291**
Amounts due to customers	−	−	13,422,146	**13,422,146**
Debt securities issued	−	−	663,770	**663,770**
Other financial liabilities	−	−	30,651	**30,651**

Except as detailed above, the fair value of financial assets and liabilities approximates their carrying amount.

(thousands of Russian rubles)

24. Fair value measurement (continued)

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

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2019	*Fair value 2019*	*Unrecognized gain/(loss) 2019*	*Carrying amount 2018*	*Fair value 2018*	*Unrecognized gain/(loss) 2018*
Financial assets						
Cash and accounts with the Bank of Russia	4,256,666	4,256,666	–	2,462,311	2,462,311	–
Amounts due from credit institutions	4,696,344	4,696,344	–	8,189,562	8,189,562	–
Loans to customers	12,261,333	12,096,897	(164,436)	16,226,421	16,353,961	127,540
Other financial assets	378,270	378,270	–	338,008	338,008	–
Financial liabilities						
Amounts due to credit institutions	35,680,797	35,680,797	–	50,557,291	50,557,291	–
Amounts due to customers	27,628,651	27,623,298	5,353	13,419,965	13,422,146	(2,181)
Debt securities issued	763,303	782,322	(19,019)	708,055	663,770	44,285
Other financial liabilities	330,499	330,499	–	175,495	175,495	–
Total unrecognized change in fair value			**(178,102)**			**169,644**

Valuation models and assumptions

The following describes the models and assumptions used to determine fair values of assets and liabilities recorded at fair value in the financial statements and of those items that are not measured at fair value in the statement of financial position, but their fair value is disclosed.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), it is assumed that their fair value approximates their carrying amount. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Derivatives

Derivatives valued using a valuation model with market observable inputs are mainly credit default swaps. The valuation model incorporates various inputs, including forward and spot rates, the fair value of the underlying asset as well as interest rate curves.

Financial assets at fair value through profit or loss

Securities valued using a valuation or pricing model primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and unobservable data. The unobservable inputs include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Financial assets and financial liabilities carried at amortized cost

The fair value of quoted bonds is based on price quotations at the reporting date. The fair value of non-quoted instruments, loans to customers, customer deposits, amounts due from credit institutions, amounts due to credit institutions, other financial assets and liabilities and finance lease liabilities is measured by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(thousands of Russian rubles)

24. Fair value measurement (continued)

Valuation models and assumptions (continued)

Loans at fair value through profit or loss

The fair value of loans is measured based on discounted future cash flows adjusted for the borrower's credit risk. The models rely on unobservable inputs, e.g., the discount rate.

A 1% increase in the discount rate results in the decrease in the fair value of loans by RUB 21,540 thousand. A 1% decrease in the discount rate results in the increase in the fair value of loans by RUB 22,149 thousand. The discount rates applicable range from 7.79% to 6.27%.

Investment property

The Bank engages an independent appraiser to measure fair values of investment properties. For this purpose, the appraiser used the market approach and the income approach.

The market approach is based on prices of market transactions significantly adjusted for differences in the nature, location or condition of a specific property. The basis of the income approach is to determine expected proceeds from the subject property.

Significant unobservable inputs in determining the fair value of real estate items

As at 31 December 2019, significant unobservable inputs used to determine the fair value of real estate property (infrastructure facilities) located in Moscow region included average prices of offers to sell similar properties ranging from RUB 35,800 to RUB 44,200 per sq. m., including VAT. A 10% increase in prices of offers results in an increase in the fair value of real estate property by RUB 53,700 thousand. A 10% decrease in prices of offers results in a decrease in the fair value of real estate property by RUB 53,700 thousand.

As at 31 December 2019, significant unobservable inputs used to determine the fair value of real estate property located in Moscow region included average prices of offers to sell similar properties ranging from RUB 111,111 to RUB 131,579 per sq. m. A 10% increase in prices of offers results in an increase in the fair value of real estate property by RUB 4,520 thousand. A 10% decrease in prices of offers results in a decrease in the fair value of real estate property by RUB 4,520 thousand.

Movements in Level 3 assets and liabilities at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 assets which are recorded at fair value.

	31 December 2018	*Total gains/ (losses) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Additions*	*Redemptions/ disposals*	*Other movements*	*31 December 2019*
Financial assets							
Loans to customers at FVPL	1,459,437	**338,481**	**–**	840,262	(1,308,672)	–	1,329,508
Investment property	523,700	**(31,800)**	**–**	32,500	–	–	524,400
Total Level 3 financial assets	**1,983,137**	**306,681**	**–**	**872,762**	**(1,308,672)**	**–**	**1,853,908**

	31 December 2017	*Transfers at adoption of IFRS 9*	*31 December 2018*	*Total gains/ (losses) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Additions*	*Redemptions/ disposals*	*Other movements*	*31 December 2018*
Financial assets									
Loans to customers at FVPL	–	771,253	771,253	**(307,029)**	**–**	995,213	–	–	1,459,437
Investment property	547,820	–	547,820	**(7,390)**	**–**	20,910	(37,640)	–	523,700
Total Level 3 financial assets	**547,820**	**771,253**	**1,319,073**	**(314,419)**	**–**	**1,016,123**	**(37,640)**	**–**	**1,983,137**

(thousands of Russian rubles)

24. Fair value measurement (continued)

Movements in Level 3 assets and liabilities at fair value (continued)

Gains or losses from Level 3 financial instruments included in profit or loss for the year comprise:

	2019			*2018*		
	Realized gains/(losses)	*Unrealized gains/(losses)*	*Total*	*Realized gains/(losses)*	*Unrealized gains/(losses)*	*Total*
Total gains or losses recorded in profit or loss for the period	(68,954)	375,635	**306,681**	(5,906)	(308,513)	**(314,419)**

Transfers between Level 1 and Level 2

The tables below show transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets recorded at fair value.

	Transfers from Level 1 to Level 2	
	2019	*2018*
Financial assets		
Financial assets at fair value through profit or loss	27,305	522,207

The above financial instruments were transferred from Level 1 to Level 2 as they ceased to be actively traded during the period and their fair values were consequently obtained through valuation techniques using observable market inputs.

	Transfers from Level 2 to Level 1	
	2019	*2018*
Financial assets		
Financial assets at fair value through profit or loss	1,300,446	72,852

The above financial instruments were transferred from Level 2 to Level 1 as they became actively traded during the reporting period and fair values were consequently determined using quoted prices in an active market.

25. Transferred financial assets that are not derecognized

The table below provides a summary of the financial assets transferred by the Bank under repurchase agreements in such a way that all the transferred financial assets do not qualify for derecognition,

		Financial assets at fair value through profit or loss			
2019	*Transferred financial asset*	*Government debt securities*	*Other debt securities*	*Other securities*	*Total*
Carrying amount of assets	Repurchase agreements	38,144,304	–	13,952,364	**52,096,668**
Total		**38,144,304**	**–**	**13,952,364**	**52,096,668**
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	28,379,225	–	7,301,572	**35,680,797**
	Repurchase agreements with legal entities	5,975,592	–	4,903,874	**10,879,466**
Total		**34,354,817**	**–**	**12,205,446**	**46,560,263**

		Financial assets at fair value through profit or loss			
2018	*Transferred financial asset*	*Government debt securities*	*Other debt securities*	*Other securities*	*Total*
Carrying amount of assets	Repurchase agreements	41,251,184	–	10,178,304	**51,429,488**
Total		**41,251,184**	**–**	**10,178,304**	**51,429,488**
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	37,363,493	–	7,104,866	**44,468,359**
Total		**37,363,493**	**–**	**7,104,866**	**44,468,359**

(thousands of Russian rubles)

25. Transferred financial assets that are not derecognized (continued)

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

The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

Likewise, the Bank may sell or repledge securities received as loans or purchased under reverse repurchase agreements but is obliged to return the securities, and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Bank, which instead records a separate asset for any possible cash collateral given.

As at 1 January 2020, the Bank had no securities purchased under reverse repurchase agreements and sold under repurchase agreements (31 December 2018: RUB 6,661,579 thousand). The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2018 as amounts due to credit institutions of RUB 6,088,932 thousand.

The carrying amount and fair value of securities sold under repurchase agreements was RUB 52,096,668 thousand as at 31 December 2019 (31 December 2018: RUB 51,429,488 thousand) and included financial assets at fair value through profit or loss.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2019 as amounts due to credit institutions of RUB 35,680,797 thousand (31 December 2018: RUB 44,468,359 thousand) and as amounts due to customers of RUB 10,879,466 thousand (31 December 2018: none).

26. Offsetting of financial instruments

The tables below show the effect of enforceable master netting agreements and similar agreements that do not result in an offset in the statement of financial position.

				Related amounts not set off in the statement of financial position		
2019	***Gross amount of recognized financial assets***	***Gross amount of recognized financial liabilities set off in the statement of financial position***	***Net amount of financial assets presented in the statement of financial position***	***Financial instruments***	***Cash collateral received***	***Net amount***
Financial assets						
Financial assets pledged under repurchase agreements	52,096,668	–	**52,096,668**	(46,560,263)	–	**5,536,405**
Total	**52,096,668**	**–**	**52,096,668**	**(46,560,263)**	**–**	**5,536,405**
Financial liabilities						
Payables under repurchase agreements	46,560,263	–	**46,560,263**	(46,560,263)	–	**–**
Total	**46,560,263**	**–**	**46,560,263**	**(46,560,263)**	**–**	**–**

				Related amounts not set off in the statement of financial position		
2018	***Gross amount of recognized financial assets***	***Gross amount of recognized financial liabilities set off in the statement of financial position***	***Net amount of financial assets presented in the statement of financial position***	***Financial instruments***	***Cash collateral received***	***Net amount***
Financial assets						
Financial assets pledged under repurchase agreements	51,429,488	–	**51,429,488**	(44,468,359)	–	**6,961,129**
Total	**51,429,488**	**–**	**51,429,488**	**(44,468,359)**	**–**	**6,961,129**
Financial liabilities						
Payables under repurchase agreements	44,468,359	–	**44,468,359**	(44,468,359)	–	**–**
Total	**44,468,359**	**–**	**44,468,359**	**(44,468,359)**	**–**	**–**

(thousands of Russian rubles)

27. 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.

The results of transactions with the Bank's related parties have no impact on the Bank's financial stability, as they account for a minor share in total transactions conducted by the Bank. Transactions with related parties are executed on the same terms, conditions and amounts as transactions with other counterparties.

The Bank had an interest in a number of related party transactions.

Those transactions were approved by the Bank's authorized bodies (Board of Directors, general shareholders' meeting) in accordance with Russian laws. Planned transactions that the Bank has an interest in are subject to approval by the general shareholders' meeting before conclusion.

Related parties include:

- Shareholders of the Bank
- Key management personnel of the Bank, i.e. persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including the Chairman of the Management Board, members of the Management Board, Board of Directors, Credit Committee, and other risk-taking employees
- Other related parties, including close relatives of the shareholders and key management personnel, and companies under the control or common control of parties related to the Bank or close relatives thereof

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	2019				*2018*			
	Shareholders	*Key management personnel*	*Other related parties*	*Total*	*Shareholders*	*Key management personnel*	*Other related parties*	*Total*
Loans outstanding at 1 January	**–**	**6,518**	**449,897**	**456,415**	**–**	**56,147**	**461,170**	**517,317**
Loans issued during the year	–	7,000	1,601,290	**1,608,290**	–	–	10,000	**10,000**
Loans repaid during the year	–	(3,750)	(987,344)	**(991,094)**	–	(49,629)	–	**(49,629)**
Other movements	–	–	(316,649)	**(316,649)**	–	–	(21,273)	**(21,273)**
Loans outstanding at 31 December	**–**	**9,768**	**747,194**	**756,962**	**–**	**6,518**	**449,897**	**456,415**
Less allowance for ECL at 31 December	–	(180)	(390,967)	**(391,147)**	–	(611)	(345,535)	**(346,146)**
Loans outstanding at 31 December, net of allowance for ECL	**–**	**9,588**	**356,227**	**365,815**	**–**	**5,907**	**104,362**	**110,269**
Other assets	–	705	181	**886**	–	60	181	**241**
Deposits at 1 January	**–**	**406,077**	**8,313**	**414,390**	**366,084**	**150,393**	**–**	**516,477**
Deposits received during the year	1,000,000	799,654	126,919	**1,926,573**	63,624	600,471	8,009	**672,104**
Deposits repaid during the year	(1,000,000)	(985,434)	(123,564)	**(2,108,998)**	(456,851)	(382,078)	–	**(838,929)**
Other movements	–	(31,969)	(292)	**(32,261)**	27,143	37,291	304	**64,738**
Deposits at 31 December	**–**	**188,328**	**11,376**	**199,704**	**–**	**406,077**	**8,313**	**414,390**
Settlement and current accounts at 31 December	**23,540**	**194,632**	**94,745**	**312,917**	**8,291**	**84,010**	**863**	**93,164**
Debt securities issued	202,503	131,333	–	**333,836**	207,055	135,534	–	**342,589**
Other provisions	–	255	–	**255**	–	30	–	**30**
Other liabilities	607	109,902	21	**110,530**	534	87,011	117	**87,662**
Loan commitments	–	15,000	681,300	**696,300**	–	3,000	–	**3,000**

(thousands of Russian rubles)

27. Related party disclosures (continued)

Income and expenses arising from related party transactions are as follows:

	2019				*2018*			
	Shareholders	*Key management personnel*	*Other related parties*	*Total*	*Shareholders*	*Key management personnel*	*Other related parties*	*Total*
Interest income	–	447	112,258	**112,705**	–	5,793	56,055	**61,848**
Interest expense	(62,098)	(18,830)	(1,115)	**(82,043)**	(63,953)	(30,494)	(1,235)	**(95,682)**
Credit loss expense/(income)	–	567	(45,431)	**(44,864)**	–	39,979	(4,077)	**35,902**
Net gains from financial instruments at fair value through profit or loss	–	–	350,185	**350,185**	–	–	–	–
Net gains/(losses) from foreign currencies	38,691	58,304	1,217	**98,212**	(62,133)	(53,973)	(51,485)	**(167,591)**
Fee and commission income	102,154	24,787	537	**127,478**	52,648	13,058	1,003	**66,709**
Other income	114	174	11,964	**12,252**	40,215	10,986	11	**51,212**
Other operating expenses	(2,489)	(2,141)	(12,227)	**(16,857)**	(1,221)	(1,917)	(5,776)	**(8,914)**

Compensation to key management personnel comprises the following:

	2019	*2018*
Salaries and other short-term benefits	62,060	53,052
Long-term employee benefits	22,858	24,107
Mandatory pension contributions	8,717	6,894
Social security costs	3,803	3,117
Total compensation to key management personnel	**97,438**	**87,170**

28. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business.

The primary objectives of the Bank’s capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders’ value.

Capital management is performed in accordance with the *Risks and Capital Management Strategy* in the course of internal capital adequacy assessment procedures (ICAAP).

In the course of ICAAP, the Bank determines risk appetite as a set of quantitative and qualitative indicators to monitor the exposure to assumed risks, capital adequacy and to ensure continuous operation of the Bank as follows:

- *Prudential* capital adequacy *ratios*, liquidity ratios and other limits established by the Bank of Russia with regard to risk and capital adequacy management.
- The *ratio of capital* required to cover all significant risks to *available capital*.
- The *capital adequacy ratio* required to be assigned a target credit rating.
- The *amount of capital* required to cover *unexpected losses*.

As part of drafting and subsequently implementing the Bank’s Development Strategy, the Bank aims to minimize the difference between planned capital and required capital.

The Bank regularly reconciles the aggregate required capital to actual capital. In case of actual capital inadequacy, measures are promptly taken to mitigate assumed risks/increase the Bank’s capital.

The Bank’s capital and capital adequacy ratio are calculated in accordance with Regulation No. 646-P of the Bank of Russia *On the Methodology for Determining the Amount of Equity (Capital) of Credit Institutions (Basel III)* and Instruction No. 180-I of the Bank of Russia *On Prudential Ratios of Banks* (effective Instruction No. 199-I of the Bank of Russia).

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the capital management objectives, policies and processes from the previous years.

(thousands of Russian rubles)

28. Capital adequacy (continued)

Capital adequacy ratio

The Bank regularly monitors capital adequacy to comply with the minimum capital adequacy ratios set up by the regulations issued by the Bank of Russia:

- Common equity adequacy ratio − not less than 4.5%;
- Core capital adequacy ratio − not less than 6.0%;
- Equity (capital) adequacy ratio − not less than 8.0%.

The following table shows the composition of the Bank's capital computed in accordance with the normative acts of the CBR, which are based on Basel III requirements, as at 31 December.

	2019	*2018*
Common equity	19,459,367	21,244,689
Core capital	**19,459,367**	**21,244,689**
Additional capital	14,572,920	–
Total capital	**34,032,287**	**21,244,689**
Risk-weighted assets	**125,650,204**	**121,580,436**
Common equity adequacy ratio	15.5%	17.5%
Core capital adequacy ratio	15.5%	17.5%
Equity (capital) adequacy ratio	27.1%	17.5%

During the years ended 31 December 2019 and 31 December 2018, the Bank's capital adequacy ratios were in compliance with the external requirements.

29. Events after the reporting date

Due to the coronavirus (COVID-19) pandemic progressing since early 2020, 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, including banks.

Since March 2020, equity, 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 Bank's management is currently assessing the possible impact of the situation on the Bank's performance and financial position.