

Independent auditor's report  
on the consolidated financial statements of  
***Joint stock company Russian Agricultural Bank  
and its subsidiaries***  
for 2019

March 2020

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## Independent auditor's report

To the shareholder and Supervisory Board of  
Joint stock company Russian Agricultural Bank

### Report on the audit of the consolidated financial statements

#### **Opinion**

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

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

#### **Basis for opinion**

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

## **Key audit matters**

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

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

### **Key audit matter**

### **How our audit addressed the key audit matter**

#### ***Allowance for expected credit losses on loans and advances to customers***

The appropriateness of allowance for expected credit losses on loans and advances to customers in accordance with IFRS 9 *Financial instruments* ("IFRS 9") is a key area of judgment for the Group's management.

The identification of impairment, significant increase in credit risk, determination of probability of default and loss given default, determination of the recoverable amount and forecast of macroeconomic variables require a high level of subjectivity.

Assessment of expected credit losses (ECL) involves estimation techniques that use significant unobservable inputs including internal credit ratings for calculation probability of default and statistical modelling for determination of loss given default. Assessment of ECL involves forecasting of macroeconomic variables. Signs of significant increase in credit risk are also judgmental and are based on extent of downgrade in internal credit ratings, days overdue and other factors.

ECL for individually impaired loans are based on analysis of financial and non-financial information including current and projected financial performance of borrower, collateral value and timeframe for its realization and estimation of probabilities of possible outcomes.

We focused on identifying signs of impairment, which may be different for the different types of borrowers. We analyzed the methodology for calculating the allowance for expected credit losses both for corporate and retail loans, due to the significant amounts and potential effect of changes in assumptions. We also focused on significant individually impaired loans, as well as on loans with the highest risk of individual impairment.

We assessed credit risk factors used by the Group for determining significant increase in credit risk.

For collectively assessed loans we analyzed rating models, key inputs and assumptions used for calculation of ECL.

Our audit procedures included testing controls over estimation of allowances for both individuals and legal entities, testing of input data used in determining internal credit rating and probability of default, assessing loss statistics for prior periods together with testing of collateral used for assessing loss given default for collectively assessed loans, analyzing assumptions used by the Group for collective assessments of impairment, and assessing the allowances for individually impaired loans issued.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p>The selection of different models and assumptions may significantly affect the estimates of allowance for expected credit losses on loans to customers. Due to the significance of the loans issued, which account for 67% of total assets, and to the significant judgement involved, the estimation of the impairment allowance is a key audit matter.</p> <p>Information on the allowance for expected credit losses on loans and advances to customers is included in Note 9 Loans and advances to customers, Note 22 Credit loss expense to the consolidated financial statements.</p>	<p>In the course of our audit procedures we analyzed management's judgement used to assess economic factors and statistical information on losses incurred and amounts recovered, judgments used in determining of expected credit losses. For individually impaired loans we analyzed the expected future cash including those from current operations of the borrowers, as well as those from the foreclosure of collateral based on our professional judgment and information available.</p> <p>We performed procedures regarding the respective disclosures in the consolidated financial statements.</p>

***Other information included in the Russian Agricultural Bank Annual Report 2019***

Other information consists of the information included in the Russian Agricultural Bank Annual Report 2019 other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Russian Agricultural Bank Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

***Responsibilities of management and the Audit Committee for the consolidated financial statements***

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

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

The Audit Committee are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

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

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

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

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

The findings from our work are provided below.

***Compliance by the Banking group with the obligatory ratios established by the Bank of Russia***

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

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

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

- ▶ We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2019 the Bank's internal audit division was subordinated and accountable to the Supervisory Board, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- ▶ We found that the Bank's internal documents effective as at 31 December 2019 that establish the methodologies for detecting and managing credit, market, operational and liquidity and concentration risks that are significant to the Banking group and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2019, the Bank had a reporting system pertaining to credit, market, operational and liquidity and concentration risks that were significant to the Banking group and pertaining to its capital.
- ▶ We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2019 with regard to the management of credit, market, operational and liquidity and concentration risks of the Banking group complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies.
- ▶ We found that, as at 31 December 2019, the authority of the Supervisory Board and executive management bodies of the Bank included control over compliance of the Banking group with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Banking group during the year ended 31 December 2019, the Supervisory Board and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.



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

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



G.A. Shinin  
Partner  
Ernst & Young LLC

18 March 2020

***Details of the audited entity***

Name: Joint stock company Russian Agricultural Bank  
Record made in the State Register of Legal Entities on 22 October 2002, State Registration Number 1027700342890.  
Address: Russia 119034, Moscow, Gagarinsky pereulok, 3.

***Details of the auditor***

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

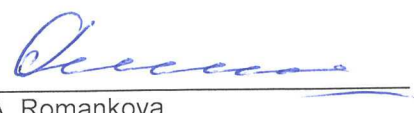
**Russian Agricultural Bank Group**  
**Consolidated Statement of Financial Position**  
**as at 31 December 2019**

<i>In millions of Russian Roubles</i>	Note	31 December 2019	31 December 2018
<b>Assets</b>			
Cash and cash equivalents	6	403 564	390 585
Mandatory cash balances with the Bank of Russia		22 334	20 651
Trading securities	7	21 974	19 226
Due from other banks	8	50 543	38 717
Derivative financial instruments	33	18 265	17 767
Loans and advances to customers	9	2 164 906	1 957 767
Investment securities	10	432 303	532 185
Investment securities pledged under repurchase agreements	10	-	40 264
Current income tax assets		597	573
Deferred income tax asset	26	16 298	16 298
Intangible assets	11	7 423	6 113
Premises, equipment and right-of-use assets	11	51 470	50 186
Other assets	12	24 938	23 810
Assets classified as held for sale	36	1 134	640
<b>Total assets</b>		<b>3 215 749</b>	<b>3 114 782</b>
<b>Liabilities</b>			
Derivative financial instruments	33	4 782	9 213
Due to other banks	13	109 519	171 530
Customer accounts	14	2 486 108	2 421 051
Promissory notes issued	15	47 358	42 341
Bonds issued	16	174 954	142 609
Current income tax liability		469	89
Deferred income tax liability	26	2 221	1 658
Other liabilities	17	56 999	27 291
<b>Total liabilities before subordinated debts</b>		<b>2 882 410</b>	<b>2 815 782</b>
Subordinated debts	18	134 089	147 279
<b>Total liabilities</b>		<b>3 016 499</b>	<b>2 963 061</b>
<b>Equity</b>			
Share capital	20	440 233	410 598
Perpetual bonds	19	48 398	38 376
Revaluation reserve for premises		2 829	2 890
Revaluation reserve for investment securities at fair value through other comprehensive income		6 733	(3 769)
Accumulated loss		(298 842)	(298 074)
<b>Equity attributable to the Bank's shareholder</b>		<b>199 351</b>	<b>150 021</b>
<b>Non-controlling interest</b>		<b>(101)</b>	<b>1 700</b>
<b>Total equity</b>		<b>199 250</b>	<b>151 721</b>
<b>Total liabilities and equity</b>		<b>3 215 749</b>	<b>3 114 782</b>

Approved for issue and signed on behalf of the Management Board on 18 March 2020.

  
 B.P. Listov  
 Chairman of the Management Board



  
 E.A. Romankova  
 Deputy Chairman of the Management Board, Chief Accountant

**Russian Agricultural Bank Group**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**for the year ended 31 December 2019**

<i>In millions of Russian Roubles</i>	<b>Note</b>	<b>2019</b>	<b>2018</b>
Interest income at effective interest rate	21	243 561	228 701
Other interest income	21	4 968	3 316
Interest expense	21	(171 281)	(164 617)
<b>Net interest income</b>		<b>77 248</b>	<b>67 400</b>
Credit loss expense	22	(39 554)	(58 600)
<b>Net interest income after credit loss expense</b>		<b>37 694</b>	<b>8 800</b>
Fee and commission income	23	23 450	24 586
Fee and commission expense	23	(2 780)	(3 069)
Gains less losses/(losses net of gains) from trading securities		284	(613)
Gains less losses from financial instruments and loans to customers at fair value through profit or loss		2 054	196
Gains less losses from investment securities at fair value through other comprehensive income		1 495	1 646
Foreign exchange translation losses net of gains		(10 352)	(9 419)
Gains less losses from derivative financial instruments		16 120	18 685
Gains less losses from dealing in foreign currencies		4 108	2 053
Gains from non-banking activities		17 426	13 782
Losses from non-banking activities		(16 352)	(12 375)
Gains from initial recognition of financial instruments at fair value		-	23 119
Other operating income/(expense)		823	(1 215)
Administrative and other operating expenses	25	(65 529)	(58 676)
<b>Profit before tax</b>		<b>8 441</b>	<b>7 500</b>
Income tax expense	26	(4 424)	(5 975)
<b>Profit for the year</b>		<b>4 017</b>	<b>1 525</b>
<b>Loss is attributable to:</b>			
Shareholder of the Bank		4 015	1 558
Non-controlling interest		2	(33)
<b>Profit for the year</b>		<b>4 017</b>	<b>1 525</b>
<b>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</b>			
Debt securities at fair value through other comprehensive income:			
- Net gains/(losses) on debt securities at fair value through other comprehensive income		15 160	(8 841)
- Realised revaluation reserve (at disposal)		(1 495)	(1 646)
- Changes in allowance for expected credit losses of debt securities at fair value through other comprehensive income		(532)	696
Income tax	26	(2 631)	2 097
<b>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods, net of tax</b>		<b>10 502</b>	<b>(7 694)</b>
<b>Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:</b>			
- Revaluation of premises		7	2 348
- Net gains on equity securities at fair value through other comprehensive income		24	-
- Income tax		(1)	(470)
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax</b>		<b>30</b>	<b>1 878</b>
<b>Total other comprehensive income/(loss)</b>		<b>10 532</b>	<b>(5 816)</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>14 549</b>	<b>(4 291)</b>
<b>Total comprehensive income/(loss) is attributable to:</b>			
Shareholder of the Bank		14 547	(4 258)
Non-controlling interest		2	(33)
<b>Total comprehensive income/(loss) for the year</b>		<b>14 549</b>	<b>(4 291)</b>

**Russian Agricultural Bank Group**  
**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2019**

<i>In millions of Russian Roubles</i>	Note	Attributable to Shareholder of the Bank					Total	Non-controlling interest	Total equity
		Share capital	Perpetual bonds	Revaluation reserve for premises	Revaluation reserve for investment securities	Accumulated loss			
<b>Balance at 31 December 2017</b>		<b>385 598</b>	<b>15 000</b>	<b>1 052</b>	<b>3 001</b>	<b>(214 214)</b>	<b>190 437</b>	<b>(21)</b>	<b>190 416</b>
Impact of adopting IFRS 9		-	-	-	924	(84 138)	(83 214)	-	(83 214)
<b>Restated opening balance under IFRS 9</b>		<b>385 598</b>	<b>15 000</b>	<b>1 052</b>	<b>3 925</b>	<b>(298 352)</b>	<b>107 223</b>	<b>(21)</b>	<b>107 202</b>
Profit for the year, net of tax		-	-	-	-	1 558	<b>1 558</b>	(33)	<b>1 525</b>
Other comprehensive income/(loss) for the year, net of tax		-	-	1 878	(7 694)	-	<b>(5 816)</b>	-	<b>(5 816)</b>
<b>Total comprehensive income/(loss) for the year, net of tax</b>		<b>-</b>	<b>-</b>	<b>1 878</b>	<b>(7 694)</b>	<b>1 558</b>	<b>(4 258)</b>	<b>(33)</b>	<b>(4 291)</b>
Share issue	20	25 000	-	-	-	-	<b>25 000</b>	-	<b>25 000</b>
Acquisition of subsidiaries	36	-	-	-	-	-	-	1 754	<b>1 754</b>
Depreciation of revaluation reserve for premises		-	-	(40)	-	40	-	-	-
Dividends paid	27	-	-	-	-	(884)	<b>(884)</b>	-	<b>(884)</b>
Initial recognition of financial instruments for transactions under common control		-	-	-	-	2 155	<b>2 155</b>	-	<b>2 155</b>
Perpetual bonds issue		-	23 332	-	-	-	<b>23 332</b>	-	<b>23 332</b>
Perpetual bonds buy back		-	(98)	-	-	-	<b>(98)</b>	-	<b>(98)</b>
Foreign exchange translation of perpetual bonds		-	142	-	-	(142)	-	-	-
Coupon paid and due under perpetual bonds		-	-	-	-	(2 830)	<b>(2 830)</b>	-	<b>(2 830)</b>
Transaction costs on perpetual bonds issue		-	-	-	-	(231)	<b>(231)</b>	-	<b>(231)</b>
Tax effect recognized on perpetual bonds		-	-	-	-	612	<b>612</b>	-	<b>612</b>
<b>Balance at 31 December 2018</b>		<b>410 598</b>	<b>38 376</b>	<b>2 890</b>	<b>(3 769)</b>	<b>(298 074)</b>	<b>150 021</b>	<b>1 700</b>	<b>151 721</b>
Profit for the year, net of tax		-	-	-	-	4 015	<b>4 015</b>	2	<b>4 017</b>
Other comprehensive income for the year, net of tax		-	-	6	10 526	-	<b>10 532</b>	-	<b>10 532</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>	<b>6</b>	<b>10 526</b>	<b>4 015</b>	<b>14 547</b>	<b>2</b>	<b>14 549</b>
Share issue	20	29 635	-	-	-	-	<b>29 635</b>	-	<b>29 635</b>
Disposal of subsidiaries	36	-	-	-	-	-	-	(1 803)	<b>(1 803)</b>
Realised revaluation reserve for equity securities at fair value through other comprehensive income		-	-	-	(24)	24	-	-	-
Depreciation of revaluation reserve for premises		-	-	(67)	-	67	-	-	-
Dividends paid	27	-	-	-	-	(1 126)	<b>(1 126)</b>	-	<b>(1 126)</b>
Perpetual bonds issue		-	10 563	-	-	-	<b>10 563</b>	-	<b>10 563</b>
Foreign exchange translation of perpetual bonds		-	(541)	-	-	541	-	-	-
Coupon paid and due under perpetual bonds		-	-	-	-	(4 289)	<b>(4 289)</b>	-	<b>(4 289)</b>
<b>Balance at 31 December 2019</b>		<b>440 233</b>	<b>48 398</b>	<b>2 829</b>	<b>6 733</b>	<b>(298 842)</b>	<b>199 351</b>	<b>(101)</b>	<b>199 250</b>

The notes set out on pages 14 to 110 form an integral part of these consolidated financial statements.

**Russian Agricultural Bank Group**  
**Consolidated Statement of Cash Flows**  
**for the year ended 31 December 2019**

<i>In millions of Russian Roubles</i>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>			
Interest received		266 010	239 139
Interest paid		(161 107)	(166 172)
(Expenses incurred)/income received from trading in securities and financial instruments at fair value through profit or loss		(6)	1 187
Income received from derivative financial instruments		12 840	56 882
Income received from dealing in foreign currencies		4 073	2 136
Fees and commissions received		23 481	24 555
Fees and commissions paid		(2 780)	(3 069)
Other operating income received		289	2 002
Net income received from insurance operations		10 787	6 780
Income received from non-banking activities		5 770	6 017
Expenses incurred from non-banking activities		(7 369)	(6 157)
Administrative and other operating expenses paid		(55 390)	(48 581)
Income tax paid		(4 918)	(4 472)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>91 680</b>	<b>110 247</b>
<b>Changes in operating assets and liabilities</b>			
<i>Net (increase)/decrease in operating assets</i>			
Mandatory cash balances with the Bank of Russia		(1 683)	(1 539)
Trading securities		(2 835)	(2 214)
Due from other banks		(14 881)	(9 055)
Loans and advances to customers		(291 360)	(293 889)
Other assets		526	1 827
<i>Net increase/(decrease) in operating liabilities</i>			
Due to other banks		(58 637)	134 313
Customer accounts		89 223	149 856
Promissory notes issued		5 921	2 414
Other liabilities		8 054	(3 147)
<b>Net cash (used in)/from operating activities</b>		<b>(173 992)</b>	<b>88 813</b>
<b>Cash flows from investing activities</b>			
Acquisition of premises and equipment	11	(2 964)	(7 492)
Proceeds from disposal of premises and equipment		164	662
Acquisition of intangible assets	11	(3 071)	(2 819)
Proceeds from sale of investment securities at FVTPL		2 165	(197)
Acquisition of investment securities at FVTPL (mandatory)		(18 846)	(3 648)
Acquisition of investment securities at FVOCI		(391 035)	(762 331)
Proceeds from redemption and sales of investment securities at FVOCI		552 141	530 153
Acquisition of investment securities at amortised cost		(14 515)	(2 649)
Proceeds from redemption of investment securities at amortised cost		11 589	12 336
Dividends received		37	12
<b>Net cash from/(used in) investing activities</b>		<b>135 665</b>	<b>(235 973)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	27	(1 126)	(884)
Issue of ordinary shares	20	29 635	25 000
Perpetual bonds issue less transaction costs		10 490	23 101
Amounts paid on perpetual bonds		(4 286)	(2 826)
Buy back of perpetual bonds issued		-	(98)
Buy back of subordinated debts		(1 269)	(5 886)
Proceeds from sale of previously bought back subordinated debt		820	219
Proceeds from bonds issue	16	30 000	57 900
Buy back of bonds issued at or prior to put option date		(8 834)	(40 898)
Buy back of Eurobonds issued		-	(11 332)
Proceeds from sale of previously bought back bonds issued on domestic market		15 803	52
Proceeds from sale of previously bought back Eurobonds issued		-	37 026
Repayment of bonds and Eurobonds issued		(4 575)	(151 788)
Payments in respect of lease obligations (IFRS 16)		(1 501)	-
Proceeds from sale of non-controlling interests in consolidated mutual funds		67	28
Payments on disposal of non-controlling interests in consolidated mutual funds		(29)	(25)
<b>Net cash from / (used in) financing activities</b>		<b>65 195</b>	<b>(70 411)</b>
Effect of exchange rate changes on cash and cash equivalents		(13 892)	21 724
Effect of ECL on cash and cash equivalents		3	(5)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>12 979</b>	<b>(195 852)</b>
Cash and cash equivalents at the beginning of the period	6	390 585	586 437
<b>Cash and cash equivalents at the end of the period</b>	<b>6</b>	<b>403 564</b>	<b>390 585</b>

The notes set out on pages 14 to 110 form an integral part of these consolidated financial statements.

## **1 Introduction**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the “IASB”) for the year ended 31 December 2019 for Joint stock company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Bank’s only shareholder is the Russian Federation acting through the Federal Agency for Managing State Property which holds the Bank’s issued and outstanding ordinary shares (78.66% from total share capital (31 December 2018: 77.11% from total share capital)), the Ministry of Finance of the Russian Federation which holds the Bank’s issued and outstanding preference shares (5.69% from total share capital (31 December 2018: 6.1% from total share capital)) and the State Corporation “Deposit Insurance Agency” which holds the Bank’s issued and outstanding preference shares (15.65% from total share capital (31 December 2018: 16.79% from total share capital)).

The Group’s structure comprises of the Bank and its subsidiaries. Principal subsidiaries of the Bank are Joint-stock company “RSHB-Insurance” (ownership interest of the Bank is 100%), RSHB Capital S.A. (Luxembourg) (structured entity incorporated for Eurobonds issue for the Bank), “RSHB Asset Management” Limited Liability Company (ownership interest of the Bank is 100%) and 36 companies operating in agricultural and other industries and mutual funds.

**Principal activity.** The Bank’s principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- To participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- To develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- To maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Bank of Russia since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by Federal Law # 177-FZ *Deposits of Individuals Insurance in Russian Federation* dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual and/or individual entrepreneur current accounts and deposits up to RR 1 400 thousand per individual or individual entrepreneur in case of the withdrawal of a licence of a bank or the Bank of Russia imposed moratorium on payments. Starting 2019, the same guaranties extend to deposits of legal entities referred to “small entities” as it stated in legislation of the Russian Federation.

The Bank has 66 (31 December 2018: 66) branches within the Russian Federation. The Bank’s registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank’s principal place of business is 123112 Russia, Moscow, Presnenskaya naberezhnaya, 10, bld. 2.

The number of the Group’s employees as at 31 December 2019 was 31 147 (31 December 2018: 29 862).

**Presentation currency.** These consolidated financial statements are presented in Russian Roubles (“RR”). All amounts are expressed in RR millions unless otherwise stated.

## **2 Operating Environment of the Group**

**Russian Federation.** Continuing international sanctions against some Russian companies, including Joint stock company Russian Agricultural Bank, and citizens still have a negative impact on the Russian economy. The stability of oil prices, low unemployment and wage growth contributed to moderate economic growth in the reporting period. Such an economic environment has a significant impact on the Bank’s operations and financial position. Management takes all necessary measures to ensure the sustainability of the Bank’s operations. However, the future consequences of the current economic situation are difficult to predict, and current expectations and management estimates may differ from actual results.

## 2 Operating Environment of the Group (continued)

During 2019, the following were the key changes in selected macro-economic indicators:

- The Bank of Russia exchange rate appreciated from RR 69.4706 to RR 61.9057 per US Dollar;
- The Bank of Russia key rate decreased from 7.75% p.a. to 6.25% p.a.;
- The RTS stock exchange index increased from 1 068.7 to 1 548.9.

## 3 Summary of Significant Accounting Policies

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, investment securities at fair value through other comprehensive income, financial instruments categorised as at fair value through profit or loss and derivatives. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to changes in accounting policies.

**Changes in accounting policies. IFRS 16 Leases.** IFRS 16 was issued in January 2016 and it replaced IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives.

The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The adoption of IFRS 16 led to recognition of right-of-use assets in the amount of RR 5.5 billion reflected in Consolidated Statement of Financial Position in line “Premises, equipment and right-of-use assets” and respective lease liability in the equal amount reflected in line “Other liabilities” starting 1 January 2019.

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

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

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

### 3 Summary of Significant Accounting Policies (continued)

#### *Leases previously accounted for as operating leases*

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

The Group also applied the available practical expedients wherein it:

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

A reconciliation of the operating lease commitments to the liability under IFRS 16 is as follows.

<i>In millions of Russian Roubles</i>	<b>1 January 2019</b>
<b>Lease payments under operating lease</b>	<b>8 664</b>
<b>Adjustments to amount of lease payable</b>	
Recognition exemption: short-term leases	(261)
Recognition exemption: the underlying asset is of low value	(314)
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	1 874
<b>Future lease payments under IFRS 16</b>	<b>9 963</b>
Effect of discounting	(4 443)
<b>Lease liability under IFRS 16</b>	<b>5 520</b>

Weighted average incremental borrowing rate as at 1 January 2019 amounted to 8.91%.

#### *(b) Summary of new accounting policies*

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

##### *i. Group as a lessee*

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



### 3 Summary of Significant Accounting Policies (continued)

#### *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is 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 right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are 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.

#### *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The 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. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### *Short-term leases and leases of low-value assets*

The Group 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 are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

#### *Significant judgement in determining the lease term of contracts with renewal options*

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

#### *Amounts recognised in the consolidated statement of financial position, consolidated income statement and consolidated statement of cash flows*

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

<i>In millions of Russian Roubles</i>	<b>Right-of-use assets</b>			<b>Lease liabilities</b>
	<b>Buildings</b>	<b>Office equipment</b>	<b>Total</b>	
<b>As at 1 January 2019</b>	<b>5 385</b>	<b>135</b>	<b>5 520</b>	<b>5 520</b>
Additions	2 437	8	2 445	2 382
Option to extend	4 076	59	4 135	3 843
Depreciation expense	(1 796)	(60)	(1 856)	-
Interest expense	-	-	-	750
Payments	-	-	-	(2 251)
<b>As at 31 December 2019</b>	<b>10 102</b>	<b>142</b>	<b>10 244</b>	<b>10 244</b>

### 3 Summary of Significant Accounting Policies (continued)

Under certain lease agreements, the Group has an option to extend the lease of assets. The Group uses judgment to determine whether it has sufficient assurance that it will exercise the extension option. At the same time, the Group takes into account all relevant factors that give rise to an economic incentive to exercise the option to extend the lease. As at 31 December 2019, the Group reassessed the lease term based on the application of the Bank's business strategy, which affected the ability to exercise the option to extend the lease of assets, as a result of which the Group recognized the option in the amount of RR 4 135 million.

The Group recognised rent expense from short-term leases and leases of low-value assets of RR 459 million for the year ended 31 December 2019.

The Group had total cash outflows for leases of RR 2 251 million in 2019.

#### ii. Operating — Group as a lessor

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

#### iii. Finance — Group as a lessor

The Group recognises lease receivables at value 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.

**IFRIC 23 Uncertainty over Income Tax Treatment.** The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

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

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and the subsidiaries' tax filings include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

**Amendments to IFRS 9 Prepayment Features with Negative Compensation.** Under IFRS 9, a debt instrument can be measured at amortised 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 should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

### 3 Summary of Significant Accounting Policies (continued)

**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;
- Determine 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; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group.

**Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures.** The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified 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, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements as the Group does not have long term interests in its associate and joint venture.

#### **Annual improvements 2015-2017 cycle (issued in December 2017)**

**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 applies 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 application permitted. These amendments will apply on future business combinations of the Group.

**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 applies 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 application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

**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 recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. Prior to the application of the amendments described above the Group presented current income tax incurred in regard of coupon paid on its perpetual subordinated bonds classified as equity in accordance with IAS 32 within equity. Starting 1 January 2019, the Group presents the current income tax incurred in respect of the coupon paid on its perpetual subordinated bonds in the consolidated statement of profit or loss and other comprehensive income.

### 3 Summary of Significant Accounting Policies (continued)

**IAS 23 Borrowing Costs.** The amendments clarify that an entity treats 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 applies 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 applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, these amendments had no impact on the consolidated financial statements of the Group.

**Consolidated financial statements.** Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interest that does not present ownership interest is measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest form a separate component of the Group's equity except for the non-controlling interests in mutual funds under the Group's control, which are accounted for within Group's liabilities.

**Structured entities.** Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

### 3 Summary of Significant Accounting Policies (continued)

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are presented that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion.

Refer to Note 4 for the information about the Group's exposure to structured entities.

**Purchases and sales of non-controlling interest.** The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

**Disposals of subsidiaries, associates or joint ventures.** When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

**Financial instruments — key measurement terms.** Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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. Fair value is the current bid price for financial assets, current ask price for financial liabilities and the average of current bid and ask prices when the Group is both in short and long position for the financial instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques are used to fair value certain financial instruments for which external market pricing information is not available. Such valuation techniques include discounted cash flows models, generally accepted option pricing models, models based on recent arm's length transactions or consideration of financial data of the investees. Valuation techniques may require assumptions not supported by observable market data.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

### 3 Summary of Significant Accounting Policies (continued)

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 34.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (see accounting policy for income and expenses recognition).

#### Financial assets and liabilities

##### *Initial recognition*

###### *(a) Classification and measurement*

IFRS 9 includes three principal classification categories for financial assets: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (FVOCI) and financial assets measured at fair value through profit or loss (FVTPL).

##### *Business model assessment*

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition at fair value through profit or loss (FVTPL). Under this criterion, debt instruments that do not correspond to a “basic lending arrangement”, such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVTPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a “hold to collect contractual cash flows” basis are measured at amortised cost;
- Instruments that are managed on a “hold to collect contractual cash flows and for sale” basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, are measured at FVTPL.

### **3 Summary of Significant Accounting Policies (continued)**

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

All financial assets not classified as measured at amortised cost or at FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### *Assessment whether contractual cash flows are solely payments of principal and interest*

As a part of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet SPPI test.

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

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

- Contingent events that would change the amount and timing of cash flows;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets, e.g. non-recourse asset arrangements; and
- Features that modify consideration for the time value of money, e.g. periodic reset of interest rates.

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Equity financial assets are classified at initial recognition as FVTPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

Derivatives are measured at FVTPL. Embedded derivatives are no separated from a host financial asset.

### 3 Summary of Significant Accounting Policies (continued)

#### (b) Impairment

The Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12-month ECL). The 12-month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both lifetime ECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. Financial assets grouped on a collective basis according to the segments defined by the Group, industry sector, revenue size and other criteria.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

- *Stage 1:* When loans do not have factors that indicate a significant increase in credit risk and are not in default at the reporting date, Group recognises an allowance based on ECL over one year.
- *Stage 2:* When loans have factors that indicate a significant increase in credit risk, but are not in default at the reporting date, Group records an allowance for the lifetime ECL.
- *Stage 3:* When loans are considered credit-impaired (defaulted) at the reporting date, Group recognises an allowance based on ECL resulting from all possible cash flows arising from different recovery scenarios given default already happened.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery.

#### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses and measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls — i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive, where ECL from including undrawn loan commitments are estimated using credit conversion factor (CCF);
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

#### *Definition of default*

Under IFRS 9, the Group considers a financial asset to be in default when there is available information that:

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



### **3 Summary of Significant Accounting Policies (continued)**

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

- Qualitative;
- Quantitative: e.g. overdue status; and
- Based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

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

#### *Credit ratings and risk grades*

The Group allocates each exposure to a credit rating or a risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit ratings and client's score are primary inputs into the determination of the probability of default (PD) estimation and development under IFRS 9 framework.

The Group also employs statistical models to analyze internal and external data to generate estimates lifetime PD-s and how these are expected to change as a result of the passage of time.

This analysis includes — where reasonable and supportable information is available — the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include variables such as GDP growth, benchmark interest rates and unemployment.

#### *Determining whether credit risk has increased significantly*

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group consider reasonable and supportable information that is relevant and available without undue costs or efforts, including both quantitative and qualitative information and analysis consisting — based on availability and complexity — of the Group's historical experience, expert credit assessment and forward-looking information.

The criteria may vary by portfolio and will include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- Credit rating as at the reporting date; with
- Credit rating that was estimated on initial recognition of the exposure.

The Group also may, using its expert credit judgement and, where possible, relevant historical experience, determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so.

The Group monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines.

#### *Modified assets and liabilities*

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

### 3 Summary of Significant Accounting Policies (continued)

For the accounting purposes the Group defines significant and non-significant modification of financial assets. In case of significant modification the changing of contractual conditions (changing of currency of the financial instrument (besides conversion of the loan to rubles due to bankruptcy procedure/court decision), changing of interest rate from fix to float or float to fix and including/excluding conditions in the loan agreement which affect the SPPI test result) leads to derecognition of financial instrument.

In case of non-significant modification of financial assets or financial liabilities, the Group recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset using the original effective rate.

The contractual terms of a financial liabilities may be significantly modified in case of changes contractual conditions of present values of the estimated future cash flows, including commission payments after commission income received discounted on liabilities' original effective rate more than 10% of the discounted present value of the rest cash flows on original financial liability.

Under IFRS 9, when the terms of a financial asset are modified due to borrowers financial difficulties and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly should reflect comparison of:

- The PD at the reporting date based on the modified terms; with
- The PD estimated based on data on initial recognition and terms of the original contract.

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

#### *Inputs into measurement of ECLs*

The key input variables into the measurement of ECLs are the following:

- Probability of default (PD) including lifetime PD-s;
- Loss given default (LGD);
- Credit conversion factor (CCF); and
- Exposure-at-default (EAD).

These parameters derived — alone or together — from internally developed statistical models based on own historical data or derived from available market data.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

### **3 Summary of Significant Accounting Policies (continued)**

#### *Forward-looking information*

Under IFRS 9, the Group incorporates forward-looking information as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities in Russia.

The Group based on data availability and credibility of sources — using an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers include variables such as interest rates, unemployment rates, GDP forecasts and other.

#### *Measurement categories of financial assets and liabilities*

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

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL).

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading, are derivative instruments or the fair value designation is applied.

#### *Amounts due from other banks, loans and advances to customers, investments securities at amortised cost*

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost 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).

#### *Debt instruments at FVOCI*

In accordance with IFRS 9, the Group measures debt instruments at FVOCI when 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.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Expected credit losses (ECLs) for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the asset.

### 3 Summary of Significant Accounting Policies (continued)

#### *Equity instruments at FVOCI*

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

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. 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.

***Purchased or originated credit impaired assets.*** 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 original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

***Reclassification of financial assets and liabilities.*** The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

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

***Cash and cash equivalents.*** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits, reverse sale and repurchase agreements with other banks, and other cash equivalents with original maturity of less than one month. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

***Precious metals.*** Gold and other precious metals are recorded at the Bank of Russia bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the Bank of Russia bid prices are recorded as translation differences from precious metals.

***Mandatory cash balances with the Bank of Russia.*** Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

***Trading securities.*** Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the contractual interest method is presented in the consolidated statement of profit or loss and other comprehensive income as interest income. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

***Sale and repurchase agreements and lending of securities.*** Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as Investment securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to other banks or customer accounts.

### 3 Summary of Significant Accounting Policies (continued)

Securities purchased under agreements to resell (“reverse repo agreements”) which effectively provide a lender’s return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

**Investment securities at fair value through other comprehensive income.** This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as at fair value through other comprehensive income at the time of purchase.

**Investment securities at fair value through profit or loss at initial recognition on management decision.** Investment securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category by the Group, if such classification eliminates or significantly reduces inconsistency of measurement or recognition approaches (an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them.

**Due from other banks.** Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

**Repossessed collateral.** Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group’s intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

**Promissory notes purchased.** Promissory notes purchased are included in trading securities or investment securities at amortised cost or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

**Goodwill.** Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

**Premises and equipment.** Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognised by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These changes in values are shown separately in the reconciliation of movements in premises in Note 11. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at historical cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

### 3 Summary of Significant Accounting Policies (continued)

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

**Depreciation.** Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

Useful lives in years	Used in banking activities	Used in non-banking activities
Premises	40-100	20-40
Equipment	5-20	5-20

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

**Intangible assets.** The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives.

**Inventory.** Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

**Non-current assets classified as held for sale.** Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'Assets classified as held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

### 3 Summary of Significant Accounting Policies (continued)

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit, to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

**Financial guarantees, letters of credit and undrawn loan commitments.** The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and — under IFRS 9 — an ECL provision.

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

The Group occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

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

**Due to other banks.** Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks and banking groups. The non-derivative liability is carried at amortised cost.

**Customer accounts.** Customer accounts are represented by current/settlement accounts and term deposits and are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

**Promissory notes issued.** Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

**Bonds issued.** Bonds issued represent amounts attracted from Eurobonds issue and bonds issued on domestic market. Issued Eurobonds and bonds issued on domestic market carry a coupon and are redeemable on a specific date. Bonds issued are carried at amortised cost. If the Group repurchases its bonds issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

**Subordinated debts.** Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

**Derivative financial instruments.** Derivative financial instruments (including forwards and swaps on currency, securities, precious metals and interest rates; options; futures on commodities, currency and indexes) are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

### 3 Summary of Significant Accounting Policies (continued)

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

- a) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- b) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- c) The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

Financial assets are classified based on the business model and SPPI assessments.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

**Regular way transactions.** Regular way transactions are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognised or derecognised on the contractual settlement date which is the date when the asset is to be delivered to or by the Group. Regular way transactions are not recognised as derivatives because of the short duration of the commitment to deliver financial assets between the trade and settlement date.

Any changes in the fair value of the financial assets at fair value through profit and loss to be received during the period between the trade date and the settlement date is recognised in the income statement and for financial assets at fair value through other comprehensive income is recognised in other comprehensive income for financial assets purchased.

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

**Insurance operations.** Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of the insurance event, the date of occurrence of the insurance event and the claim value in respect of it.



### 3 Summary of Significant Accounting Policies (continued)

**Gross insurance premiums written.** Gross insurance premiums written, which the Group is contractually entitled to receive from the insured in relation to insurance contracts, are recognised when due from a policyholder. Specifically, the Group recognises premiums for the policies issued during the year and includes an estimate of premiums due but not yet received by the reporting date, less an allowance for cancellations. Premiums are shown before the deduction of commission. Gross insurance premiums written are recognised as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 24.

**Provision for unearned premiums.** Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in-force as at the reporting date, calculated on a time apportionment basis. Provisions for unearned premiums are recognised as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 24.

**Claims paid.** Claims and claims handling expenses are charged to the consolidated statement of profit or loss and other comprehensive income as incurred based on the evaluated liability for compensation payable to policy-holders or third parties.

**Loss provision.** The loss provision represents the accumulation of estimates for ultimate insurance losses and includes the outstanding claims reserve (“OCR”) and provision for losses incurred but not yet reported (“IBNR”). Estimates of the claims handling expenses are included in both the OCR and the IBNR.

The OCR is provided in respect of claims reported but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases as at and after the reporting date. IBNR is actuarially determined by the Group.

**Deferred acquisition costs.** Deferred acquisition costs (“DAC”) are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include commission to agents for concluding agreements with corporate clients and individuals, commission and brokerage fee for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortised over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

**Liability adequacy test.** At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, the current best estimates of the future contractual cash flows and claims handling and maintenance expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income, initially by writing off DAC and by subsequently establishing a provision for losses arising from the liability adequacy tests (the unexpired risk provision). When performing the liability adequacy test, the Group uses a combination of its own as well as externally available statistics and also includes a security margin. Insurance receivables are included as part of this test.

**Uncertain tax positions.** The Group’s uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**Trade and other payables.** Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

**Perpetual Bonds.** Due to undefined maturity and an option for non-cumulative cancellation of coupon payments (without occurrence of rights of investors for accumulation of unpaid coupons), the Group accounts for perpetual bonds as an equity instrument and as a Tier I eligible instrument for the purpose of Basel Capital Adequacy Ratio calculation. The Bank of Russia approved the inclusion of these subordinated bonds in the regulatory capital calculation of the Bank.

### 3 Summary of Significant Accounting Policies (continued)

The Group accounts for the Perpetual Bonds denominated in the foreign currency in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in Retained earnings.

Coupon payments may be cancelled or deferred in accordance with the terms of the notes. Transaction costs are recorded in retained earnings. At the moment the coupon under perpetual bonds becomes mandatory, it is recorded as a dividend declaration described below.

**Share capital.** Ordinary and preference shares, that are not redeemable and dividend payments are at the discretion of the management, are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**Dividends.** Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

**Income and expense recognition.** Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

**Revenue recognition — sale of goods.** Revenue is recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct are separately recognised, and any discounts or rebates on the contract price are generally allocated to the separate elements. When the consideration varies for any reason, minimum amounts are recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

**Interest and similar revenue and expense.** The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

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

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVTPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit or loss.

**Fee and commission income.** Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example loan fees, credit rating, loan servicing.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

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

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

### 3 Summary of Significant Accounting Policies (continued)

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

**Customer loyalty programs.** The Group offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. Cashbacks on plastic card transactions reduce fee and commission income.

**Foreign currency translation.** The functional currency of each consolidated entity of the Group is the currency of the primary economic environment in which each entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

Transactions in foreign currencies are initially recorded in the functional currency, translated into Russian Roubles at the rate of exchange at the date of the transaction.

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Bank of Russia at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the Bank of Russia, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

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

**Fiduciary assets.** Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

**Offsetting.** Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy of the entity or one of its counterparties. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

**Staff costs and related contributions.** Wages, salaries, contributions to the Russian Federation state and non-state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. These payments are included in staff expenses in consolidated profit or loss.

**Segment reporting.** IFRS 8 *Operating Segments* requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas.

### 3 Summary of Significant Accounting Policies (continued)

**Government grants and government assistance.** Government grants are recognized where there is reasonable assurance that the grant will be received and all the related conditions will be complied with. Where the grant relates to an expense item, it is recognized as income in the same periods as the respective expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Government loans provided at below market interest rates are recognized in accordance with IFRS 9. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the consolidated statement of financial position. This benefit is accounted for in accordance with IAS 20.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized in profit or loss of the period in which it becomes receivable.

**Amendments of the financial statements after issue.** Any further changes to these consolidated financial statements require approval of the Group's Management who authorised these consolidated financial statements for issue.

### 4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

In the process of applying accounting policies, the management of the Group, in addition to accounting estimates, makes judgments and assumptions that affect the amounts reflected in the consolidated financial statements. Judgments and assumptions are made based on management experience and other factors, including expectations regarding future events that management believes are reasonable in the light of current circumstances.

In the process of applying the Group's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. Below are the most significant use of judgments and evaluations:

**Impairment losses on financial assets.** The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's 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 judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group'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 LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs. Thus, the functional dependence of the level of defaults on macroeconomic factors is determined by evaluating the regression between the values of the default level and various transformations of this indicator taking into account macroeconomic factors such as GDP growth rate, growth rate of the agro-industrial complex, oil prices, inflation rate, etc.;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

More details are provided in Notes 9 and 29.

**Fair value of financial instruments.** Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 34.

#### 4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

**Fair value of derivatives.** The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect fair reported values. Refer to Note 33.

**Leases — estimating the incremental borrowing rate.** The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay'.

**Leases — estimating the lease term.** Some of the contracts are unlimited and are automatically prolonged if neither side sends a notice to the other party about the termination of the contract. Under certain lease agreements, the Group has an option to extend the lease of assets for an additional period of up to five years. The Group uses judgment to determine whether it has sufficient assurance that it will exercise the extension option. At the same time, the Group takes into account all relevant factors that give rise to an economic incentive to exercise the option to extend the lease.

**Deferred income tax asset recognition.** The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter.

The business plan is based on management expectations that are believed to be reasonable under the circumstances and approved by the management of the Bank. A key assumption in the business plan is to obtain profits in subsequent financial years through widening of product range and client base. Refer to Note 26.

**Structured entities.** The Group considers RSHB Capital S.A. incorporated for Eurobonds issue for the Bank as consolidated structured entity under IFRS 12 requirements. As at 31 December 2019 the Group guarantees all obligations of the consolidated structured entity represented by subordinated debts in the amount of RR 24 295 million (31 December 2018: subordinated debts in the amount of RR 27 765 million). During 2019 and 2018 the Group did not provide any other financial support to the consolidated structured entity. The Group has no current obligation or intention neither to provide financial or other support to the consolidated structured entity nor to assist it in obtaining financial support. Refer to Note 16.

#### 5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted.

**IFRS 17 Insurance Contracts.** In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), 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* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

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

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

## 5 New Accounting Pronouncements (continued)

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. In 2020, the Group will continue to assess the potential effect of IFRS 17 on its consolidated financial statements.

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

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

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

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

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

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

## 6 Cash and Cash Equivalents

<i>In millions of Russian Roubles</i>	31 December 2019	31 December 2018
Cash on hand	59 193	148 475
Cash balances (other than mandatory) with the Bank of Russia	74 594	86 289
Correspondent accounts and deposits with other banks with original maturities less than one month	263 800	144 993
Settlement accounts with stock and currency exchanges	1 561	5 115
Settlement accounts with clearing and brokerage organisations	2 832	5 682
Deals with securities pledged under repurchase agreements with original maturities of less than one month	1 586	36
Less: allowance for impairment	(2)	(5)
<b>Total cash and cash equivalents</b>	<b>403 564</b>	<b>390 585</b>

## 6 Cash and Cash Equivalents (continued)

As at 31 December 2019, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included balances with two Russian banking groups with rating of the parent bank at Baa3 (Moody's) and two OECD banking groups with rating of the parent bank not lower than A3 (Moody's), individually above 10% of the Group's equity, in the amount of RR 241 319 million, or 60% of total cash and cash equivalents (31 December 2018: balances with two Russian banking groups with rating of the parent bank at Ba2 (Moody's), individually above 10% of the Group's equity, in the amount of RR 134 304 million, or 34% of total cash and cash equivalents).

Analysis by credit quality as at 31 December 2019 is as follows. Refer to Notes 3 and 29 for the description of credit risk grading system used by the Group and the approach to ECL measurement.

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Cash on hand	59 192	-	-	<b>59 192</b>
Cash balances (other than mandatory) with the Bank of Russia	74 594	-	-	<b>74 594</b>
Settlement accounts with clearing organisations	2 832	-	-	<b>2 832</b>
Settlement accounts with stock and currency exchanges	1 561	-	-	<b>1 561</b>
Low credit risk (internationally rated)	255 436	-	-	<b>255 436</b>
Moderate credit risk (internationally rated)	4 409	-	-	<b>4 409</b>
Increased credit risk (internationally rated)	5 532	-	-	<b>5 532</b>
High credit risk (internationally rated)	7	-	-	<b>7</b>
Default (internationally rated)	-	-	-	<b>-</b>
Not rated	3	-	-	<b>3</b>
<b>Total cash and cash equivalents (before impairment)</b>	<b>403 566</b>	-	-	<b>403 566</b>
Less: allowance for impairment	(2)	-	-	<b>(2)</b>
<b>Total cash and cash equivalents</b>	<b>403 564</b>	-	-	<b>403 564</b>

Analysis by credit quality of cash and cash equivalents as at 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Cash on hand	148 475	-	-	<b>148 475</b>
Cash balances (other than mandatory) with the Bank of Russia	86 289	-	-	<b>86 289</b>
Settlement accounts with clearing organisations	5 682	-	-	<b>5 682</b>
Settlement accounts with stock and currency exchanges	5 115	-	-	<b>5 115</b>
Low credit risk (internationally rated)	2 153	-	-	<b>2 153</b>
Moderate credit risk (internationally rated)	134 437	-	-	<b>134 437</b>
Increased credit risk (internationally rated)	8 439	-	-	<b>8 439</b>
High credit risk (internationally rated)	-	-	-	<b>-</b>
Default (internationally rated)	-	-	-	<b>-</b>
Not rated	-	-	-	<b>-</b>
<b>Total cash and cash equivalents (before impairment)</b>	<b>390 590</b>	-	-	<b>390 590</b>
Less: allowance for impairment	(5)	-	-	<b>(5)</b>
<b>Total cash and cash equivalents</b>	<b>390 585</b>	-	-	<b>390 585</b>

As at 31 December 2019, cash and cash equivalents in the amount of RR 1 586 million were effectively collateralized by securities purchased under reverse repo agreements with a fair value of RR 1 591 million (31 December 2018: cash and cash equivalents in the amount of RR 36 million were effectively collateralized by securities purchased under reverse repo agreements with a fair value of RR 37 million). The Group had the right to sell or repledge securities.

Refer to Note 34 for the disclosure of fair value and fair value hierarchy for cash and cash equivalents. Geographical and liquidity analyses of cash and cash equivalents are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

## 7 Trading Securities

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Federal loan bonds (OFZ)	16 839	15 532
Corporate bonds	4 949	3 683
Corporate shares	186	-
Municipal and subfederal bonds	-	11
<b>Total trading securities</b>	<b>21 974</b>	<b>19 226</b>

Trading securities are carried at fair value which also reflects any credit risk related write-downs.

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by the Ministry of Finance of the Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually. As at 31 December 2019, these bonds have maturity dates from January 2020 to March 2039 and coupon rates from 6.3% to 8.73% p.a. (31 December 2018: these bonds had maturity dates from May 2019 to March 2033 and coupon rates from 6.4% to 8.25% p.a.).

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually depending on the type of the bond issue and the issuer. As at 31 December 2019, these bonds have maturity dates from June 2020 to June 2048 and coupon rates from 6.7% to 12.6% p.a. (31 December 2018: these bonds have maturity dates from May 2019 to May 2033 and coupon rates from 4.5% to 10.8% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Corporate shares in the Group's portfolio are represented by investments in shares issued by large Russian companies.

Refer to Note 34 for the disclosure of fair value hierarchy for trading securities. Geographical and liquidity analyses of trading securities are disclosed in Note 29.

## 8 Due from Other Banks

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Current term placements with other banks	42 999	31 925
Promissory notes	7 579	6 936
Overdue placements with other banks	181	181
Less: provision for impairment	(216)	(325)
<b>Total due from other banks</b>	<b>50 543</b>	<b>38 717</b>



## 8 Due from Other Banks (continued)

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from other banks during the year ended 31 December 2019 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Gross carrying value as at 1 January 2019</b>	<b>38 861</b>	-	<b>181</b>	<b>39 042</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Change in gross carrying value (new issue and repayments)	12 384	-	-	<b>12 384</b>
Amounts written off	-	-	-	-
Foreign exchange adjustments	(668)	-	-	<b>(668)</b>
<b>Gross carrying value as at 31 December 2019</b>	<b>50 577</b>	-	<b>181</b>	<b>50 758</b>

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>ECL as at 1 January 2019</b>	<b>144</b>	-	<b>181</b>	<b>325</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	(108)	-	-	<b>(108)</b>
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(2)	-	-	<b>(2)</b>
<b>ECL as at 31 December 2019</b>	<b>34</b>	-	<b>181</b>	<b>215</b>

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from other banks during the year ended 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Gross carrying value as at 1 January 2018</b>	<b>25 860</b>	-	<b>280</b>	<b>26 140</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Change in gross carrying value (new issue and repayments)	10 146	-	(99)	<b>10 047</b>
Amounts written off	-	-	-	-
Foreign exchange adjustments	2 855	-	-	<b>2 855</b>
<b>Gross carrying value as at 31 December 2018</b>	<b>38 861</b>	-	<b>181</b>	<b>39 042</b>

## 8 Due from Other Banks (continued)

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2018</b>	<b>162</b>	-	<b>277</b>	<b>439</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	(25)	-	(96)	(121)
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	7	-	-	7
<b>ECL as at 31 December 2018</b>	<b>144</b>	-	<b>181</b>	<b>325</b>

Analysis by credit quality of amounts due from other banks as at 31 December 2019 is as follows. Refer to Notes 3 and 29 for the description of credit risk grading system used by the Group and the approach to ECL measurement.

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
Low credit risk (internationally rated)	26 023	-	-	<b>26 023</b>
Moderate credit risk (internationally rated)	4 702	-	-	<b>4 702</b>
Increased credit risk (internationally rated)	11 344	-	-	<b>11 344</b>
High credit risk (internationally rated)	8 508	-	-	<b>8 508</b>
Default (internationally rated)	-	-	-	-
Not rated	-	-	181	<b>181</b>
<b>Total due from other banks (before impairment)</b>	<b>50 577</b>	-	<b>181</b>	<b>50 758</b>
Less: allowance for impairment	(34)	-	(181)	(215)
<b>Total due from other banks</b>	<b>50 543</b>	-	-	<b>50 543</b>

Analysis by credit quality of amounts due from other banks as at 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
Low credit risk (internationally rated)	-	-	-	-
Moderate credit risk (internationally rated)	9 491	-	-	<b>9 491</b>
Increased credit risk (internationally rated)	29 370	-	-	<b>29 370</b>
High credit risk (internationally rated)	-	-	-	-
Default (internationally rated)	-	-	-	-
Not rated	-	-	181	<b>181</b>
<b>Total due from other banks (before impairment)</b>	<b>38 861</b>	-	<b>181</b>	<b>39 042</b>
Less: allowance for impairment	(144)	-	(181)	(325)
<b>Total due from other banks</b>	<b>38 717</b>	-	-	<b>38 717</b>

Due from other banks are represented by unsecured due from other banks placements.

## 8 Due from Other Banks (continued)

As at 31 December 2019, due from other banks included the balances with one Russian banking group with rating of the parent bank not lower than BBB- (S&P) individually above 10% of the Group's equity, in the amount of RR 24 714 million, or 49% of total due from other banks (31 December 2018: due from other banks included no balances with other banks individually above 10% of the Group's equity). As at 31 December 2018, due from other banks included the balances with two non-OECD banking groups with rating of the parent bank not lower than B (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 20 943 million, or 54% of total due from other banks.

Refer to Note 34 for the disclosure of fair value and fair value hierarchy for due from other banks. Geographical and liquidity analyses of due from other banks are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

## 9 Loans and Advances to Customers

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Loans to legal entities</b>	<b>1 942 145</b>	<b>1 830 924</b>
- Loans to corporates	1 923 038	1 801 780
- Lending for food interventions	19 107	29 144
<b>Loans to individuals</b>	<b>473 008</b>	<b>434 233</b>
<b>Total loans and advances to customers at amortised cost (before impairment)</b>	<b>2 415 153</b>	<b>2 265 157</b>
Less: allowance for impairment	(306 038)	(332 411)
<b>Total loans and advances to customers at amortised cost</b>	<b>2 109 115</b>	<b>1 932 746</b>
Loans to customers at fair value through profit or loss	55 791	25 021
<b>Total loans and advances to customers</b>	<b>2 164 906</b>	<b>1 957 767</b>

As at 31 December 2019, included in gross amount of loans are loans in the principal amount of RR 762 444 million (31 December 2018: RR 677 831 million), where borrowers are eligible for interest subsidies from federal and regional budgets.

Lending for food interventions is represented by loans to the company under the control of the Government of the Russian Federation.

As at 31 December 2019, the Group has loans before impairment to ten largest borrowers (groups of borrowers) in the total amount of RR 636 343 million, or 26% of total loans and advances to customers before impairment (31 December 2018: the Group has loans before impairment to ten largest borrowers (groups of borrowers) in the total amount of RR 570 967 million, or 25% of total loans and advances to customers before impairment).

Certain loans to customers did not meet the SPPI criterion. Therefore, Group classifies these loans as financial assets at FVTPL.

As at 31 December 2019, the total amount of loans to legal entities included loans in the gross carrying value of RR 34 014 million (31 December 2018: RR 10 092 million), for which an allowance is zero as a result of applying the adjustment for the amount of collateral in the individual credit risk assessment model.

## 9 Loans and Advances to Customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to legal entities during the year ended 31 December 2019 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
<b>Loans to legal entities</b>					
<b>Gross carrying value as at</b>					
<b>1 January 2019</b>	<b>1 305 377</b>	<b>83 095</b>	<b>442 452</b>	-	<b>1 830 924</b>
Transfers to Stage 1	19 585	(18 243)	(1 342)	-	-
Transfers to Stage 2	(165 194)	213 353	(48 159)	-	-
Transfers to Stage 3	(5 770)	(13 228)	18 998	-	-
Change in gross carrying value (new issue and repayments)	218 984	(12 724)	(9 239)	5 526	<b>202 547</b>
Changes due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	-	(5 165)	-	<b>(5 165)</b>
Foreign exchange adjustments	(10 173)	(1 303)	(220)	-	<b>(11 696)</b>
Loans sold during the period	(274)	(210)	(73 981)	-	<b>(74 465)</b>
Disposal of subsidiaries	-	-	-	-	-
<b>Gross carrying value as at</b>					
<b>31 December 2019</b>	<b>1 362 535</b>	<b>250 740</b>	<b>323 344</b>	<b>5 526</b>	<b>1 942 145</b>

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
<b>Loans to legal entities</b>					
<b>ECL as at 1 January 2019</b>	<b>34 330</b>	<b>4 083</b>	<b>262 187</b>	-	<b>300 600</b>
Transfers to Stage 1	1 389	(851)	(538)	-	-
Transfers to Stage 2	(7 805)	15 248	(7 443)	-	-
Transfers to Stage 3	(91)	(1 090)	1 181	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	(14 324)	4 396	43 722	1 409	<b>35 203</b>
Unwind of discount (recognised in interest income)	-	-	8 732	-	<b>8 732</b>
Changes due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	-	(5 165)	-	<b>(5 165)</b>
Foreign exchange adjustments	(179)	(59)	(112)	-	<b>(350)</b>
Allowance for loans sold during the period	-	(6)	(66 663)	-	<b>(66 669)</b>
Recovery of loans previously written off sold during the period	-	-	113	-	<b>113</b>
Recovery of loans previously written off	-	-	358	-	<b>358</b>
Disposal of subsidiaries	-	-	-	-	-
<b>ECL as at 31 December 2019</b>	<b>13 320</b>	<b>21 721</b>	<b>236 372</b>	<b>1 409</b>	<b>272 822</b>

## 9 Loans and Advances to Customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals during the year ended 31 December 2019 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to individuals</b>				
<b>Gross carrying value as at 1 January 2019</b>	<b>395 579</b>	<b>3 356</b>	<b>35 298</b>	<b>434 233</b>
Transfers to Stage 1	1 922	(943)	(979)	-
Transfers to Stage 2	(2 493)	3 103	(610)	-
Transfers to Stage 3	(5 357)	(1 598)	6 955	-
Change in gross carrying value (new issue and repayments)	45 085	(368)	(2 157)	<b>42 560</b>
Amounts written off	-	-	(103)	<b>(103)</b>
Loans sold during the period	-	-	(3 682)	<b>(3 682)</b>
<b>Gross carrying value as at 31 December 2019</b>	<b>434 736</b>	<b>3 550</b>	<b>34 722</b>	<b>473 008</b>

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to individuals</b>				
<b>ECL as at 1 January 2019</b>	<b>1 389</b>	<b>758</b>	<b>29 664</b>	<b>31 811</b>
Transfers to Stage 1	764	(133)	(631)	-
Transfers to Stage 2	(39)	435	(396)	-
Transfers to Stage 3	(109)	(464)	573	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	672	284	3 128	<b>4 084</b>
Unwind of discount (recognised in interest income)	-	-	964	<b>964</b>
Amounts written off	-	-	(103)	<b>(103)</b>
Provision for loans sold during the period	-	-	(3 540)	<b>(3 540)</b>
<b>ECL as at 31 December 2019</b>	<b>2 677</b>	<b>880</b>	<b>29 659</b>	<b>33 216</b>

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to legal entities during the year ended 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to legal entities</b>				
<b>Gross carrying value as at 1 January 2018</b>	<b>846 829</b>	<b>264 186</b>	<b>517 510</b>	<b>1 628 525</b>
Transfers to Stage 1	180 108	(136 501)	(43 607)	-
Transfers to Stage 2	(65 351)	72 305	(6 954)	-
Transfers to Stage 3	(17 442)	(42 786)	60 228	-
Change in gross carrying value (new issue and repayments)	335 835	(31 198)	6 443	<b>311 080</b>
Changes due to modifications not resulting in derecognition	-	(2 465)	-	<b>(2 465)</b>
Amounts written off	-	-	(11 562)	<b>(11 562)</b>
Foreign exchange adjustments	27 229	820	832	<b>28 881</b>
Loans sold during the period	(1 831)	(41 266)	(67 465)	<b>(110 562)</b>
Disposal due to transfer to subsidiaries	-	-	(12 973)	<b>(12 973)</b>
<b>Gross carrying value as at 31 December 2018</b>	<b>1 305 377</b>	<b>83 095</b>	<b>442 452</b>	<b>1 830 924</b>

## 9 Loans and Advances to Customers (continued)

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to legal entities</b>				
<b>ECL as at 1 January 2018</b>	<b>14 100</b>	<b>14 236</b>	<b>284 963</b>	<b>313 299</b>
Transfers to Stage 1	10 146	(4 828)	(5 318)	-
Transfers to Stage 2	(2 174)	4 634	(2 460)	-
Transfers to Stage 3	(423)	(5 426)	5 849	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	12 561	7 219	36 439	<b>56 219</b>
Unwind of discount (recognised in interest income)	-	-	9 998	<b>9 998</b>
Changes due to modifications not resulting in derecognition	-	(99)	-	<b>(99)</b>
Amounts written off	-	-	(11 562)	<b>(11 562)</b>
Foreign exchange adjustments	202	148	232	<b>582</b>
Allowance for loans sold during the period	(82)	(11 801)	(50 376)	<b>(62 259)</b>
Recovery of loans previously written off sold during the period	-	-	147	<b>147</b>
Recovery of loans previously written off	-	-	1 988	<b>1 988</b>
Disposal due to transfer to subsidiaries	-	-	(7 713)	<b>(7 713)</b>
<b>ECL as at 31 December 2018</b>	<b>34 330</b>	<b>4 083</b>	<b>262 187</b>	<b>300 600</b>

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals during the year ended 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to individuals</b>				
<b>Gross carrying value as at 1 January 2018</b>	<b>333 134</b>	<b>3 481</b>	<b>34 831</b>	<b>371 446</b>
Transfers to Stage 1	1 580	(743)	(837)	-
Transfers to Stage 2	(2 397)	2 999	(602)	-
Transfers to Stage 3	(5 000)	(1 976)	6 976	-
Change in gross carrying value (new issue and repayments)	68 262	(405)	(898)	<b>66 959</b>
Amounts written off	-	-	(65)	<b>(65)</b>
Loans sold during the period	-	-	(4 107)	<b>(4 107)</b>
<b>Gross carrying value as at 31 December 2018</b>	<b>395 579</b>	<b>3 356</b>	<b>35 298</b>	<b>434 233</b>

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to individuals</b>				
<b>ECL as at 1 January 2018</b>	<b>2 806</b>	<b>994</b>	<b>28 850</b>	<b>32 650</b>
Transfers to Stage 1	750	(160)	(590)	-
Transfers to Stage 2	(60)	489	(429)	-
Transfers to Stage 3	(172)	(632)	804	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	(1 935)	67	2 483	<b>615</b>
Unwind of discount (recognised in interest income)	-	-	2 559	<b>2 559</b>
Amounts written off	-	-	(65)	<b>(65)</b>
Provision for loans sold during the period	-	-	(3 948)	<b>(3 948)</b>
<b>ECL as at 31 December 2018</b>	<b>1 389</b>	<b>758</b>	<b>29 664</b>	<b>31 811</b>

## 9 Loans and Advances to Customers (continued)

The economic sector structure of the credit portfolio is as follows:

<i>In millions of Russian Roubles</i>	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Agriculture	1 183 462	48	994 716	43
Individuals	473 008	19	434 233	19
Oil and gas	285 417	12	253 861	11
Construction	172 394	7	188 369	8
Manufacturing	86 412	3	197 777	9
Trading	67 959	3	43 519	2
Other	202 292	8	177 703	8
<b>Total loans and advances to customers (before impairment)</b>	<b>2 470 944</b>	<b>100</b>	<b>2 290 178</b>	<b>100</b>

The table below presents an analysis of the credit quality of loans and advances to customers as of 31 December 2019.

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	POCI	Total
<b>Loans to legal entities at amortised cost</b>					
Low credit risk (internally rated)	582	-	-	-	582
Moderate credit risk (internally rated)	922 351	882	-	-	923 233
Increased credit risk (internally rated)	439 602	155 119	-	-	594 721
High credit risk (internally rated)	-	94 739	-	-	94 739
Default (internally rated)	-	-	323 344	5 526	328 870
Unrated	-	-	-	-	-
<b>Total loans to legal entities at amortised cost (before impairment)</b>	<b>1 362 535</b>	<b>250 740</b>	<b>323 344</b>	<b>5 526</b>	<b>1 942 145</b>
Less: allowance for impairment	(13 320)	(21 722)	(236 371)	(1 409)	(272 822)
<b>Total loans to legal entities at amortised cost</b>	<b>1 349 215</b>	<b>229 018</b>	<b>86 973</b>	<b>4 117</b>	<b>1 669 323</b>

The classification of credit risk taking into account the credit quality scale of borrowers by levels and a description of the approach to estimating expected credit losses, including the determination of default and a significant increase in credit risk, is provided in Notes 3 and 29.

Analysis by credit quality in relation to loans to individuals as at 31 December 2019 is as follows:

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
<b>Loans to individuals at amortised cost</b>				
Non overdue	428 407	1 056	-	429 463
Up to 30 days overdue	6 329	461	133	6 923
31 to 90 days overdue	-	2 033	1 036	3 069
91 to 180 days overdue	-	-	2 571	2 571
181 to 365 days overdue	-	-	3 706	3 706
Over 365 days overdue	-	-	27 276	27 276
<b>Total loans to individuals at amortised cost (before impairment)</b>	<b>434 736</b>	<b>3 550</b>	<b>34 722</b>	<b>473 008</b>
Less: allowance for impairment	(2 677)	(880)	(29 659)	(33 216)
<b>Total loans to individuals at amortised cost</b>	<b>432 059</b>	<b>2 670</b>	<b>5 063</b>	<b>439 792</b>

For ECL calculation on loans to individuals, the assessment of the probability of default is based on the migration matrix of overdue debts, taking into account the depth of overdue, the probability of default for scoring models and forecast information.

## 9 Loans and Advances to Customers (continued)

Analysis by credit quality of loans to legal entities outstanding as at 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to legal entities at amortised cost</b>				
Low credit risk (internally rated)	23	-	-	<b>23</b>
Moderate credit risk (internally rated)	695 225	3 121	-	<b>698 346</b>
Increased credit risk (internally rated)	610 055	25 814	-	<b>635 869</b>
High credit risk (internally rated)	74	54 160	-	<b>54 234</b>
Default (internally rated)	-	-	442 452	<b>442 452</b>
Unrated	-	-	-	-
<b>Total loans to legal entities at amortised cost (before impairment)</b>	<b>1 305 377</b>	<b>83 095</b>	<b>442 452</b>	<b>1 830 924</b>
Less: allowance for impairment	(34 330)	(4 082)	(262 188)	<b>(300 600)</b>
<b>Total loans to legal entities at amortised cost</b>	<b>1 271 047</b>	<b>79 013</b>	<b>180 264</b>	<b>1 530 324</b>

Analysis by credit quality in relation to loans to individuals as at 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to individuals at amortised cost</b>				
Non overdue	391 413	1 036	54	<b>392 503</b>
Up to 30 days overdue	4 166	380	160	<b>4 706</b>
31 to 90 days overdue	-	1 940	985	<b>2 925</b>
91 to 180 days overdue	-	-	2 293	<b>2 293</b>
181 to 365 days overdue	-	-	3 608	<b>3 608</b>
Over 365 days overdue	-	-	28 198	<b>28 198</b>
<b>Total loans to individuals at amortised cost (before impairment)</b>	<b>395 579</b>	<b>3 356</b>	<b>35 298</b>	<b>434 233</b>
Less: allowance for impairment	(1 389)	(758)	(29 664)	<b>(31 811)</b>
<b>Total loans to individuals at amortised cost</b>	<b>394 190</b>	<b>2 598</b>	<b>5 634</b>	<b>402 422</b>

### **Loan collateral**

The Group accepts different types of collateral, such as: real estate, land plots, equipment, including agricultural machinery, motor vehicles, inventories (finished products, raw materials, goods in turnover), construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.

Where appropriate, the value of collateral was incorporated in the assessment of recoverable amount of loans and advances to customers.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group includes:

- Obtaining complete and objective information on the available collateral property and its structure;
- Development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- Improving the effectiveness and timeliness of collateral foreclosure process.

The majority of collateral (over 86%) (31 December 2018: over 83%) relates to the following types: real estate – 60% (31 December 2018: 59%), equipment – 19% (31 December 2018: 16%) and vehicles – 7% (31 December 2018: 8%).



## 9 Loans and Advances to Customers (continued)

Refer to Note 34 for the disclosure of fair value of each class of loans and advances to customers and fair value hierarchy for loans and advances to customers. Geographical and liquidity analyses of loans and advances to customers are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

**Modified and restructured loans.** The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been significantly renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes Stage 2 and 3 assets that were modified during the year, with the related modification loss suffered by the Group.

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Loans modified during the period</b>		
Amortised cost before modification	-	17 170
Net modification loss	-	(2 465)
<b>Loans modified since initial recognition</b>		
Gross carrying amount at 1 January of loans for which loss allowance has changed to 12-month measurement during the period	-	2 098

## 10 Investment Securities

Investment securities including those pledged under repurchase agreements comprise:

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Investment securities at fair value through other comprehensive income	346 709	507 270
Investment securities at amortised cost	58 966	56 891
Investment securities at fair value through profit or loss	582	2 846
Investment securities at fair value through profit or loss (mandatory)	26 046	5 442
<b>Total investment securities</b>	<b>432 303</b>	<b>572 449</b>

## 10 Investment Securities (continued)

<i>In millions of Russian Roubles</i>	31 December 2019	31 December 2018
<b>Investment securities at fair value through other comprehensive income</b>		
Federal loan bonds (OFZ)	207 662	183 673
Corporate bonds	98 274	117 418
Corporate Eurobonds	34 292	45 852
Municipal and subfederal bonds	3 079	12 857
State Eurobonds	1 778	638
Bank of Russia bonds	1 496	105 809
<b>Total debt securities at fair value through other comprehensive income</b>	<b>346 581</b>	<b>466 247</b>
Corporate Eurobonds	-	31 477
Federal loan bonds (OFZ)	-	8 787
<b>Total debt securities at fair value through other comprehensive income pledged under repurchase agreements</b>	<b>-</b>	<b>40 264</b>
<b>Equity securities</b>		
Corporate shares	128	759
<b>Total equity securities at fair value through other comprehensive income</b>	<b>128</b>	<b>759</b>
<b>Total investment securities at fair value through other comprehensive income</b>	<b>346 709</b>	<b>507 270</b>

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Rouble. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2019, these bonds have maturity dates from July 2022 to December 2034 (31 December 2018: from January 2025 to June 2047) and coupon rates from 6.88% to 8.74% p.a. (31 December 2018: from 6.5% to 8.8% p.a.), depending on the type of the bond issue and the market conditions.

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles and US Dollars issued by major Russian companies and banks. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually depending on the type of the bond issue and the issuer. As at 31 December 2019, these bonds have maturity dates from March 2020 to September 2052 (31 December 2018: from January 2019 to June 2048) and coupon rates from 4.8% to 13.1% p.a. (31 December 2018: from 6.5% to 13.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Corporate Eurobonds are bonds denominated in Russian Roubles, US Dollars and Euros issued by major Russian companies and banks. As at 31 December 2019, these bonds have maturity dates from April 2020 to April 2030 (31 December 2018: from March 2019 to December 2050) and coupon rates from 3.15% to 9.25% p.a. (31 December 2018: from 2.95% to 9.84% p.a.), payable quarterly or semi-annually, depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually depending on the type of the bond issue and the issuer. As at 31 December 2019, these bonds have maturity dates from October 2020 to December 2026 (31 December 2018: from October 2019 to December 2026) and coupon rates from 7.05% to 11.74% p.a. (31 December 2018: from 7.45% to 14% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Bank of Russia bonds are denominated in Russian Roubles. As at 31 December 2019, these bonds had maturity dates at March 2020 (31 December 2018: from January 2019 to March 2019) and coupon rate 6.25% p.a. (31 December 2018: 7.5% p.a.), payable quarterly.

## 10 Investment Securities (continued)

State Eurobonds are represented by Russian Federation bonds denominated in US Dollars issued by the Ministry of Finance of Russian Federation. As at 31 December 2019, these bonds had maturity dates at March 2030 (31 December 2018: at April 2042) and coupon rate 7.5% p.a. (31 December 2018: 5.63% p.a.), payable semi-annually.

<i>In millions of Russian Roubles</i>	31 December 2019	31 December 2018
<b>Investment securities at amortised cost</b>		
Corporate bonds	42 608	37 425
Municipal and subfederal bonds	10 811	15 868
Federal loan bonds (OFZ)	4 832	3 548
Corporate Eurobonds	897	208
Less: allowance for impairment	(182)	(158)
<b>Total investment securities at amortised cost</b>	<b>58 966</b>	<b>56 891</b>

Corporate bonds are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually, depending on the type of the bond issue and the issuer. As at 31 December 2019, these bonds have maturity dates from May 2020 to October 2052 (31 December 2018: from January 2019 to October 2052) and coupon rates from 6.9% to 10.3% p.a. (31 December 2018: from 7.2% to 12.05% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities denominated in Russian Roubles. These bonds are traded at a discount or premium to face value and carry coupon payable quarterly or semi-annually. As at 31 December 2019, these bonds have maturity dates from June 2020 to November 2024 (31 December 2018: April 2019 to November 2024) and coupon rates from 6.0% to 12.4% p.a. (31 December 2018: from 6.0% to 12.7% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. As at 31 December 2019, these OFZ have maturity dates from May 2020 to February 2036 (31 December 2018: from November 2021 to February 2036) and coupon rates from 5.5% to 8.2% p.a. (31 December 2018: from 5.5% to 8.15% p.a.), payable quarterly or semi-annually, depending on the type of the bond issue and the market conditions.

Corporate Eurobonds are bonds denominated in US Dollars and Euros issued by major Russian companies and banks. As at 31 December 2019, these bonds have maturity dates from October 2022 to February 2026 (31 December 2018: from February 2023 to June 2023) and coupon rates from 3.4% to 9.2% p.a. (31 December 2018: from 3.94% to 5.37% p.a.), payable semi-annually, depending on the type of the bond issue, the issuer and the market conditions.

<i>In millions of Russian Roubles</i>	31 December 2019	31 December 2018
<b>Investment securities at fair value through profit or loss</b>		
Credit linked notes	582	574
Corporate shares	-	2 272
<b>Total investment securities at fair value through profit or loss</b>	<b>582</b>	<b>2 846</b>

Corporate shares are mainly represented by investments in shares of financial companies.

## 10 Investment Securities (continued)

<i>In millions of Russian Roubles</i>	31 December 2019	31 December 2018
<b>Investment securities at fair value through profit or loss (mandatory)</b>		
Corporate bonds	23 175	3 386
Credit linked notes	2 045	1 646
Investments in mutual funds	78	207
<b>Total debt securities at fair value through profit or loss (mandatory)</b>	<b>25 298</b>	<b>5 239</b>
<b>Equity securities</b>		
Corporate shares	748	203
<b>Total investment securities at fair value through profit or loss (mandatory)</b>	<b>26 046</b>	<b>5 442</b>

Corporate bonds are represented by securities denominated in Russian Roubles, issued by Russian company. Corporate bonds are traded at a discount to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue. As at 31 December 2019, these bonds have maturity dates from October 2025 to February 2032 (31 December 2018: October 2025) and coupon rates from 0.51% to 8.4% p.a. (31 December 2018: 9.5% p.a.).

International credit ratings of issuers of the notes and of counterparty banks were not less than BB- (S&P) as at 31 December 2019 (31 December 2018: not less than A (S&P)).

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity date in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

An analysis of changes in the fair values and associated ECLs in relation to debt securities at fair value through other comprehensive income during 2019 is, as follows:

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
<b>Debt securities at fair value through other comprehensive income</b>				
<b>Fair value as at 1 January 2019</b>	<b>501 810</b>	<b>4 700</b>	-	<b>506 510</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Change in gross carrying value (new issue and repayments)	(153 581)	(4 700)	-	<b>(158 281)</b>
Amounts written off	-	-	-	-
Foreign exchange adjustments	(1 648)	-	-	<b>(1 648)</b>
<b>Fair value as at 31 December 2019</b>	<b>346 581</b>	-	-	<b>346 581</b>

## 10 Investment Securities (continued)

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
<b>Debt securities at fair value through other comprehensive income</b>				
<b>ECL as at 1 January 2019</b>	<b>1 581</b>	<b>39</b>	-	<b>1 620</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used (including expense on new issue and income from repayments)	(486)	(39)	-	<b>(525)</b>
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(7)	-	-	<b>(7)</b>
<b>ECL as at 31 December 2019</b>	<b>1 088</b>	-	-	<b>1 088</b>

An analysis of changes in the fair values and associated ECLs in relation to debt securities at fair value through other comprehensive income during 2018 is, as follows:

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
<b>Debt securities at fair value through other comprehensive income</b>				
<b>Fair value as at 1 January 2018</b>	<b>276 292</b>	<b>2 854</b>	<b>203</b>	<b>279 349</b>
Transfers to Stage 1	417	(417)	-	-
Transfers to Stage 2	(1 420)	1 420	-	-
Transfers to Stage 3	-	-	-	-
Change in gross carrying value (new issue and repayments)	217 040	(1 027)	(203)	<b>215 810</b>
Amounts written off	-	-	-	-
Foreign exchange adjustments	9 482	1 870	-	<b>11 352</b>
<b>Fair value as at 31 December 2018</b>	<b>501 811</b>	<b>4 700</b>	-	<b>506 511</b>

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
<b>Debt securities at fair value through other comprehensive income</b>				
<b>ECL as at 1 January 2018</b>	<b>840</b>	<b>38</b>	<b>46</b>	<b>924</b>
Transfers to Stage 1	6	(6)	-	-
Transfers to Stage 2	(1)	1	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used (including expense on new issue and income from repayments)	694	(1)	(46)	<b>647</b>
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	42	7	-	<b>49</b>
<b>ECL as at 31 December 2018</b>	<b>1 581</b>	<b>39</b>	-	<b>1 620</b>

## 10 Investment Securities (continued)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortised cost during 2019 is, as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Debt securities at amortised cost</b>				
<b>Gross carrying value as at 1 January 2019</b>	<b>57 049</b>	-	-	<b>57 049</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Change in gross carrying value (new issue and repayments)	2 148	-	-	<b>2 148</b>
Amounts written off	-	-	-	-
Foreign exchange adjustments	(48)	-	-	<b>(48)</b>
<b>Gross carrying value as at 31 December 2019</b>	<b>59 149</b>	-	-	<b>59 149</b>

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Debt securities at amortised cost</b>				
<b>ECL as at 1 January 2019</b>	<b>158</b>	-	-	<b>158</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used (including expense on new issue and income from repayments)	24	-	-	<b>24</b>
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
<b>ECL as at 31 December 2019</b>	<b>182</b>	-	-	<b>182</b>

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortised cost during 2018 is, as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Debt securities at amortised cost</b>				
<b>Gross carrying value as at 1 January 2018</b>	<b>64 405</b>	<b>3 463</b>	-	<b>67 868</b>
Transfers to Stage 1	3 463	(3 463)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Change in gross carrying value (new issue and repayments)	(10 819)	-	-	<b>(10 819)</b>
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
<b>Gross carrying value as at 31 December 2018</b>	<b>57 049</b>	-	-	<b>57 049</b>

## 10 Investment Securities (continued)

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Debt securities at amortised cost</b>				
<b>ECL as at 1 January 2018</b>	<b>96</b>	<b>20</b>	-	<b>116</b>
Transfers to Stage 1	20	(20)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used (including expense on new issue and income from repayments)	42	-	-	<b>42</b>
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
<b>ECL as at 31 December 2018</b>	<b>158</b>	-	-	<b>158</b>

Analysis by credit quality in relation to investment debt securities at fair value through other comprehensive income as at 31 December 2019 is as follows. Refer to Notes 3 and 29 for the description of credit risk grading system used by the Group and the approach to ECL measurement.

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Investment debt securities at fair value through other comprehensive income</b>				
Low credit risk (internationally rated)	253 138	-	-	<b>253 138</b>
Low credit risk (nationally rated)	4 221	-	-	<b>4 221</b>
Low credit risk (internally rated)	2 595	-	-	<b>2 595</b>
Moderate credit risk (internationally rated)	52 902	-	-	<b>52 902</b>
Moderate credit risk (nationally rated)	180	-	-	<b>180</b>
Moderate credit risk (internally rated)	-	-	-	-
Increased credit risk (internationally rated)	1 071	-	-	<b>1 071</b>
Increased credit risk (nationally rated)	-	-	-	-
Increased credit risk (internally rated)	32 474	-	-	<b>32 474</b>
High credit risk (internationally rated)	-	-	-	-
High credit risk (nationally rated)	-	-	-	-
High credit risk (internally rated)	-	-	-	-
Default (internationally rated)	-	-	-	-
Default (nationally rated)	-	-	-	-
Default (internally rated)	-	-	-	-
Unrated	-	-	-	-
<b>Total investment debt securities at fair value through other comprehensive income</b>	<b>346 581</b>	-	-	<b>346 581</b>

## 10 Investment Securities (continued)

Analysis by credit quality in relation to investment debt securities at fair value through other comprehensive income as at 31 December 2018 is as follows.

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Investment debt securities at fair value through other comprehensive income</b>				
Low credit risk (internationally rated)	245 401	4 520	-	<b>249 921</b>
Low credit risk (nationally rated)	10 308	-	-	<b>10 308</b>
Low credit risk (internally rated)	-	-	-	-
Moderate credit risk (internationally rated)	90 097	-	-	<b>90 097</b>
Moderate credit risk (nationally rated)	464	-	-	<b>464</b>
Moderate credit risk (internally rated)	107 358	-	-	<b>107 358</b>
Increased credit risk (internationally rated)	12 626	180	-	<b>12 806</b>
Increased credit risk (nationally rated)	-	-	-	-
Increased credit risk (internally rated)	35 557	-	-	<b>35 557</b>
High credit risk (internationally rated)	-	-	-	-
High credit risk (nationally rated)	-	-	-	-
High credit risk (internally rated)	-	-	-	-
Default (internationally rated)	-	-	-	-
Default (nationally rated)	-	-	-	-
Default (internally rated)	-	-	-	-
Unrated	-	-	-	-
<b>Total investment debt securities at fair value through other comprehensive income</b>	<b>501 811</b>	<b>4 700</b>	-	<b>506 511</b>

Analysis by credit quality in relation to investment debt securities at amortised cost as at 31 December 2019 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Investment debt securities at amortised cost</b>				
Low credit risk (internationally rated)	38 647	-	-	<b>38 647</b>
Low credit risk (nationally rated)	1 043	-	-	<b>1 043</b>
Moderate credit risk (internationally rated)	10 970	-	-	<b>10 970</b>
Moderate credit risk (nationally rated)	-	-	-	-
Moderate credit risk (internally rated)	-	-	-	-
Increased credit risk (internationally rated)	5 080	-	-	<b>5 080</b>
Increased credit risk (nationally rated)	-	-	-	-
Increased credit risk (internally rated)	3 408	-	-	<b>3 408</b>
High credit risk (internationally rated)	-	-	-	-
High credit risk (nationally rated)	-	-	-	-
Default (internationally rated)	-	-	-	-
Default (nationally rated)	-	-	-	-
Unrated	-	-	-	-
<b>Total investment debt securities at amortised cost (before impairment)</b>	<b>59 148</b>	-	-	<b>59 148</b>
Less: allowance for impairment	(182)	-	-	<b>(182)</b>
<b>Total investment debt securities at amortised cost</b>	<b>58 966</b>	-	-	<b>58 966</b>



## 10 Investment Securities (continued)

Analysis by credit quality in relation to investment debt securities at amortised cost as at 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Investment debt securities at amortised cost</b>				
Low credit risk (internationally rated)	40 081	-	-	<b>40 081</b>
Low credit risk (nationally rated)	1 123	-	-	<b>1 123</b>
Moderate credit risk (internationally rated)	15 031	-	-	<b>15 031</b>
Moderate credit risk (nationally rated)	-	-	-	-
Moderate credit risk (internally rated)	814	-	-	<b>814</b>
Increased credit risk (internationally rated)	-	-	-	-
Increased credit risk (nationally rated)	-	-	-	-
High credit risk (internationally rated)	-	-	-	-
High credit risk (nationally rated)	-	-	-	-
Default (internationally rated)	-	-	-	-
Default (nationally rated)	-	-	-	-
Unrated	-	-	-	-
<b>Total investment debt securities at amortised cost (before impairment)</b>	<b>57 049</b>	-	-	<b>57 049</b>
Less: allowance for impairment	(158)	-	-	<b>(158)</b>
<b>Total investment debt securities at amortised cost</b>	<b>56 891</b>	-	-	<b>56 891</b>

## 11 Premises, Equipment, Right-of-use Assets and Intangible Assets

<i>In millions of Russian Roubles</i>	Note	Used in banking activities			Used in non-banking activities			Total premises and equipment	Intangible assets	Total	
		Office premises and construction in progress	Leasehold (premises) improvements	Office and computer equipment	Land	Production premises	Equipment				Land
<b>Cost or valuation at 1 January 2018</b>		<b>28 983</b>	<b>1 278</b>	<b>14 000</b>	<b>385</b>	<b>2 734</b>	<b>1 687</b>	<b>366</b>	<b>49 433</b>	<b>7 116</b>	<b>56 549</b>
Accumulated depreciation		(1 965)	(755)	(7 641)	-	(1 169)	(465)	-	(11 995)	(3 255)	(15 250)
<b>Carrying amount at 1 January 2018</b>		<b>27 018</b>	<b>523</b>	<b>6 359</b>	<b>385</b>	<b>1 565</b>	<b>1 222</b>	<b>366</b>	<b>37 438</b>	<b>3 861</b>	<b>41 299</b>
Additions		2 357	79	4 715	45	168	227	1	7 592	3 413	11 005
Acquisition of subsidiaries	36	-	-	-	-	7 919	-	353	8 272	-	8 272
Changes in gross carrying value resulting from revaluation recognized in other comprehensive income		3 090	-	-	-	-	-	-	3 090	-	3 090
Changes in gross carrying value resulting from revaluation recognized in profit and loss		(3 029)	-	-	-	-	-	-	(3 029)	-	(3 029)
Disposals		-	(66)	(564)	-	(98)	(90)	(25)	(843)	(668)	(1 511)
Depreciation charge: before revaluation	25	(476)	(28)	(1 432)	-	(42)	(191)	-	(2 169)	(993)	(3 162)
Changes in accumulated depreciation resulting from revaluation recognized in other comprehensive income		(742)	-	-	-	-	-	-	(742)	-	(742)
Realised revaluation reserve	25	(47)	-	-	-	-	-	-	(47)	-	(47)
Depreciation release (disposals)		-	-	554	-	7	63	-	624	500	1 124
<b>Carrying amount at 31 December 2018</b>		<b>28 171</b>	<b>508</b>	<b>9 632</b>	<b>430</b>	<b>9 519</b>	<b>1 231</b>	<b>695</b>	<b>50 186</b>	<b>6 113</b>	<b>56 299</b>
<b>Cost or valuation at 31 December 2018</b>		<b>31 400</b>	<b>1 291</b>	<b>18 151</b>	<b>430</b>	<b>10 723</b>	<b>1 824</b>	<b>695</b>	<b>64 514</b>	<b>9 861</b>	<b>74 375</b>
Accumulated depreciation		(3 229)	(783)	(8 519)	-	(1 204)	(593)	-	(14 328)	(3 748)	(18 076)
<b>Carrying amount at 31 December 2018</b>		<b>28 171</b>	<b>508</b>	<b>9 632</b>	<b>430</b>	<b>9 519</b>	<b>1 231</b>	<b>695</b>	<b>50 186</b>	<b>6 113</b>	<b>56 299</b>

11 Premises, Equipment, Right-of-use Assets and Intangible Assets (continued)

<i>In millions of Russian Roubles</i>	Note	Used in banking activities			Used in non-banking activities				Total premises and equipment	Intangible assets	Total
		Office premises and construction in progress	Leasehold (premises) improvements	Office and computer equipment	Land	Production premises	Equipment	Land			
<b>Cost or valuation at 1 January 2019</b>		<b>31 400</b>	<b>1 291</b>	<b>18 151</b>	<b>430</b>	<b>10 723</b>	<b>1 824</b>	<b>695</b>	<b>64 514</b>	<b>9 861</b>	<b>74 375</b>
Accumulated depreciation		(3 229)	(783)	(8 519)	-	(1 204)	(593)	-	(14 328)	(3 748)	(18 076)
<b>Carrying amount at 1 January 2019</b>		<b>28 171</b>	<b>508</b>	<b>9 632</b>	<b>430</b>	<b>9 519</b>	<b>1 231</b>	<b>695</b>	<b>50 186</b>	<b>6 113</b>	<b>56 299</b>
Additions		25	35	2 407	-	244	253	-	<b>2 964</b>	3 071	<b>6 035</b>
Disposal of subsidiaries	36	-	-	-	-	(8 148)	-	(353)	<b>(8 501)</b>	-	<b>(8 501)</b>
Disposals		(285)	(23)	(992)	-	(79)	(135)	(12)	<b>(1 526)</b>	(2 992)	<b>(4 518)</b>
Depreciation charge	25	(522)	(24)	(1 959)	-	(97)	(215)	-	<b>(2 817)</b>	(1 761)	<b>(4 578)</b>
Realised revaluation reserve	25	(40)	-	-	-	-	-	-	<b>(40)</b>	-	<b>(40)</b>
Depreciation release (disposals)		-	-	914	-	16	30	-	<b>960</b>	2 992	<b>3 952</b>
<b>Carrying amount at 31 December 2019</b>		<b>27 349</b>	<b>496</b>	<b>10 002</b>	<b>430</b>	<b>1 455</b>	<b>1 164</b>	<b>330</b>	<b>41 226</b>	<b>7 423</b>	<b>48 649</b>
<b>Cost or valuation at 31 December 2019</b>		<b>31 140</b>	<b>1 304</b>	<b>19 566</b>	<b>430</b>	<b>2 740</b>	<b>1 942</b>	<b>330</b>	<b>57 452</b>	<b>9 940</b>	<b>67 392</b>
Accumulated depreciation		(3 791)	(808)	(9 564)	-	(1 285)	(778)	-	(16 226)	(2 517)	(18 743)
<b>Carrying amount at 31 December 2019</b>		<b>27 349</b>	<b>496</b>	<b>10 002</b>	<b>430</b>	<b>1 455</b>	<b>1 164</b>	<b>330</b>	<b>41 226</b>	<b>7 423</b>	<b>48 649</b>

As at 31 December 2019, the Group has right-of-use assets in the total amount of RR 10 244 million and respective depreciation charge in the total amount of RR 1 856 million (31 December 2018: not applicable).

## 11 Premises, Equipment, Right-of-use Assets and Intangible Assets (continued)

Non-banking premises are mainly represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2019 was RR 1 055 million (31 December 2018: RR 1 476 million).

Carrying amount of office premises without revaluation at 31 December 2019 is RR 24 659 million, including cost in amount of RR 27 511 million and accumulated depreciation of RR 2 852 million (31 December 2018: carrying amount of office premises without revaluation was RR 29 531 million, including cost in amount of RR 31 857 million and accumulated depreciation of RR 2 326 million).

As at 31 December 2019 the Group believes that fair value of premises used in banking activities has not changed significantly during 2019, therefore as at 31 December 2019 the Group has not recognised revaluation of premises in the consolidated financial statement (31 December 2018: the Group recognised revaluation of premises in the consolidated financial statements).

Refer to Note 34 for the disclosure of the fair value hierarchy for office premises.

## 12 Other Assets

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Non-financial assets</b>		
Reposessed collateral	3 417	3 262
Prepayment for services	1 806	1 606
Inventory	1 769	1 564
Precious metals	1 145	1 719
Prepayment for goods	468	200
Prepaid taxes	239	129
Settlements on social insurance and security	105	115
Other	1 150	1 732
<b>Total non-financial assets</b>	<b>10 099</b>	<b>10 327</b>
<b>Financial assets</b>		
Settlements on banking cards	5 722	1 826
Trade receivables	1 348	1 676
Settlements on funds transfer operations	966	324
Credit support annex agreements for derivatives	849	3 304
State duty	560	654
Due from State Corporation Deposit Insurance Agency	327	826
Provision for impairment of other financial assets	(4 599)	(3 854)
Other	3 936	3 246
<b>Total financial assets</b>	<b>9 109</b>	<b>8 002</b>
<b>Insurance assets</b>	<b>5 730</b>	<b>5 481</b>
<b>Total other assets</b>	<b>24 938</b>	<b>23 810</b>

Reposessed collateral mainly represents the land and production premises. The Group is not going to use reposessed collateral in its own operations. The Group has a plan for disposal of reposessed collateral within a certain time horizon that is updated and monitored on a regular basis.

Due from State Corporation Deposit Insurance Agency represents amounts due on settlements with individuals — former clients of banks with revoked licences.

## 12 Other Assets (continued)

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries.

The movements in repossessed collateral are as follows:

<i>In millions of Russian Rouble</i>	2019	2018
<b>Repossessed collateral at 1 January</b>	<b>3 262</b>	<b>2 889</b>
Additions for the year	1 782	1 921
Disposal during the year	(1 163)	(1 385)
Reclassification to assets held for sale	(464)	(163)
<b>Repossessed collateral at 31 December</b>	<b>3 417</b>	<b>3 262</b>

During 2019 and 2018, significant part of the Bank's repossessed collateral was evaluated by an independent appraisers firm, which hold a relevant professional qualification and which have experience in valuation of assets of similar location and category.

Refer to Note 34 for the disclosure of fair value and fair value hierarchy for other financial assets. Geographical analysis of other assets and maturity analysis of other financial assets are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

An analysis of corresponding ECL in relation to other financial assets during the year ended 31 December 2019 is as follows:

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2019</b>	<b>13</b>	-	<b>3 841</b>	<b>3 854</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(1)	1	-	-
Transfers to Stage 3	(4)	-	4	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	2	2	1 359	<b>1 363</b>
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	(618)	<b>(618)</b>
<b>ECL as at 31 December 2019</b>	<b>10</b>	<b>3</b>	<b>4 586</b>	<b>4 599</b>

An analysis of corresponding ECL in relation to other financial assets during the year ended 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2018</b>	-	-	<b>3 098</b>	<b>3 098</b>
Transfers to Stage 1	7	-	(7)	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	6	-	1 048	<b>1 054</b>
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	(298)	<b>(298)</b>
<b>ECL as at 31 December 2018</b>	<b>13</b>	-	<b>3 841</b>	<b>3 854</b>

### 13 Due to Other Banks

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Correspondent accounts and overnight placements of other banks	12 262	40 101
Borrowings from other banks with term to maturity:		
- repo deals less than 30 days	-	35 700
- less than 30 days	35 141	26 393
- from 31 to 180 days	25	132
- from 181 days to 1 year	36	63
- from 1 year to 3 years	317	1 051
- more than 3 years	16 458	20 037
Borrowings from the Bank of Russia with term to maturity:		
- less than 30 days	27	44
- from 31 to 180 days	409	2 442
- from 181 days to 1 year	353	4 255
- from 1 year to 3 years	44 491	41 312
<b>Total due to other banks</b>	<b>109 519</b>	<b>171 530</b>

As at 31 December 2019, due to other banks included balances with the Bank of Russia above 10% of the Group's equity in the amount of RR 45 280 million, or 41% of total due to other banks (31 December 2018: due to other banks included balances with the Bank of Russia above 10% of the Group's equity in the amount of RR 48 054 million, or 28% of total due to other banks).

As at 31 December 2019, due to other banks included no balances with other banks individually above 10% of the Group's equity (31 December 2018: due to other banks included no balances with other banks individually above 10% of the Group's equity). As at 31 December 2019, due to other banks included the balances with one OECD banking group with rating of the parent bank at A (S&P) and one Russian banking group with rating of the parent bank at BB+ (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 25 860 million, or 24% of total due to other banks (31 December 2018: due to other banks included the balances with one OECD banking group with rating of the parent bank at A (S&P) and one Russian banking group with rating of the parent bank at BBB- (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 25 132 million, or 15% of total due to other banks).

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for due to other banks. Geographical and liquidity analyses of due to other banks are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

### 14 Customer Accounts

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
State and public organisations		
- Current/settlement accounts	28 256	23 683
- Term deposits	354 879	569 886
Other legal entities		
- Current/settlement accounts	206 259	173 689
- Term deposits	705 279	618 974
Individuals		
- Current/demand accounts	107 475	85 378
- Term deposits	1 083 960	949 441
<b>Total customer accounts</b>	<b>2 486 108</b>	<b>2 421 051</b>

State and public organisations exclude state-controlled joint-stock companies.

## 14 Customer Accounts (continued)

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Russian Roubles</i>	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Individuals	1 191 435	48	1 034 819	43
State and public organisations	383 135	15	593 569	25
Manufacturing	215 968	9	149 151	6
Construction	125 279	5	110 290	5
Financial services and pension funds	113 214	5	89 653	4
Agriculture	99 805	4	92 830	4
Trading	77 977	3	95 303	3
Insurance	53 345	2	52 477	2
Real estate	52 529	2	40 704	2
Transport	13 038	1	21 899	1
Communication	1 076	-	15 252	-
Leasing	565	-	2 710	-
Other	158 742	6	122 394	5
<b>Total customer accounts</b>	<b>2 486 108</b>	<b>100</b>	<b>2 421 051</b>	<b>100</b>

As at 31 December 2019, customer accounts included balances with eight customers each above 10% of the Group's equity (31 December 2018: balances with nine customers each individually above 10% of the Group's equity). The aggregate balance of these customers was RR 566 833 million, or 23% of total customer accounts (31 December 2018: RR 671 174 million, or 28% of total customer accounts).

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for customer accounts. Geographical and liquidity analyses of customer accounts are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

## 15 Promissory Notes Issued

<i>In millions of Russian Roubles</i>	31 December 2019	31 December 2018
Promissory notes issued	47 358	42 341
<b>Total promissory notes issued</b>	<b>47 358</b>	<b>42 341</b>

As at 31 December 2019, promissory notes issued are represented by interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles and US Dollars with effective interest or discount rates from zero p.a. (for promissory notes on demand) up to 8% p.a. and maturity dates from January 2020 to December 2034 (31 December 2018: interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles and US Dollars with effective interest or discount rates from zero p.a. (for promissory notes on demand) up to 8% p.a. and maturity dates from January 2019 to December 2021).

As at 31 December 2019, promissory notes issued included promissory notes, which were initially purchased by one counterparty, in aggregate above 10% of the Group's equity in the amount of RR 24 666 million, or 52% of total promissory notes issued. As at 31 December 2018, promissory notes issued included promissory notes, which were initially purchased by one counterparty, in aggregate above 10% of the Group's equity in the amount of RR 22 623 million, or 53% of total promissory notes issued.

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for promissory notes issued. Geographical and liquidity analyses of promissory notes issued are disclosed in Note 29.

**16 Bonds Issued**

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Bonds issued on domestic market	174 954	142 609
<b>Total bonds issued</b>	<b>174 954</b>	<b>142 609</b>

As at 31 December 2019, bonds issued consist of Russian Roubles denominated bonds issued on domestic market.

<b>Currency of denomination</b>	<b>Nominal value, in million of currency, in circulation</b>	<b>Issue date</b>	<b>Maturity date</b>	<b>Put option date</b>	<b>Coupon rate</b>	<b>Coupon payment</b>
<b>Bonds issued on domestic market</b>						
Russian Roubles	572	10 February 2010	29 January 2020	-	8.30%	6 months
Russian Roubles	581	11 February 2010	30 January 2020	-	8.30%	6 months
Russian Roubles	3 218	12 July 2011	29 June 2021	-	8.15%	6 months
Russian Roubles	1 058	14 July 2011	1 July 2021	-	8.15%	6 months
Russian Roubles	1 309	15 July 2011	2 July 2021	-	8.15%	6 months
Russian Roubles	4 117	8 November 2011	26 October 2021	30 April 2020	8.00%	6 months
Russian Roubles	305	16 April 2012	4 April 2022	8 April 2020	8.30%	6 months
Russian Roubles	43	23 October 2012	11 October 2022	15 October 2020	8.20%	6 months
Russian Roubles	523	25 October 2012	13 October 2022	19 April 2021	8.20%	6 months
Russian Roubles	10 000	23 April 2013	11 April 2023	14 April 2022	8.30%	6 months
Russian Roubles	1 484	30 July 2013	18 July 2023	21 January 2021	7.40%	6 months
Russian Roubles	21	30 September 2013	18 September 2023	25 March 2020	8.30%	6 months
Russian Roubles	4 978	22 November 2013	10 November 2023	16 November 2021	8.85%	6 months
Russian Roubles	5 000	10 October 2014	27 September 2024	4 October 2022	7.40%	3 months
Russian Roubles	5 000	13 October 2014	30 September 2024	5 October 2022	7.40%	3 months
Russian Roubles	661	26 December 2014	13 December 2024	22 December 2020	8.60%	3 months
Russian Roubles	10 000	11 February 2015	29 January 2025	7 February 2020	15.00%	3 months
Russian Roubles	783	26 February 2015	13 February 2025	24 August 2020	7.40%	3 months
Russian Roubles	2 820	30 October 2015	17 October 2025	28 April 2020	7.95%	3 months
Russian Roubles	10 000	31 March 2017	25 September 2020	-	9.50%	6 months
Russian Roubles	10 000	26 June 2017	21 June 2021	-	8.65%	6 months
Russian Roubles	7 000	3 October 2017	28 September 2021	-	8.40%	6 months
Russian Roubles	5 000	5 December 2017	9 December 2020	-	8.10%	6 months
Russian Roubles	25 000	14 March 2018	9 March 2022	-	7.40%	6 months
Russian Roubles	13 000	19 October 2018	14 October 2022	-	9.00%	6 months
Russian Roubles	19 900	29 November 2018	22 November 2038	-	10.50%	6 months
Russian Roubles	10 000	4 April 2019	2 April 2020	-	8.35%	6 months
Russian Roubles	10 000	25 June 2019	22 June 2021	-	8.15%	6 months
Russian Roubles	5 000	15 November 2019	10 November 2023	-	7.00%	6 months
Russian Roubles	5 000	13 November 2019	2 November 2022	-	6.75%	1 month



## 16 Bonds Issued (continued)

As at 31 December 2018, bonds issued consist of Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
<b>Bonds issued on domestic market</b>						
Russian Roubles	2 173	26 November 2009	14 November 2019	-	7.00%	6 months
Russian Roubles	2 402	26 November 2009	14 November 2019	-	7.00%	6 months
Russian Roubles	572	10 February 2010	29 January 2020	-	8.30%	6 months
Russian Roubles	581	11 February 2010	30 January 2020	-	8.30%	6 months
Russian Roubles	3 482	12 July 2011	29 June 2021	4 July 2019	7.80%	6 months
Russian Roubles	1 058	14 July 2011	1 July 2021	8 July 2019	7.80%	6 months
Russian Roubles	1 459	15 July 2011	2 July 2021	9 July 2019	7.80%	6 months
Russian Roubles	4 117	8 November 2011	26 October 2021	30 April 2020	8.00%	6 months
Russian Roubles	481	16 April 2012	4 April 2022	10 April 2019	6.60%	6 months
Russian Roubles	74	23 October 2012	11 October 2022	15 October 2020	8.20%	6 months
Russian Roubles	5 000	25 October 2012	13 October 2022	22 April 2019	9.35%	6 months
Russian Roubles	562	23 April 2013	11 April 2023	18 April 2019	6.60%	6 months
Russian Roubles	1 484	30 July 2013	18 July 2023	21 January 2021	7.40%	6 months
Russian Roubles	26	30 September 2013	18 September 2023	27 March 2019	6.60%	6 months
Russian Roubles	2 770	22 November 2013	10 November 2023	16 November 2021	8.85%	6 months
Russian Roubles	5 000	10 October 2014	27 September 2024	8 October 2019	11.10%	3 months
Russian Roubles	4 985	13 October 2014	30 September 2024	9 October 2019	11.10%	3 months
Russian Roubles	661	26 December 2014	13 December 2024	22 December 2020	8.60%	3 months
Russian Roubles	10 000	11 February 2015	29 January 2025	7 February 2020	15.00%	3 months
Russian Roubles	902	26 February 2015	13 February 2025	26 August 2019	8.30%	3 months
Russian Roubles	2 820	30 October 2015	17 October 2025	28 April 2020	7.95%	3 months
Russian Roubles	10 000	31 March 2017	25 September 2020	-	9.50%	6 months
Russian Roubles	10 000	26 June 2017	21 June 2021	-	8.65%	6 months
Russian Roubles	7 000	3 October 2017	28 September 2021	-	8.40%	6 months
Russian Roubles	5 000	5 December 2017	9 December 2020	-	8.10%	6 months
Russian Roubles	25 000	14 March 2018	9 March 2022	-	7.40%	6 months
Russian Roubles	13 000	19 October 2018	14 October 2022	-	9.00%	6 months
Russian Roubles	19 900	29 November 2018	22 November 2038	-	10.50%	6 months

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for bonds issued. Geographical and liquidity analyses of bonds issued are disclosed in Note 29. Refer to Note 38 for information on redemptions after the end of the reporting period.

## 17 Other Liabilities

<i>In millions of Russian Roubles</i>	Note	31 December 2019	31 December 2018
<b>Non-financial liabilities</b>			
Accrued staff costs		5 534	4 638
Due to State Corporation Deposit Insurance Agency		2 020	1 525
Taxes payable other than on income		1 417	1 523
Provision for ECL for credit related commitments	32	508	656
Other provisions		68	633
Litigations provision		16	14
Other		2 656	1 472
<b>Total non-financial liabilities</b>		<b>12 219</b>	<b>10 461</b>
<b>Financial liabilities</b>			
Lease liabilities		10 244	-
Settlements on conversion operations		4 789	4
Settlements on banking cards		4 357	487
Trade payables		2 217	1 504
Amounts due under credit support annex agreements		1 006	799
Amounts due under perpetual bonds		677	673
Non-controlling interests in consolidated mutual funds		110	68
Carrying value of guarantees issued		36	34
Other		-	104
<b>Total financial liabilities</b>		<b>23 436</b>	<b>3 673</b>
<b>Insurance liabilities</b>			
Provision for unearned premiums		5 282	4 910
Loss provision		13 324	6 634
Insurance payables		2 738	1 613
<b>Total insurance liabilities</b>		<b>21 344</b>	<b>13 157</b>
<b>Total other liabilities</b>		<b>56 999</b>	<b>27 291</b>

Trade payables are related to the business activities of subsidiaries.

Movements in the provision for unearned premiums are as follows:

<i>In millions of Russian Roubles</i>	Note	2019	2018
<b>Provision for unearned premiums as at 1 January</b>			
Premium earned	24	(15 128)	(9 307)
Premium written		15 500	10 246
<b>Provision for unearned premiums as at 31 December</b>		<b>5 282</b>	<b>4 910</b>

Movements in the loss provision are as follows:

<i>In millions of Russian Roubles</i>	Note	2019	2018
<b>Loss provision as at 1 January</b>			
Claims incurred during the period	24	9 490	6 941
Insurance claims settled		(2 800)	(2 461)
<b>Loss provision as at 31 December</b>		<b>13 324</b>	<b>6 634</b>

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for other financial liabilities. Geographical analysis of other liabilities and liquidity analysis of other financial liabilities are disclosed in Note 29.

## 18 Subordinated Debts

As at 31 December 2019, the Group's subordinated debts equal to RR 134 089 million (31 December 2018: RR 147 279 million).

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for subordinated debts. Geographical and liquidity analyses of subordinated debts are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

## 19 Perpetual Bonds

As at 31 December 2019 the Group's perpetual bonds in circulation equal to RR 48 398 million (as at 31 December 2018 the Group's perpetual bonds equal to RR 38 376 million).

As at 31 December 2019, perpetual bonds consist of Russian Roubles, US Dollars and Euros denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency, in circulation	Carrying amount, in millions of Russian Roubles	Issue date	Call option date	Coupon rate	Coupon payment
Russian Roubles	10 000	10 000	25 April 2018	12 April 2028	9.00%	6 months
Russian Roubles	5 000	5 000	15 July 2016	3 July 2026	14.50%	6 months
Russian Roubles	5 000	5 000	18 July 2016	6 July 2026	14.50%	6 months
Russian Roubles	5 000	5 000	5 October 2016	23 September 2026	14.25%	6 months
Russian Roubles	4 902	4 902	26 April 2018	13 April 2028	9.00%	6 months
Russian Roubles	5 000	5 000	22 November 2018	9 November 2028	10.10%	6 months
US Dollars	50	3 095	17 December 2018	4 December 2028	9.00%	6 months
Euros	150	10 401	12 December 2019	5 June 2025	5.00%	6 months

## 20 Share Capital

Share capital issued and fully paid comprises:

<i>In millions of Russian Roubles (except for number of shares)</i>	Number of outstanding shares	Nominal amount	Inflation adjusted amount
<b>At 1 January 2018</b>	<b>322 928</b>	<b>384 848</b>	<b>385 598</b>
New ordinary shares issued	25 000	25 000	25 000
<b>At 31 December 2018</b>	<b>347 928</b>	<b>409 848</b>	<b>410 598</b>
New ordinary shares issued	29 635	29 635	29 635
<b>At 31 December 2019</b>	<b>377 563</b>	<b>439 483</b>	<b>440 233</b>

As at 31 December 2019, issued and fully paid share capital comprises 345 683 issued and registered ordinary shares and 31 880 preference shares (31 December 2018: 316 048 issued and registered ordinary shares and 31 880 preference shares). All ordinary and preference shares have a nominal value of RR 1 million per share, except for 6 880 type A preference shares issued in November 2015 with nominal value of RR 10 million per share, and rank equally within the same class. Each ordinary share carries one vote.

The terms of the preference shares do not include any fixed dividends and the decision on repayment of dividends is approved by the shareholder of the Bank.

In 2019, the Bank increased its share capital by issuing 29 635 ordinary shares (2018: 25 000 ordinary shares) with the total nominal amount of RR 29 635 million (2018: RR 25 000 million).

In 2019 and 2018, all ordinary shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

## 21 Interest Income and Expense

<i>In millions of Russian Roubles</i>	<b>2019</b>	<b>2018</b>
<b>Interest income on debt financial assets carried at amortised cost</b>		
Loans and advances to legal entities	146 064	132 230
Loans and advances to individuals	52 364	51 445
Cash equivalents	6 622	12 032
Investment securities at amortised cost including pledged under repurchase agreements	4 816	4 360
Due from other banks	4 304	1 744
	<b>214 170</b>	<b>201 811</b>
<b>Interest income on debt financial assets carried at fair value through other comprehensive income</b>		
Investment securities at FVOCI including pledged under repurchase agreements	29 391	26 890
	<b>29 391</b>	<b>26 890</b>
<b>Total interest income at effective interest rate</b>	<b>243 561</b>	<b>228 701</b>
Loans to customers at fair value through profit or loss	1 763	1 834
Investment securities at fair value through profit or loss	1 709	134
Trading securities	1 496	1 348
<b>Total other interest income</b>	<b>4 968</b>	<b>3 316</b>
<b>Interest expense at effective interest rate</b>		
Term deposits of legal entities	(69 068)	(74 618)
Term deposits of individuals	(61 924)	(53 666)
Bonds issued	(14 442)	(16 400)
Subordinated debts	(8 539)	(10 088)
Current/settlement accounts	(7 845)	(3 695)
Term deposits of the Bank of Russia	(3 779)	(1 293)
Promissory notes issued	(2 797)	(2 266)
Term deposits of other banks	(2 137)	(2 591)
<b>Total interest expense at effective interest rate</b>	<b>(170 531)</b>	<b>(164 617)</b>
Lease liabilities	(750)	-
<b>Total other interest expense</b>	<b>(750)</b>	<b>-</b>
<b>Net interest income</b>	<b>77 248</b>	<b>67 400</b>

The information on related party transactions is disclosed in Note 35.

## 22 Credit Loss Expense

The table below shows the ECL charges on financial instruments recorded in the income statement for the year ended 31 December 2019:

<i>In millions of Russian Roubles</i>	<b>Note</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
Cash and cash equivalents		(3)	-	-	-	<b>(3)</b>
Due from other banks	8	(110)	-	-	-	<b>(110)</b>
Loans to customers at amortised cost	9	(19 722)	17 766	39 484	1 409	<b>38 937</b>
Debt securities measured at amortised cost	10	24	-	-	-	<b>24</b>
Debt securities measured at FVOCI	10	(493)	(39)	-	-	<b>(532)</b>
Other financial assets		-	-	1 386	-	<b>1 386</b>
Credit related commitments	32	(157)	9	-	-	<b>(148)</b>
<b>Total credit (gains)/loss expense</b>		<b>(20 461)</b>	<b>17 736</b>	<b>40 870</b>	<b>1 409</b>	<b>39 554</b>

## 22 Credit Loss Expense (continued)

An analysis of credit loss expense for the year ended 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	<b>Note</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Cash and cash equivalents		(17)	-	-	<b>(17)</b>
Due from other banks		(17)	-	(95)	<b>(112)</b>
Loans to customers at amortised cost	9	18 895	1 412	37 010	<b>57 317</b>
Debt securities measured at amortised cost	10	42	-	-	<b>42</b>
Debt securities measured at FVOCI	10	741	1	(46)	<b>696</b>
Other financial assets		-	-	642	<b>642</b>
Credit related commitments	32	30	2	-	<b>32</b>
<b>Total credit loss expense</b>		<b>19 674</b>	<b>1 415</b>	<b>37 511</b>	<b>58 600</b>

## 23 Fee and Commission Income and Expense

<i>In millions of Russian Roubles</i>	<b>2019</b>	<b>2018</b>
<b>Fee and commission income</b>		
Commission on cash and settlements transactions	10 198	10 178
Fees for sale of insurance contracts	5 866	6 353
Commission on banking cards and acquiring	4 039	4 185
Commission on guarantees issued	1 578	2 196
Fees for currency control	311	834
Commission received from the Deposit Insurance Agency	119	246
Other	1 339	594
<b>Total fee and commission income</b>	<b>23 450</b>	<b>24 586</b>
<b>Fee and commission expense</b>		
Commission on settlement transactions	(2 134)	(2 489)
Commission on cash collection	(400)	(387)
Other	(246)	(193)
<b>Total fee and commission expense</b>	<b>(2 780)</b>	<b>(3 069)</b>
<b>Net fee and commission income</b>	<b>20 670</b>	<b>21 517</b>

## 24 Gains less Losses from Non-banking Activities

<i>In millions of Russian Roubles</i>	<b>2019</b>	<b>2018</b>
Sales of goods	4 561	5 615
Including:		
- sugar	1 652	2 605
- meat and dairy products	993	552
- feed	689	1 119
- grain	189	282
- other goods and services	1 038	1 057
Cost of goods sold	(4 339)	(4 556)
Provision for trade receivables, prepayments and other financial assets	202	(411)
Net income from insurance operations	3 195	2 344
Other non-banking income	770	1 098
Other non-banking expenses	(3 315)	(2 683)
<b>Total gains less losses from non-banking activities</b>	<b>1 074</b>	<b>1 407</b>

In 2019 cost of goods sold includes depreciation of non-banking premises and equipment in the total amount of RR 312 million (2018: RR 233 million).

## 24 Gains less Losses from Non-banking Activities (continued)

Net income from insurance operations is as follows:

<i>In millions of Russian Roubles</i>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Insurance premiums</b>			
Premium earned	17	15 128	9 307
Reinsurers share in premiums earned		(3 235)	(2 238)
<b>Net insurance premiums earned</b>		<b>11 893</b>	<b>7 069</b>
<b>Insurance benefits and claims</b>			
Net claims incurred during the year	17	(9 490)	(6 941)
Acquisition costs		(399)	(635)
Reinsurers share in claims incurred during the year		1 191	2 851
<b>Net insurance benefits and claims</b>		<b>(8 698)</b>	<b>(4 725)</b>
<b>Net income from insurance operations</b>		<b>3 195</b>	<b>2 344</b>

## 25 Administrative and Other Operating Expenses

<i>In millions of Russian Roubles</i>	<b>Note</b>	<b>2019</b>	<b>2018</b>
Staff costs		31 919	27 105
Deposit Insurance expenses		7 663	5 711
Depreciation of premises, equipment and right-of-use assets		4 401	1 983
Other costs of premises		2 927	1 742
Communications and information services		2 396	1 958
Maintenance of equipment, transportation costs		2 183	1 343
Taxes other than on income		1 963	1 961
Amortization of intangible assets	11	1 761	993
Advertising and marketing services		1 518	895
Supplies and other materials		1 237	690
Provision on impairment of contingencies	32	1 214	2 694
Security services		1 005	1 110
Charity expenses		579	578
Lease expenses		459	3 850
Loss from revaluation of premises	11	-	3 029
Other		4 304	3 034
<b>Total administrative and other operating expenses</b>		<b>65 529</b>	<b>58 676</b>

In 2019 staff costs include statutory social security and contributions to a state pension fund in the amount of RR 6 005 million (2018: RR 5 256 million). Also in 2019 staff costs include expenses for defined contribution pension plans in the amount of RR 804 million (2018: RR 39 million). The information on related party transactions is disclosed in Note 35.

## 26 Income Taxes

Income tax expense comprises the following:

<i>In millions of Russian Roubles</i>	<b>2019</b>	<b>2018</b>
Current tax	5 274	4 388
Deferred tax	(850)	1 587
<b>Income tax expense for the year</b>	<b>4 424</b>	<b>5 975</b>

## 26 Income Taxes (continued)

The income tax rate applicable to the majority of the Group's income is 20% (2018: 20%). Reconciliation between the theoretical and the actual taxation charge is provided below.

<i>In millions of Russian Roubles</i>	2019	2018
<b>IFRS profit before tax</b>	<b>8 441</b>	<b>7 500</b>
<b>Theoretical tax charge at statutory rate (2019: 20%; 2018: 20%)</b>	<b>1 688</b>	<b>1 500</b>
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible staff costs	60	32
- Non-deductible charity costs	97	101
- Change of income tax on tax return in past periods	123	972
Income on government securities taxed at different rates	(1 305)	(1 456)
Permanent difference due to the refinement of the tax base of previous years	148	-
Unrecognised deferred tax asset	3 315	5 183
Other non-temporary differences	298	(357)
<b>Income tax expense for the year</b>	<b>4 424</b>	<b>5 975</b>

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their value for tax purposes. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2018: 20%), except for income on particular category of securities that is taxed at 15% (2018: 15%).

Based on the Group's current structure and Russian tax legislation, tax losses and current tax assets of different companies of the Group may not be set off against current tax liabilities and taxable profits of other companies of the Group and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are set off against each other only when they relate to the same taxable entity (subject to certain conditions).

<i>In millions of Russian Roubles</i>	31 December 2018	Credited/ (charged) to profit or loss	Charged directly to other comprehen- sive income	Disposal of subsidiaries	31 December 2019
<b>Tax effect of deductible/(taxable) temporary differences</b>					
Accruals on loans	11 406	(1 609)	-	-	9 797
Tax losses carried forward	26 704	10 910	-	-	37 614
Provision for impairment	45 020	(7 711)	-	-	37 309
Fair valuation of derivative financial instruments	(103)	100	-	-	(3)
Accrued staff costs	912	156	-	-	1 068
Accruals on due to other banks	(4 620)	495	-	-	(4 125)
Fair valuation of securities	(811)	2 528	(2 631)	-	(914)
Deferral of fees on guarantees issued	7	-	-	-	7
Premises, equipment and right-of-use assets	(2 263)	(789)	(1)	1 219	(1 834)
Accruals on bonds issued and subordinated debts	(301)	(347)	-	-	(648)
Intangible assets	(88)	86	-	-	(2)
Other	2 344	346	-	-	2 690
<b>Deferred tax asset</b>	<b>78 207</b>	<b>4 165</b>	<b>(2 632)</b>	<b>1 219</b>	<b>80 959</b>
Unrecognised deferred tax asset	(63 567)	(3 315)	-	-	(66 882)
<b>Net deferred income tax asset</b>	<b>14 640</b>	<b>850</b>	<b>(2 632)</b>	<b>1 219</b>	<b>14 077</b>
Recognised deferred income tax asset	16 298	-	-	-	16 298
Recognised deferred income tax liability	(1 658)	850	(2 632)	1 219	(2 221)
<b>Net deferred income tax asset</b>	<b>14 640</b>	<b>850</b>	<b>(2 632)</b>	<b>1 219</b>	<b>14 077</b>

## 26 Income Taxes (continued)

<i>In millions of Russian Roubles</i>	31 December 2017	Changes due to transition to IFRS 9	Credited/ (charged) to profit or loss	Charged directly to other comprehen- sive income	Acquisition of subsidiaries	31 December 2018
<b>Tax effect of deductible/ (taxable) temporary differences</b>						
Accruals on loans	16 395	-	(4 989)	-	-	11 406
Tax losses carried forward	20 007	-	6 697	-	-	26 704
Provision for impairment	19 197	16 827	8 996	-	-	45 020
Fair valuation of derivative financial instruments	104	-	(207)	-	-	(103)
Accrued staff costs	1 139	-	(227)	-	-	912
Accruals on due to other banks	23	-	(4 643)	-	-	(4 620)
Fair valuation of securities	3	-	(2 911)	2 097	-	(811)
Deferral of fees on guarantees issued	22	-	(15)	-	-	7
Promissory notes issued	276	-	(276)	-	-	-
Premises and equipment	(831)	-	224	(470)	(1 186)	(2 263)
Accruals on bonds issued and subordinated debts	(437)	-	136	-	-	(301)
Intangible assets	36	-	(124)	-	-	(88)
Other	1 409	-	935	-	-	2 344
<b>Deferred tax asset</b>	<b>57 343</b>	<b>16 827</b>	<b>3 596</b>	<b>1 627</b>	<b>(1 186)</b>	<b>78 207</b>
Unrecognised deferred tax asset	(41 557)	(16 827)	(5 183)	-	-	(63 567)
<b>Net deferred income tax asset</b>	<b>15 786</b>	<b>-</b>	<b>(1 587)</b>	<b>1 627</b>	<b>(1 186)</b>	<b>14 640</b>
Recognised deferred income tax asset	16 298	-	-	-	-	16 298
Recognised deferred income tax liability	(512)	-	(1 587)	1 627	(1 186)	(1 658)
<b>Net deferred income tax asset</b>	<b>15 786</b>	<b>-</b>	<b>(1 587)</b>	<b>1 627</b>	<b>(1 186)</b>	<b>14 640</b>

As of 31 December 2019, the taxable temporary difference between investments in subsidiaries in the statement of financial position of the parent company for tax purposes and the value of the net assets of subsidiaries in accordance with IFRS was 2 459 million (31 December 2018: 2 136 million). In accordance with IAS 12 *Income Tax*, the corresponding deferred tax liability in the amount of 492 million (31 December 2018: 427 million) was not recognized in the consolidated statement of financial position, since the Group has the ability to control the timing of the reversal of the temporary difference, and also does not expect that this temporary difference will be restored in the foreseeable future.

As at 31 December 2019, deferred tax assets included RR 37 614 million resulting from tax losses carried forward (31 December 2018: RR 26 704 million). The existing tax losses eligible for carry forward are expected to be fully utilized within limits envisaged by the Russian tax legislation.



## 27 Dividends

<i>In millions of Russian Roubles</i>	2019			2018		
	Ordinary shares	Preference shares	Type A preference shares	Ordinary shares	Preference shares	Type A preference shares
<b>Dividends payable at 1 January</b>	-	-	-	-	-	-
Dividends declared during the year	883	65	178	668	58	158
Dividends paid during the year	(883)	(65)	(178)	(668)	(58)	(158)
<b>Dividends payable at 31 December</b>	-	-	-	-	-	-
<b>Dividends per share declared during the year</b>	<b>0.003</b>	<b>0.003</b>	<b>0.026</b>	<b>0.002</b>	<b>0.002</b>	<b>0.023</b>

## 28 Segment Analysis

**(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments**

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

As at 31 December 2019 and 31 December 2018 the Group defines the following reportable segments:

- Head office;
- Central federal district;
- Far Eastern federal district;
- Volga federal district;
- North-West federal district;
- North-Caucasian federal district;
- Siberian federal district;
- Ural federal district;
- Southern federal district.

For analysis of revenue by products refer to Notes 21, 23.

**(b) Measurement of operating segment profit or loss and assets**

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments. Intersegment income/(expense) represents mainly income from / (costs of) funding provided by Head Office to other reportable segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements.

## 28 Segment Analysis (continued)

### (c) Information about reportable segment profit or loss and assets

Segment reporting of the Group's revenue and profit/(loss) for the reporting period ended 31 December 2019 and 31 December 2018 and segment reporting of the Group's assets as at 31 December 2019 and 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	Head office	Central federal district	Far Eastern federal district	Volga federal district	North-west federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Southern federal district	Total
<b>For the year ended 31 December 2019</b>										
<b>Revenue from external customers</b>	<b>74 809</b>	<b>64 682</b>	<b>8 872</b>	<b>33 031</b>	<b>18 131</b>	<b>8 948</b>	<b>14 277</b>	<b>6 886</b>	<b>33 322</b>	<b>262 958</b>
- Interest income from loans and advances to customers, due from other banks and other placed funds	73 310	58 114	7 517	28 889	16 299	7 191	11 506	6 122	30 239	<b>239 187</b>
- Net fee and commission income from credit related operations	1 499	6 568	1 355	4 142	1 832	1 757	2 771	764	3 083	<b>23 771</b>
Gains less losses / (losses net of gains) arising from securities, derivative financial instruments and foreign currency	28 144	(7 826)	(3 008)	2 151	314	713	1 286	772	(2 538)	<b>20 008</b>
Interest expenses from due to other banks, customer accounts and bonds issued	(80 459)	(35 086)	(5 205)	(19 333)	(11 979)	(3 189)	(9 645)	(5 805)	(6 385)	<b>(177 086)</b>
(Provision)/recovery of provision for impairment*	(2 081)	(9 654)	317	(4 827)	(5 309)	(4 425)	(949)	(1 385)	(1 113)	<b>(29 426)</b>
Administrative and maintenance expense	(40 236)	(2 524)	(717)	(2 160)	(880)	(871)	(1 481)	(490)	(960)	<b>(50 319)</b>
- Including depreciation charge	(2 094)	(288)	(69)	(244)	(102)	(126)	(205)	(51)	(108)	<b>(3 287)</b>
Other expenses less other income*	(13 145)	(705)	(343)	(678)	28	(892)	(1 253)	233	(1 072)	<b>(17 827)</b>
Income tax expense	(4 042)	-	-	-	-	-	-	-	-	<b>(4 042)</b>
<b>(Loss)/profit of reportable segments</b>	<b>(37 010)</b>	<b>8 887</b>	<b>(84)</b>	<b>8 184</b>	<b>305</b>	<b>284</b>	<b>2 235</b>	<b>211</b>	<b>21 254</b>	<b>4 266</b>
<b>Intersegment income/(expense)**</b>	<b>64 649</b>	<b>(18 266)</b>	<b>2 518</b>	<b>(12 163)</b>	<b>(1 584)</b>	<b>(7 813)</b>	<b>(5 463)</b>	<b>(704)</b>	<b>(21 174)</b>	<b>-</b>
<b>For the year ended 31 December 2018</b>										
<b>Revenue from external customers</b>	<b>64 385</b>	<b>68 493</b>	<b>8 080</b>	<b>37 715</b>	<b>18 041</b>	<b>9 923</b>	<b>15 761</b>	<b>7 894</b>	<b>32 300</b>	<b>262 592</b>
- Interest income from loans and advances to customers, due from other banks and other placed funds	62 771	61 299	6 853	33 176	16 256	8 218	12 992	7 117	29 601	<b>238 283</b>
- Net fee and commission income from credit related operations	1 614	7 194	1 227	4 539	1 785	1 705	2 769	777	2 699	<b>24 309</b>
(Losses net of gains) / gains less losses arising from securities, derivative financial instruments and foreign currency	(5 081)	16 992	2 106	(1 973)	455	(221)	(2 492)	1 818	6 034	<b>17 638</b>
Interest expenses from due to other banks, customer accounts and bonds issued	(83 816)	(27 202)	(5 651)	(17 324)	(10 626)	(2 923)	(9 103)	(5 530)	(5 741)	<b>(167 916)</b>
Provision for impairment*	(20 761)	(161)	951	3 673	1 248	1 764	5 974	468	7 824	<b>980</b>
Administrative and maintenance expense	(35 778)	(2 335)	(662)	(1 920)	(787)	(773)	(1 332)	(450)	(849)	<b>(44 886)</b>
- Including depreciation charge	(1 405)	(252)	(63)	(215)	(91)	(116)	(177)	(43)	(94)	<b>(2 456)</b>
Other expenses less other income*	(13 118)	(19 624)	(673)	(7 222)	(2 470)	(6 291)	(3 406)	(978)	(8 681)	<b>(62 463)</b>
Income tax expense	(3 751)	-	-	-	-	-	-	-	-	<b>(3 751)</b>
<b>(Loss)/profit of reportable segments</b>	<b>(97 920)</b>	<b>36 163</b>	<b>4 151</b>	<b>12 949</b>	<b>5 861</b>	<b>1 479</b>	<b>5 402</b>	<b>3 222</b>	<b>30 887</b>	<b>2 194</b>
<b>Intersegment income/(expense)**</b>	<b>110 526</b>	<b>(50 847)</b>	<b>(2 066)</b>	<b>(13 634)</b>	<b>(4 056)</b>	<b>(6 810)</b>	<b>(2 713)</b>	<b>(2 712)</b>	<b>(27 688)</b>	<b>-</b>
<b>Total assets</b>										
31 December 2019	2 636 408	1 322 088	165 916	579 168	326 669	185 111	260 877	126 275	446 421	<b>6 048 933</b>
31 December 2018	2 681 609	1 206 994	156 062	526 189	320 582	156 811	223 893	136 912	401 287	<b>5 810 339</b>
<b>Total liabilities</b>										
31 December 2019	2 462 709	1 321 962	165 883	578 943	326 565	185 088	260 775	126 275	446 415	<b>5 874 615</b>
31 December 2018	2 369 171	1 206 869	156 029	525 963	320 478	156 788	223 793	136 912	401 281	<b>5 497 284</b>

\* Other expenses less other income include losses from disposal of loans under cession agreements.

\*\* Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

## 28 Segment Analysis (continued)

Intersegment income and expenses include transfer income and expenses, staff costs, gains less losses / (losses net of gains) from dealing in foreign currency, income and expenses from operations with federal customers.

### (d) Reconciliation of reportable segment revenues, profit or loss, assets and provision for loan impairment

The Group recognizes losses net of gains from cessions on loans and advances to customers as part of the provision for loan impairment.

Reconciliation of income/(loss) of the reportable segments for the reporting period ended 31 December 2019 and 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	2019	2018
<b>Total income of reportable segments after tax</b>	<b>4 266</b>	<b>2 194</b>
Adjustments for impairment (ECL)	4 592	9 714
Results of non-reportable segments, including the effect of consolidation*	(7 853)	(11 222)
Accounting for financial instruments at fair value	2 056	(2 714)
Adjustments of deferred tax	850	(3 113)
Losses net of gains from revaluation of other financial instruments at fair value through profit and loss	16	(85)
Accrued staff costs	(261)	(220)
Adjustments of financial assets and liabilities carried at amortised cost	(3 433)	4 493
Revaluation of premises	-	(3 029)
Other	3 784	5 507
<b>The Group's profit/(loss) under IFRS after tax</b>	<b>4 017</b>	<b>1 525</b>

\* Non-reportable segments are represented by subsidiaries of the Group.

Reconciliation of assets of the reportable segments for the reporting period ended 31 December 2019 and 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	31 December 2019	31 December 2018
<b>Assets of reportable segments</b>	<b>6 048 932</b>	<b>5 810 339</b>
Elimination of settlements between branches	(2 439 641)	(2 268 900)
Provision for loan impairment (ECL)	(306 254)	(332 736)
Assets of non-reportable segments, including the effect of consolidation*	(4 171)	(21 448)
Elimination of back-to-back deposits	(4 524)	(4 526)
Accounting for financial instruments at fair value	3 704	(8 822)
Adjustments of financial assets carried at amortised cost	(23 806)	2 059
Other	(58 491)	(61 184)
<b>The Group's assets under IFRS</b>	<b>3 215 749</b>	<b>3 114 782</b>
<b>Provision for loan impairment for loans and advances to customers of reportable segments</b>	<b>(234 827)</b>	<b>(130 831)</b>
Accounting for provision under IFRS	(94 297)	(211 941)
Provision related to non-reportable segments, including the effect of consolidation*	23 086	10 361
<b>The Group's provision for loan impairment for loans and advances to customers under IFRS</b>	<b>(306 038)</b>	<b>(332 411)</b>

\* Non-reportable segments are represented by subsidiaries of the Group.

## 28 Segment Analysis (continued)

Reconciliation of material items of income and expenses for the years ended 31 December 2019 and 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	2019	2018
<b>Total revenue of reportable segments from external customers</b>	<b>262 958</b>	<b>262 592</b>
Reclassification of income not included in segment revenue	2 137	(2 090)
Interest income related to effective interest rate implication	4 523	13 709
Results of non-reportable segments, including the effect of consolidation*	836	(4 591)
Effect of disposal of loans (interest income)	(1 252)	(16 080)
Other	(3)	(6)
<b>The Group's revenue under IFRS**</b>	<b>269 199</b>	<b>253 534</b>
<b>Total interest expenses from due to other banks, customer accounts and bonds issued of reportable segments</b>	<b>(177 086)</b>	<b>(167 916)</b>
Reclassification of interest expense not included in segment interest expenses	4 391	2 632
Effective interest rate adjustments	433	(734)
Results of non-reportable segments, including the effect of consolidation*	971	1 386
Other	10	15
<b>The Group's interest expense under IFRS</b>	<b>(171 281)</b>	<b>(164 617)</b>
<b>Provision charge for impairment</b>	<b>(29 426)</b>	<b>980</b>
Accounting for provision under IFRS and effect of disposal of loans	(22 661)	(56 604)
Provision related to non-reportable segments, including the effect of consolidation*	12 533	(2 976)
<b>The Group's provision charge for impairment under IFRS</b>	<b>(39 554)</b>	<b>(58 600)</b>
<b>Administrative and maintenance expenses of reportable segments</b>	<b>(50 319)</b>	<b>(44 886)</b>
Reclassification of payments to the Deposit Insurance Agency not included in segment administrative and maintenance expenses	(7 663)	(5 711)
Accrued staff costs	(290)	(1 201)
Results of non-reportable segments, including the effect of consolidation*	(2 979)	687
Other	(4 278)	(7 565)
<b>The Group's administrative and other operating expenses under IFRS</b>	<b>(65 529)</b>	<b>(58 676)</b>

\* Non-reportable segments are represented by subsidiaries of the Group.

\*\* Group's revenue under IFRS comprises of interest income and net fee and commission income.

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- Adjustments for impairment arises mainly due to the different consolidation perimeter in the RAR and IFRS statements.
- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR foreign exchange swaps are recognised as back-to-back deposits, whereas in IFRS financial statements such transactions are recognised at fair value. Refer to Note 33. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.
- Adjustments to fair value of financial assets including derivative financial assets (both at initial recognition and subsequent measurement) resulted from application of different valuation techniques and input data.
- Balances of intercompany settlements related to regional branches of the Bank are presented under RAR as assets and liabilities, while in IFRS such balances are shown on a net basis.
- Adjustments of deferred income tax expense and accrued staff costs arise from the timing difference in recognition of certain expenses (mainly related to bonuses paid after the end of the reporting period) under RAR compared to IFRS and regulatory requirements of tax-filing date.
- Adjustments of lease liabilities under IFRS 16.

## **28 Segment Analysis (continued)**

All other adjustments also result from the differences between RAR (used as the basis for management reporting) and IFRS.

### **(e) Major customers**

The Group does not have any customer, from which it earns revenue representing 10% or more of the total revenues.

## **29 Risk Management**

The purpose of the Group's risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its approved strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimizing exposures that can lead to unforeseen losses. Group provides coordinated management of significant risks such as credit and market risk, liquidity risk and operational risk across all levels of activity.

The Group has a multi-level system of decision-making, monitoring and risk management.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special collegiate bodies of the Group, and also by separate structural divisions of the Group and executives on the basis of their competence.

The Risks Department provides independent analysis and evaluation of risks. The competence of the Risk Department also includes methodological support of risk management system, the implementation of the principles and methods of identification, assessment and monitoring of financial risks (credit, market, liquidity risk) and operational risk, including at the regional level.

Additionally, the function of certain risks management is performed by other departments of the Bank: Legal Department, Strategy Development Department, Public and Marketing Relations Department, Internal Treasury Department and Compliance Control Department.

The Bank's authorized bodies on a regular basis consider the Bank's performance, approve and revise measures to facilitate the early detection of changes in the external and internal factors, and to minimize the adverse consequences for the Bank.

According to the Risk management policy, the key objectives of the bank's risk management system are as follows:

- Maintaining the Bank's activity on the "going concern" basis;
- Providing the Bank's financial stability;
- Development of risk culture/risk-oriented model within the Bank.

In order to ensure stable operation, the Bank took the following steps.

## 29 Risk Management (continued)

In 2019 the Bank carried out and/or initiated the following measures related to the development of credit risk management.

- The Bank continues to develop a rating system by widening the amount of internal credit rating models for more accurate credit risk assessment and increase of the amount of balance sheet assets and credit equivalents of credit related commitments subject to internal credit rating models.
- The further development and implementation of approaches to the use of internal credit ratings in the system of decision-making, as well as in determining the premium for credit risk, establishing and incorporation of risk-rules on credit products and determining the authority to take on credit risk is in progress.
- The Bank has implemented a multi-level system of authorities and limits for the acceptance of different types of risks.
- There is a vertical hierarchy to the Risks Department in regional branches operating through Risk Assessment and Control Units for independent on-site control over the level of risks taken by the branches and operating offices. Also, the role of risk managers in decision-making process was increased.
- The Bank has adopted a set of measures aimed at enhancing the work with problem debts, as well as the development of infrastructure for various methods of dealing with problem debts.

In order to develop market risk management system, in 2019 the Bank continued to implement measures for automation of the system for control over the level of risk taken by the Bank.

The decision-making process of lending to individuals is centralized at the level of Head Office of the Bank, process is standardized and automated by conveyor technology for all retail loan products. Due to automated process credits are issued within a given quality. The decision-making process is held under constant improvement. For instance, in 2019 the decision-making methodology was updated in the following way:

- New approach to solvency assessment based on the data of the Pension Fund of Russia received by the Bank using the Unified Authentication and Identification System;
- New rules for routing loan applications based on scoring, updated risk rules and requested loan amount;
- New procedure for calculating the credit limit based on the client rating, an updated approach to accounting for dependents, living wages, as well as the category and region of residence of the client;
- New scoring cards that take into account information about the payment discipline of clients from the credit bureaus;
- New aggregate limits for the current debt of the Bank's customers on unsecured loan products;
- Changing the process of considering loan applications by implementing part of automatic checks based on a limited number of completed questionnaire fields.

In order to enhance financial stability of the Group in case of crisis events in the economy and financial markets, the Bank's Management Board approved the Plan of stabilizing activities developed in accordance with recommendations of the Bank of Russia # 193-T dated 29 December 2012 *On Methodical Recommendations for the Development of Financial Sustainability Plans for Credit Institutions*. This Plan provides activities for solving potential problems with capital, liquidity, financial results and quality of the Bank's assets in case of unfavorable for the Bank scenarios.

In order to avoid going concern issue and limiting loss in case unfavorable issues that can negatively affect the activity, the Bank has continued implementation of the Action Plan, which aims to ensure the on-going operations and (or) recovery of the Bank's operations in case of non-standard and emergency situations. The Bank tested the Action Plan according to internally established order including the regional level testing.

## **29 Risk Management (continued)**

**Credit risk.** The Group is exposed to credit risk, which is the risk that counterparty and/or third party under the financial obligations contract will cause a financial loss for the other party by failing to discharge an obligation completely and timely in accordance with contract terms (including operations in financial markets). The credit risk assessment of derivative financial instruments and repo transactions also includes counterparty credit risk, which is the risk of the counterparty's default before transactions settlement.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 32.

Credit risk management aims to maintain the proper quality of the loan portfolio by optimizing the industry, regional and product structure of the loan portfolio, the implementation of a systematic approach to the management of credit risk, based on the principles of risk awareness, power-sharing assessment and risk-taking, monitoring and control.

The management of credit risk of the Bank comprises determination and evaluation risk before transactions, limitation of credit risk, with correspondent limits, structuring of the deals, subsequent monitoring and controlling of credit risk level.

Credit risk management is carried out by the Bank's Management Board, its Chairman, special committees, and also by structural departments of the Bank and executives within their scope of authorities.

The Bank's authorized management bodies approve internal regulations that contain formalized descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan. On the mandatory basis Bank assesses risk factors associated with borrower's financial position and its trends, borrower's property structure and reputation, credit history, state of the economic sector and region, all relationships between the Bank and related persons.

In selecting lending and investment programs, priority rests with the agricultural sector and related industries, which are support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- Limiting one borrower's risk exposure;
- Lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- Lending to borrowers with different specialisation in different regions;
- A combination of several types of production in one entity typical for agricultural producers; and
- Diversification of investments in effective and reliable projects of other economic sectors.

Within credit risk management process (including counterparty credit risk), the Bank uses risk mitigating instruments (including accepting liquid collateral, guarantees, entering into general agreements to regulate collateral provision terms) and price making that takes into account assumed credit risk.

The Bank assesses residual risks arising from the fact that the instruments used can provide not expected effect (for example, in result of accepted collateral sale legal or liquidity risk can be lost) while using instruments that reduce credit risk. Residual risk can be realized in inability to sell accepted collateral, refusal or deferral of guaranteed payments, as well as the usage of improperly drawn documents.

Control of credit risk concentration related to the accepted security on financial market (credit, market) is mainly carried out by setting limits on accepted securities in the form of collateral. The Bank also establishes transaction restrictions on counterparties with securities for individual issuers. These restrictions are designed to diversify portfolio of counterparties, as a result, they reduce risk concentration.

## 29 Risk Management (continued)

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownership rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

The Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. The Bank's internal credit rating grades are as follows:

Internal rating	Average PD	Min PD	Max PD	S&P/Fitch	Moody's	Credit risk level
From 1+ to 2-	From 0.03% to 0.35%	From 0.00% to 0.27%	From 0.04% to 0.40%	From AAA to BBB-	From Aaa to Baa3	<b>Low</b> High ability to fulfill financial obligations in full. Corresponds to the investment ratings of the international rating agencies.
From 3+ to 4-	From 0.46% to 1.83%	From 0.40% to 1.60%	From 0.53% to 2.10%	From BB+ to BB-	From Ba1 to Ba3	<b>Moderate</b> Adequate ability to meet financial obligations in the medium term. Possible deterioration of the financial position in case of adverse economic conditions.
From 5+ to 6-	From 2.42% to 9.60%	From 2.10% to 8.36%	From 2.77% to 11.02%	From B+ to B-	From B1 to B3	<b>Increased</b> Adequate ability to meet financial obligations in the short term. In case of unfavorable economic conditions, difficulties in servicing obligations in time and in full are likely to occur.
From 7+ to D+	From 12.65% to 28.95%	From 11.02% to 25.22%	From 14.52% to 33.24%	From CCC+ to C	From Caa1 to C	<b>High</b> Difficult fulfillment of obligations on time and in full. Possible overdue liabilities. Protective actions of creditors (lawsuits, sale of collateral). Borrower in the recovery period after default.
D	100.00%	33.24%	100.00%	D	D	<b>Default</b>

**Market risk.** The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest, (c) equity and (d) commodity instruments. The market risk of the subsidiaries is estimated to be non-material due to proportion and structure of their assets and liabilities.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes) and developing risk hedging mechanisms.

The responsibility of managing the Bank's market risk rests with the Management Board, Risk Management Committee and the Asset and Liabilities Management Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Department of Operations on Financial Markets, Internal Treasury Department, the Capital Markets Department and the Risks Department within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.



## 29 Risk Management (continued)

Decision-making authority in the event of sudden market changes is on the Chairman of the Management Board, Risk Management Committee or the Asset and Liabilities Management Committee depending on specified limiting control procedure.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, for providing information for assigning credit ratings by international rating agencies and for regulators rests with the Risks Department.

The Risks Department's functional duties cover independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits and monitoring transactions with financial instruments.

The Bank's business units (the Capital Markets Department, Department of Operations on Financial Markets and the Internal Treasury Department) and the Operations Department are also in charge of current monitoring over exposed to market risks positions in the process of entering into and accounting for transactions.

The Risks Department jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits, which are set taking into account the risk-appetite and the Bank's strategy. When setting limits, the Bank considers several factors, such as market environment, financial position and business trends.

Limits are regularly reviewed and update by the Bank's authorised bodies. The Risks Department monitors limits and reports information on compliance with the set limits to the Bank's management. The Risks Department also considers and agrees all limits proposed by business units for carrying out new types of transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The Risks Department is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- The maximum volume of investments in certain types of assets or liabilities;
- The maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- Authorities of the Bank's staff to adopt independent decisions concerning certain types of transactions (personal limits);
- The maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- Various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency and the amount of all foreign currency positions to comply with the Bank of Russia requirements.

**Interest rate risk.** The Group takes on exposure of deterioration in its financial position due to a decrease in the size of capital, income levels, and value of assets as a result of changes in market interest rates.

The sources of interest rate risk are:

- Gap risk — the risk arising from the mismatch of the timing of changes in interest rates of assets, liabilities, off-balance sheet claims and obligations of the Bank.
- Baseline risk — a risk that arises when interest rates on financial instruments of the same maturity change depending on different financial indices.
- Yield curve risk — the risk of a change in the slope and/or shape of the interest rate curve.
- Option risk — a risk that manifests itself in the exercise of options (both directly concluded by the Bank and embedded in banking products), changing the value of the interest rate or the timing for meeting the requirements/obligations of the transaction.

## 29 Risk Management (continued)

The main methods of interest rate risk measurement are:

- Assessment of gaps between the assets and liabilities of the Group, sensitive to changes in the level of interest rates (method for estimating gaps by maturity);
- Assessment of the sensitivity of net interest income.

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on RAR with the assumption of stability of the structure of the Bank's assets and liabilities.

The table below summarises the Group's exposure to interest rate risk as at 31 December 2019 by the main settlement currencies of the Group (Russian rubles and US dollars) by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

Operations in Russian rubles:

<i>In millions of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 90 days</b>	<b>Due between 91 and 180 days</b>	<b>Due between 181 days and 1 year</b>	<b>Due between 1 and 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
Total interest bearing financial assets*	386 366	776 957	163 192	222 019	391 053	583 470	<b>2 523 057</b>
Total interest bearing financial liabilities*	512 448	266 063	290 343	449 825	694 013	172 411	<b>2 385 103</b>
<b>Sensitivity gap</b>	<b>(126 082)</b>	<b>510 894</b>	<b>(127 151)</b>	<b>(227 806)</b>	<b>(302 960)</b>	<b>411 059</b>	<b>137 954</b>
<b>Cummulative sensitivity gap</b>	<b>(126 082)</b>	<b>384 812</b>	<b>257 661</b>	<b>29 855</b>	<b>(273 105)</b>	<b>137 954</b>	<b>-</b>

Operations in US dollars:

<i>In millions of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 90 days</b>	<b>Due between 91 and 180 days</b>	<b>Due between 181 days and 1 year</b>	<b>Due between 1 and 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
Total interest bearing financial assets*	76 377	22 013	21 832	102 056	30 483	88 712	<b>341 473</b>
Total interest bearing financial liabilities*	44 494	33 812	32 884	70 258	59 489	109 725	<b>350 662</b>
<b>Sensitivity gap</b>	<b>31 883</b>	<b>(11 799)</b>	<b>(11 052)</b>	<b>31 798</b>	<b>(29 006)</b>	<b>(21 013)</b>	<b>(9 189)</b>
<b>Cummulative sensitivity gap</b>	<b>31 883</b>	<b>20 084</b>	<b>9 032</b>	<b>40 830</b>	<b>11 824</b>	<b>(9 189)</b>	<b>-</b>

The table below summarises the Group's exposure to interest rate risk as at 31 December 2018 by the main settlement currencies of the Group (Russian rubles and US dollars) by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

Operations in Russian rubles:

<i>In millions of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 90 days</b>	<b>Due between 91 and 180 days</b>	<b>Due between 181 days and 1 year</b>	<b>Due between 1 and 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
Total interest bearing financial assets*	712 056	406 339	157 450	194 558	391 076	549 914	<b>2 411 393</b>
Total interest bearing financial liabilities*	619 283	474 358	378 825	348 058	389 719	156 561	<b>2 366 804</b>
<b>Sensitivity gap</b>	<b>92 773</b>	<b>(68 019)</b>	<b>(221 375)</b>	<b>(153 500)</b>	<b>1 357</b>	<b>393 353</b>	<b>44 589</b>
<b>Cummulative sensitivity gap</b>	<b>92 773</b>	<b>24 754</b>	<b>(196 621)</b>	<b>(350 121)</b>	<b>(348 764)</b>	<b>44 589</b>	<b>-</b>

## 29 Risk Management (continued)

Operations in US dollars:

<i>In millions of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 90 days</b>	<b>Due between 91 and 180 days</b>	<b>Due between 181 days and 1 year</b>	<b>Due between 1 and 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
Total interest bearing financial assets*	47 511	13 998	18 438	12 799	123 739	101 876	<b>318 361</b>
Total interest bearing financial liabilities*	110 748	43 068	38 128	45 943	38 753	119 020	<b>395 660</b>
<b>Sensitivity gap</b>	<b>(63 237)</b>	<b>(29 070)</b>	<b>(19 690)</b>	<b>(33 144)</b>	<b>84 986</b>	<b>(17 144)</b>	<b>(77 299)</b>
<b>Cummulative sensitivity gap</b>	<b>(63 237)</b>	<b>(92 307)</b>	<b>(111 997)</b>	<b>(145 141)</b>	<b>(60 155)</b>	<b>(77 299)</b>	<b>-</b>

Securities included in the table above are presented by maturity (repricing) dates.

For the year ended 31 December 2019, if interest rates at that date had been 100 basis points lower/higher with all other variables held constant, net interest income for the year would have been RR 1 838 million lower/higher for operations in Russian rubles and RR 59 million higher/lower for operations in US dollars (31 December 2018: if interest rates at that date had been 100 basis points lower/higher with all other variables held constant, net interest income for the year would have been RR 1 449 million higher/lower for operations in Russian rubles and RR 1 063 million higher/lower for operations in US dollars).

For the year ended 31 December 2019, other components of equity (pre-tax) would have been RR 3 658 million higher/lower (31 December 2018: RR 8 641 million higher/lower) as a result of a decrease in the fair value of debt investment classified as at fair value through other comprehensive income and at fair value through profit or loss by 100 basis points.

**Currency and equity risk management.** Currency risk, market risk for commodity instruments and equity risk are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a financial instrument/portfolio of different financial instruments with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Market Risk Evaluation and provided by the Risks Department to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VAR on the basis of a 99% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation horizon is one day. Therefore, VAR shows the maximum loss that can be received from the open position during one trading day with a 99% probability; however, in 1% of cases losses may exceed this level. VAR is calculated by historical method.

VAR calculation is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VAR shows the maximum possible loss as per RR 1 of investments, and absolute VAR — losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

The procedure of back-testing of methods used is conducted quarterly.

Although VAR is a most common tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 99% confidence level does not take into account losses that may occur beyond this level. There is a 1% probability that the loss could exceed the VAR; and
- VAR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

## 29 Risk Management (continued)

**Currency risk.** The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates of foreign currencies, evaluated on the basis of VAR and ES methods with 99% confidence level.

<i>In millions of Russian Roubles</i>	31 December 2019	31 December 2018
(Short)/long position	2 137	(1 784)
VAR	26	33
Expected Shortfall	48	41

**Geographical risk concentration.** The geographical concentration of the Group's assets and liabilities as at 31 December 2019 is set out below:

<i>In millions of Russian Roubles</i>	Russia	OECD*	Other countries	Total
<b>Assets</b>				
Cash and cash equivalents	321 766	81 009	789	403 564
Mandatory cash balances with the Bank of Russia	22 334	-	-	22 334
Trading securities	21 974	-	-	21 974
Due from other banks	30 722	-	19 821	50 543
Derivative financial instruments	9 993	8 272	-	18 265
Loans and advances to customers	2 164 906	-	-	2 164 906
Investment securities	393 745	37 259	1 299	432 303
Current income tax assets	597	-	-	597
Deferred income tax asset	16 298	-	-	16 298
Intangible assets	7 423	-	-	7 423
Premises and equipment	51 470	-	-	51 470
Other assets	24 923	13	2	24 938
Assets classified as held for sale	1 134	-	-	1 134
<b>Total assets</b>	<b>3 067 285</b>	<b>126 553</b>	<b>21 911</b>	<b>3 215 749</b>
<b>Liabilities</b>				
Derivative financial instruments	3 351	1 431	-	4 782
Due to other banks	95 139	13 620	760	109 519
Customer accounts	2 485 144	31	933	2 486 108
Promissory notes issued	47 358	-	-	47 358
Bonds issued	174 954	-	-	174 954
Current income tax liability	469	-	-	469
Deferred income tax liability	2 221	-	-	2 221
Other liabilities	56 979	20	-	56 999
<b>Total liabilities before subordinated debts</b>	<b>2 865 615</b>	<b>15 102</b>	<b>1 693</b>	<b>2 882 410</b>
Subordinated debts	109 794	24 295	-	134 089
<b>Total liabilities</b>	<b>2 975 409</b>	<b>39 397</b>	<b>1 693</b>	<b>3 016 499</b>
<b>Net position in on-balance sheet instruments</b>	<b>91 876</b>	<b>87 156</b>	<b>20 218</b>	<b>199 250</b>

\* OECD — Organisation for Economic Cooperation and Development.

Assets and liabilities have been classified according to the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption "Russia". Cash on hand and premises and equipment have been classified according to the country in which they are physically held.

## 29 Risk Management (continued)

The geographical concentration of the Group's assets and liabilities as at 31 December 2018 is set out below:

<i>In millions of Russian Roubles</i>	<b>Russia</b>	<b>OECD*</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	386 750	2 581	1 254	<b>390 585</b>
Mandatory cash balances with the Bank of Russia	20 651	-	-	<b>20 651</b>
Trading securities	19 226	-	-	<b>19 226</b>
Due from other banks	9 461	-	29 256	<b>38 717</b>
Derivative financial instruments	10 693	7 074	-	<b>17 767</b>
Loans and advances to customers	1 957 767	-	-	<b>1 957 767</b>
Investment securities	529 832	2 326	27	<b>532 185</b>
Investment securities pledged under repurchase agreements	40 264	-	-	<b>40 264</b>
Current income tax assets	573	-	-	<b>573</b>
Deferred income tax asset	16 298	-	-	<b>16 298</b>
Intangible assets	6 113	-	-	<b>6 113</b>
Premises and equipment	50 186	-	-	<b>50 186</b>
Other assets	23 794	15	1	<b>23 810</b>
Assets of the disposal groups held for sale and assets held for sale	640	-	-	<b>640</b>
<b>Total assets</b>	<b>3 072 248</b>	<b>11 996</b>	<b>30 538</b>	<b>3 114 782</b>
<b>Liabilities</b>				
Derivative financial instruments	5 298	3 915	-	<b>9 213</b>
Due to other banks	155 425	16 008	97	<b>171 530</b>
Customer accounts	2 420 708	91	252	<b>2 421 051</b>
Promissory notes issued	42 341	-	-	<b>42 341</b>
Bonds issued	142 609	-	-	<b>142 609</b>
Current income tax liability	89	-	-	<b>89</b>
Deferred income tax liability	1 658	-	-	<b>1 658</b>
Other liabilities	27 271	20	-	<b>27 291</b>
<b>Total liabilities before subordinated debts</b>	<b>2 795 399</b>	<b>20 034</b>	<b>349</b>	<b>2 815 782</b>
Subordinated debts	119 514	27 765	-	<b>147 279</b>
<b>Total liabilities</b>	<b>2 914 913</b>	<b>47 799</b>	<b>349</b>	<b>2 963 061</b>
<b>Net position in on-balance sheet instruments</b>	<b>157 335</b>	<b>(35 803)</b>	<b>30 189</b>	<b>151 721</b>

\* OECD — Organisation for Economic Cooperation and Development.

**Liquidity risk.** Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- Segregation of duties between the Groups's management bodies, its collegial working bodies, structural units and executives;
- Setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- Priority of maintaining liquidity over profit maximisation;
- Excluding conflicts of interest in organising the liquidity management system; and
- Optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

## **29 Risk Management (continued)**

The responsibility for liquidity management rests with the Bank's Management Board, Risk Management Committee, Assets and Liabilities Management Committee and the Internal Treasury Department within their competence. Ensuring the solvency of the Bank within one business day and controlling the liquidity within 30 days is carried by the Department of Operations on Financial Markets within the established limits on attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Assets and Liabilities Management Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risks Department at each end of reporting period.

The Group manages liquidity risk using the following basic methods:

- Evaluating the daily payment position on the basis of cash flow analysis;
- Reviewing the actual values and changes in mandatory liquidity ratios;
- Evaluating structure and quality of assets and liabilities;
- Limiting active operations;
- Analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies; and
- Analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Internal Treasury Department is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in Russian roubles and other currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and instantly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board, Risk Management Committee and Assets and Liabilities Management Committee.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a regular basis for the Group and for the Bank in general with consideration of the branch network.

For the purpose of additional management of the Group's term liquidity in general, the Group uses liquidity limits which is supervised by the Risks Department as part of ongoing monitoring.

The table below shows distribution of financial liabilities as at 31 December 2019 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

## 29 Risk Management (continued)

The maturity analysis of undiscounted financial liabilities as at 31 December 2019 is as follows:

<i>In millions of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 180 days</b>	<b>Due between 181 days and 1 year</b>	<b>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
<b>Financial liabilities</b>						
Gross settled derivative financial instruments						
- inflow	(79 478)	(28 280)	(114 935)	(47 139)	(97 692)	<b>(367 524)</b>
- outflow	79 429	28 199	115 426	47 753	82 864	<b>353 671</b>
Net settled derivative financial instruments (liabilities)						
	14	(194)	(55)	141	-	<b>(94)</b>
Due to other banks	47 475	1 334	1 386	48 599	17 060	<b>115 854</b>
Customer accounts	807 784	596 061	505 797	660 600	36 569	<b>2 606 811</b>
Promissory notes issued	26 093	3 552	1 577	10 629	5 507	<b>47 358</b>
Bonds issued	2 586	18 295	21 895	100 092	104 696	<b>247 564</b>
Lease liabilities (IFRS 16)	190	1 115	1 338	4 875	4 453	<b>11 971</b>
Other financial liabilities	12 766	103	227	6	110	<b>13 212</b>
Subordinated debts	1 355	5 190	5 034	28 652	140 135	<b>180 366</b>
<b>Off-balance sheet financial liabilities</b>						
Letters of credit	2 529	-	-	-	-	<b>2 529</b>
Other credit related commitments*	174 145	-	-	-	-	<b>174 145</b>
<b>Total potential future payments for financial obligations</b>						
	<b>1 074 888</b>	<b>625 375</b>	<b>537 690</b>	<b>854 208</b>	<b>293 702</b>	<b>3 385 863</b>

\* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

The maturity analysis of undiscounted financial liabilities as at 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	<b>Demand and less than 30 days</b>	<b>Due between 31 and 180 days</b>	<b>Due between 181 days and 1 year</b>	<b>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
<b>Financial liabilities</b>						
Gross settled derivative financial instruments						
- inflow	(5 559)	(2 901)	(4 540)	(31 294)	(38 154)	<b>(82 448)</b>
- outflow	5 860	3 053	4 773	32 784	30 831	<b>77 301</b>
Net settled derivative financial instruments (liabilities)						
	3 518	2 684	29	5	-	<b>6 236</b>
Due to other banks	102 410	3 371	5 589	69 138	21 541	<b>202 049</b>
Customer accounts	910 398	935 023	366 819	343 835	11 496	<b>2 567 571</b>
Promissory notes issued	11 596	4 001	1 343	27 790	-	<b>44 730</b>
Bonds issued	668	11 821	27 652	70 171	95 534	<b>205 846</b>
Other financial liabilities	2 502	795	52	252	68	<b>3 669</b>
Subordinated debts	681	4 641	5 479	31 907	165 421	<b>208 129</b>
<b>Off-balance sheet financial liabilities</b>						
Letters of credit	3 928	-	-	-	-	<b>3 928</b>
Other credit related commitments*	165 502	-	-	-	-	<b>165 502</b>
<b>Total potential future payments for financial obligations</b>						
	<b>1 201 504</b>	<b>962 488</b>	<b>407 196</b>	<b>544 588</b>	<b>286 737</b>	<b>3 402 513</b>

\* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

## 29 Risk Management (continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right for accrued interest. Refer to Note 14.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The table below summarizes contractual maturity analysis as at 31 December 2019:

<i>In millions of Russian Roubles</i>	<b>Less than 1 year</b>	<b>More than 1 year</b>	<b>Total</b>
<b>Financial assets</b>			
Cash and cash equivalents	403 564	-	<b>403 564</b>
Mandatory cash balances with the Bank of Russia	22 334	-	<b>22 334</b>
Trading securities	18 419	3 555	<b>21 974</b>
Due from other banks	43 656	6 887	<b>50 543</b>
Derivative financial instruments	2 014	16 251	<b>18 265</b>
Loans and advances to customers	705 843	1 459 063	<b>2 164 906</b>
Investment securities	18 436	413 867	<b>432 303</b>
Other financial assets	9 014	95	<b>9 109</b>
<b>Total financial assets</b>	<b>1 223 280</b>	<b>1 899 718</b>	<b>3 122 998</b>
<b>Financial liabilities</b>			
Derivative financial instruments	(2 441)	(2 341)	<b>(4 782)</b>
Due to other banks	(48 253)	(61 266)	<b>(109 519)</b>
Customer accounts	(1 873 518)	(612 590)	<b>(2 486 108)</b>
Promissory notes issued	(31 222)	(16 136)	<b>(47 358)</b>
Bonds issued	(28 838)	(146 116)	<b>(174 954)</b>
Other financial liabilities	(13 076)	(10 360)	<b>(23 436)</b>
<b>Total financial liabilities before subordinated debts</b>	<b>(1 997 348)</b>	<b>(848 809)</b>	<b>(2 846 157)</b>
Subordinated debts	(1 565)	(132 524)	<b>(134 089)</b>
<b>Total financial liabilities</b>	<b>(1 998 913)</b>	<b>(981 333)</b>	<b>(2 980 246)</b>
<b>Net liquidity gap</b>	<b>(775 633)</b>	<b>918 385</b>	<b>142 752</b>
<b>Cumulative liquidity gap</b>	<b>(775 633)</b>	<b>142 752</b>	<b>-</b>



## 29 Risk Management (continued)

The table below summarizes contractual maturity analysis as at 31 December 2018:

<i>In millions of Russian Roubles</i>	<b>Less than 1 year</b>	<b>More than 1 year</b>	<b>Total</b>
<b>Financial assets</b>			
Cash and cash equivalents	390 585	-	<b>390 585</b>
Mandatory cash balances with the Bank of Russia	20 651	-	<b>20 651</b>
Trading securities	17 160	2 066	<b>19 226</b>
Due from other banks	30 144	8 573	<b>38 717</b>
Derivative financial instruments	3 083	14 684	<b>17 767</b>
Loans and advances to customers	668 066	1 289 701	<b>1 957 767</b>
Investment securities	126 358	405 827	<b>532 185</b>
Investment securities pledged under repurchase agreements	40 264	-	<b>40 264</b>
Other financial assets	7 978	24	<b>8 002</b>
<b>Total financial assets</b>	<b>1 304 289</b>	<b>1 720 875</b>	<b>3 025 164</b>
<b>Financial liabilities</b>			
Derivative financial instruments	(6 918)	(2 295)	<b>(9 213)</b>
Due to other banks	(109 157)	(62 373)	<b>(171 530)</b>
Customer accounts	(2 121 554)	(299 497)	<b>(2 421 051)</b>
Promissory notes issued	(16 817)	(25 524)	<b>(42 341)</b>
Bonds issued	(7 081)	(135 528)	<b>(142 609)</b>
Other financial liabilities	(3 349)	(320)	<b>(3 669)</b>
<b>Total financial liabilities before subordinated debts</b>	<b>(2 264 876)</b>	<b>(525 537)</b>	<b>(2 790 413)</b>
Subordinated debts	(1 721)	(145 558)	<b>(147 279)</b>
<b>Total financial liabilities</b>	<b>(2 266 597)</b>	<b>(671 095)</b>	<b>(2 937 692)</b>
<b>Net liquidity gap</b>	<b>(962 308)</b>	<b>1 049 780</b>	<b>87 472</b>
<b>Cumulative liquidity gap</b>	<b>(962 308)</b>	<b>87 472</b>	<b>-</b>

The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the liquidity risks of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers' accounts being on demand diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

**Operational risk.** Operational risk is the risk of losses in a result of mismatch of character and range of Bank's activity, internal rules and procedures of making bank operations and other deals, staff or other person infraction (as a result of unintentional or intended activity or inactivity), mismatch (insufficiency) functional abilities using information technical and other system and (or) there multifunction (disrupting operation) and also as a result of influence of external events.

Main principles of Operational risk management are incorporated in Bank's internal documents.

The main goal of Bank's operational risk management is maintain acceptable operation risk level, undertake by Bank for secure Bank reliability during its usual operation activity and achievement strategic aims and objectives.

## 29 Risk Management (continued)

The Bank's Management Board, Risk Management Committee of the Bank and other collegial bodies of the Bank perform operational risk management in the Bank within their authorities.

Responsibility for completeness, quality and timeliness of reporting on operational risks, inherent in the activities of the independent structural bodies of the Bank, and losses in case of its realization, as well as responsibility for compliance with principles and procedures of operational risk management in the process of operational activity lies with the heads of divisions of the Bank and regional branches.

The Group manages operational risk using the following methods:

- Creating internal culture of operational risk management on all levels of Groups organizational structure, including levels of regional branches;
- Methodological support of operational risk management process. Developing and enhancing Groups internal documents regulating the process of operational risk management;
- Identification and assessment of operational risk on all material business lines, business processes, products and information systems of the Group, as well as developing and providing measures necessary for maintaining operational risk at the acceptable for the Bank level;
- Selection and analyse of any data relating to operational risks, supporting the Data warehouse of operational risk trigger events and losses in case of its realization;
- Developing and implementing the actual plan for minimization of operational risk and probable subsequent losses in case of its realization;
- Developing actual plans for providing regularity or/and recover ability of the Group's activity in case of unobservable and unexpected circumstances, and for limiting Groups losses in case of adverse circumstances arisen;
- Monitoring and preparing the report of operational risk level on regular basis;
- Maintaining effective internal control environment within the framework of operational risk management.

The internal culture of operational risk management is the combination of individual and corporate values, settings, competences and behavioural models which determine Bank's attitude to operational risk management and assume knowledge by the Bank's employees of the main operational risk management principles and methods and their active participation in the process of operational risk management.

**Insurance risk.** In the process of carrying out insurance activities, the Group assumes the risk of losses from individuals and organizations that are directly exposed to risk. These risks may include the risk of damage to property, the risk of civil liability to third parties, the risk of an accident or illness, the risk of the insured person living to a certain age or period, or other events in the life of the insured person, the risk of death of the insured person, and other risks associated with the occurrence of an insured event. In assuming risks, the Group is subject to uncertainty as to the time of payment of the insurance indemnity and the severity of the damage. Insurance cases are random in nature, and their actual number and magnitude may differ from estimates made using statistical methods.

Insurance risk (actuarial tariff risk, actuarial reserve risk, underwriting risk, reinsurance operations risk, catastrophic event risk) — the risk of losses of insurance activities due to:

- Insufficient reserves formed to cover the Group's obligations to policyholders;
- Non-compliance of the tariff with the probability of occurrence of an insurance event and the predicted trends in the development of the risk accepted for insurance;
- Occurrence of catastrophic events (changes in weather and climate conditions, epidemics, etc.) or economic downturn;
- Exceeding your own retention limit and/or underestimating the degree of risk accumulation.

When organizing risk management processes, the Group strives to follow generally accepted international standards in this area.

## **29 Risk Management (continued)**

The risk management process in the Group is a sequence of technologically related operations carried out within the framework of risk management activities and includes the following main stages:

- Risk identification-identification and classification of risks that could potentially affect the Group's current activities or planned operations.
- Regulation of the process of conducting operations subject to insurance risk (all operations subject to insurance risks are carried out within the limits:
  - Limits of self-retention;
  - Limits of authority of Agents/employees of selling divisions;
  - Limits the powers of the Underwriters;
  - Reinsurance of risks/part of risks taken by the Group in order to ensure the financial stability of the Group.
- Risk assessment-identification of key risk indicators and methods of quantitative and qualitative risk assessment for individual Group operations and the total risk accepted by the Group (including assessment of the level of insurance risk for operations/transactions/portfolios, calculation of tariff rates/deductibles).
- Risk management-development of tools for reducing the level of accepted risks, including setting limits and restrictions on the amount of risks accepted by the Group, taking into account the assessment of its performance.
- Risk monitoring and control – conducting regular checks of compliance with established limits and restrictions, forming risk reports on the level and acceptability of accepted risks, monitoring compliance with risk management procedures and their compliance with established requirements.

The group manages insurance risk through the use of established statistical methods, reinsurance of risk concentration, setting limits on underwriting, establishing transaction approval procedures, developing rules for setting insurance rates, and monitoring complex issues that arise.

The degree of uncertainty in the loss settlement process for each type of insurance varies depending on the specific nature of the risk and the length of the period required to claim losses and settle them.

The main assumption used in assessing liabilities is that the group's insurance losses will develop in the future in the same way as losses in the past, with a number of possible assumptions. When assessing the extent to which previous trends may not repeat in the future, additional qualitative judgments must be applied. The judgment is used to assess the extent to which external factors such as economic downturns, changes in weather and climate conditions, outbreaks of epidemics, and others affect estimates.

Obligations under insurance contracts are sensitive to the basic assumptions listed above.

The insurance risk under the insurance contract is the possibility of an insured event and the uncertainty of the corresponding amount of loss. The nature of the insurance contract is such that this risk is accidental and, accordingly, unpredictable. The group provides life insurance services and insurance other than life insurance: property insurance, agricultural insurance and individual accident insurance.

For a portfolio of insurance contracts that used probability theory in relation to pricing and reservation, the main risk associated with insurance contracts is that actual losses and insurance payments exceed the book value of insurance liabilities. This may be due to the fact that the frequency or significance of losses and payments will exceed the estimated level. Insurance events are random, and the actual amount and amounts of losses and payments for each year will differ from the amounts determined using actuarial methods. Factors that exacerbate insurance risk include a lack of diversification by type and level of risk, geographical location, and type of insurance policy holder.

### 30 Offsetting Financial Assets and Financial Liabilities

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements (ISDA, RISDA and other) and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2019 and 31 December 2018:

<i>In millions of Russian Roubles</i>	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount of exposure
<b>Assets subject to offsetting, master netting and similar arrangement</b>						
Derivative financial instruments	11 930	-	11 930	(639)	(1 004)	10 287
Cash and cash equivalents (reverse repurchase agreements)	1 586	-	1 586	(1 586)	-	-
<b>Liabilities subject to offsetting, master netting and similar arrangement</b>						
Derivative financial instruments	4 770	-	4 770	(639)	(847)	3 284

<i>In millions of Russian Roubles</i>	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount of exposure
<b>Assets subject to offsetting, master netting and similar arrangement</b>						
Derivative financial instruments	10 977	-	10 977	(1 671)	(793)	8 513
Cash and cash equivalents (reverse repurchase agreements)	36	-	36	(36)	-	-
<b>Liabilities subject to offsetting, master netting and similar arrangement</b>						
Derivative financial instruments	9 213	-	9 213	(1 671)	(46)	7 496
Due to other banks (direct repurchase agreements)	35 700	-	35 700	(35 700)	-	-

The Group has master netting arrangements with stock exchange and counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. Information on such balances is subject to disclosure as they were set off in the statement of financial position.

### 31 Management of Capital

The Group's objectives when managing capital are:

- i. To comply with the capital requirements set by the Bank of Russia;
- ii. To ensure the Group's ability to continue as a going concern.

Compliance with the capital adequacy ratio set by the Bank of Russia is monitored by the Group's management on a monthly basis.

Under the capital requirements set by the Bank of Russia effective at 31 December 2019 and 2018, banks had to maintain a ratio of capital and assets weighted to risk ("Capital Adequacy Ratio") above a prescribed minimum level of 8% (N1.0), while a prescribed minimum level for Common Equity Tier 1 Ratio (CET1 ratio) (N1.1) is set at 4.5% and for Tier 1 Ratio (N1.2) is set at 6%.

### 31 Management of Capital (continued)

During 2019 and 2018 the Bank's capital adequacy ratio in accordance with the Bank of Russia requirements exceeded the minimum level and as at 31 December 2019 and 31 December 2018 was as follows:

<i>In millions of Russian Roubles</i>	31 December 2019	31 December 2018
Capital of the Bank	506 244	483 879
CET1 Ratio (N1.1)	9.9%	9.5%
Tier1 Ratio (N1.2)	11.3%	10.7%
Capital Adequacy Ratio (N1.0)	15.1%	15.2%

Capital of the Bank and capital adequacy is calculated as required by the Bank of Russia Regulation # 646-P *Methodology for Capital Adequacy Calculation by Credit Organizations (Basel III)* and the Bank of Russia Instruction # 180-I *Methodology for Mandatory Prudential Ratios Calculation by Banks*.

As at 31 December 2019 and 2018, the Group is subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated on the IFRS figures in accordance with Basel II Capital Accord equals 8%. As at 31 December 2019, the Group was in compliance with covenants for maintaining capital adequacy ratio under Basel II.

### 32 Contingencies and Commitments

**Legal proceedings.** From time to time in the normal course of business, claims against the Group are received. As at 31 December 2019, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of the claims in excess of the amounts already provided for in these consolidated financial statements (31 December 2018: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in the consolidated financial statements).

**Tax contingencies.** Certain provisions of Russian tax, currency and customs legislation as currently in effect are vaguely drafted which may often result in their different interpretation (which, inter alia, may apply retrospectively), inconsistent and selective application and frequent and unpredictable changes. Interpretation of this legislation by the Group in relation to the operations and activities of the Group may be challenged by the respective state authorities. The tax authorities may be taking a more assertive position in their interpretation of the Russian tax legislation in carrying out tax audits and in making tax assessments. Consequently, the tax authorities may challenge transactions and tax accounting methods that have not been challenged in the past.

Fiscal periods remain open and subject to review by the tax authorities in course of the on-site tax audits for a period of 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.

Russian transfer pricing legislation allows the Russian tax authority under certain circumstances to apply transfer pricing adjustments and impose additional profits tax and VAT liabilities in respect of all controlled transactions if the transaction price differs from the market level of prices determined for tax purposes and such deviation resulted in the underpayment of the tax to the revenue. The list of controlled transactions includes transactions performed with interdependent parties (with certain exceptions) and certain types of cross-border transactions and transactions between Russian interdependent parties. Special transfer pricing rules apply to transactions with securities, derivatives and interest.

During the year ended 31 December 2019, the Group determined its tax liabilities arising from the controlled transactions using actual transaction prices.

Due to the absence of the stable practice of the application of the Russian transfer pricing legislation, the Russian tax authorities may challenge the level of prices applied by the Russian companies of the Group for tax purposes under the controlled transactions and accrue additional tax liabilities in relation to such transactions, unless the Group is able to demonstrate that the respective transactions are arms' length for tax purposes.

As at 31 December 2019, the Management of the Group believes that its interpretation of the applicable legislation is reasonable and will be sustained.

### 32 Contingencies and Commitments (continued)

**Capital expenditure commitments.** As at 31 December 2019, the Group has contractual capital expenditure commitments of RR 1 950 million (31 December 2018: RR 1 342 million).

**Compliance with covenants.** The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

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

**Performance guarantees.** Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs.

Outstanding credit related commitments and performance guarantees are as follows:

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Undrawn credit lines	97 741	95 344
Letters of credit	2 529	3 928
Less: provisions for ECL	(508)	(656)
<b>Total credit related commitments</b>	<b>99 762</b>	<b>98 616</b>
Performance guarantees	101 820	162 834
Less: provision	-	(633)
<b>Total credit related commitments and performance guarantees</b>	<b>201 582</b>	<b>260 817</b>

An analysis of changes in the ECLs of credit related commitments during the year ended 31 December 2019 are as follows:

<i>In millions of Russian Roubles</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>ECLs as at 1 January 2019</b>	<b>654</b>	<b>2</b>	<b>-</b>	<b>656</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(57)	57	-	-
Transfers to Stage 3	(39)	-	39	-
Impact on period end ECL of exposures transferred between stages during the period (including expense on new issue and income from repayments)	(61)	(48)	(39)	<b>(148)</b>
<b>ECLs as at 31 December 2019</b>	<b>497</b>	<b>11</b>	<b>-</b>	<b>508</b>

### 32 Contingencies and Commitments (continued)

An analysis of changes in the ECLs of credit related commitments during the year ended 31 December 2018 are as follows:

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
<b>ECLs as at 1 January 2018</b>	<b>624</b>	-	-	<b>624</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period (including expense on new issue and income from repayments)	30	2	-	<b>32</b>
<b>ECLs as at 31 December 2018</b>	<b>654</b>	<b>2</b>	-	<b>656</b>

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

An analysis of changes in the provision for performance guarantees are as follows:

<i>In millions of Russian Roubles</i>	2019	2018
<b>Provision as at 1 January</b>	<b>633</b>	-
Provision	1 214	2 694
Amount written off	(1 847)	(2 061)
<b>Provision as at 31 December</b>	<b>-</b>	<b>633</b>

Credit related commitments are denominated in currencies as follows:

<i>In millions of Russian Roubles</i>	31 December 2019	31 December 2018
Russian Roubles	189 500	250 612
Euros	5 411	3 898
US Dollars	6 671	6 307
<b>Total credit related commitments and performance guarantees</b>	<b>201 582</b>	<b>260 817</b>

Analysis by credit quality in relation to credit related commitments as at 31 December 2019 is as follows:

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
Low credit risk	9 489	-	-	<b>9 489</b>
Moderate credit risk	70 822	311	-	<b>71 133</b>
Increased credit risk	15 908	2 077	-	<b>17 985</b>
High credit risk	-	1 663	-	<b>1 663</b>
Default	-	-	-	-
Unrated	-	-	-	-
<b>Total credit related commitments (before impairment)</b>	<b>96 219</b>	<b>4 051</b>	-	<b>100 270</b>
Less: allowance for impairment	(497)	(11)	-	<b>(508)</b>
<b>Total credit related commitments</b>	<b>95 722</b>	<b>4 040</b>	-	<b>99 762</b>

### 32 Contingencies and Commitments (continued)

Analysis by credit quality in relation to credit related commitments as at 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
Low credit risk	-	-	-	-
Moderate credit risk	49 003	1 497	-	50 500
Increased credit risk	41 779	1 061	-	42 840
High credit risk	-	1 697	161	1 858
Default	-	-	-	-
Unrated	4 074	-	-	4 074
<b>Total credit related commitments (before impairment)</b>	<b>94 856</b>	<b>4 255</b>	<b>161</b>	<b>99 272</b>
Less: allowance for impairment	(655)	(1)	-	(656)
<b>Total credit related commitments</b>	<b>94 201</b>	<b>4 254</b>	<b>161</b>	<b>98 616</b>

**Assets pledged and restricted.** The Group has the following assets pledged and restricted:

<i>In millions of Russian Roubles</i>	Note	31 December 2019	31 December 2018
Assets pledged under loan agreements with banks (including the Bank of Russia)		13 084	18 556
Repurchase agreements		-	40 264

As at 31 December 2019, mandatory cash balances with the Bank of Russia in the amount of RR 22 334 million (31 December 2018: RR 20 651 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2019 and 31 December 2018, assets pledged under loan agreements with banks (including the Bank of Russia) mainly include loans and advances to customers pledged to the Bank of Russia under loan agreements in accordance with the Bank of Russia Act # 4801-U *On the Forms and Conditions of Refinancing of Credit Institutions Secured by Assets* dated 22 May 2018.

#### **Financial assets transferred without derecognition**

Transferred financial assets that are not derecognized in their entirety are represented by securities transferred without derecognition and pledged under repurchase agreements.

The following table provides a summary of financial assets transferred without derecognition:

<i>In millions of Russian Roubles</i>	31 December 2019		31 December 2018	
	Carrying amount assets	Carrying amount associated liabilities	Carrying amount assets	Carrying amount associated liabilities
<b>Repurchase agreements</b>				
Corporate Eurobonds	-	-	31 477	27 360
Federal loan bonds (OFZ)	-	-	-	-
State Eurobonds	-	-	8 787	8 340
<b>Total</b>	<b>-</b>	<b>-</b>	<b>40 264</b>	<b>35 700</b>



### 33 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties. As a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms, derivative financial instruments are recognised as assets (in case of positive fair value) or liabilities (in case of negative fair value).

As at 31 December 2019, in the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days prevails swaps structured as loans issued by the Group in Japanese yens (31 December 2018: in Japanese yens) to one large OECD bank with maturities from March 2023 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities (“back-to-back loans”).

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2019 and covers the contracts with settlement dates after the respective end of the reporting period:

<i>In millions of Russian Roubles</i>	<b>Principal or agreed amount at fair value of assets receivable</b>	<b>Principal or agreed amount at fair value of assets payable</b>	<b>Positive fair value</b>	<b>Negative fair value</b>
<b>Forwards and swaps</b>				
- Currency	205 718	(199 746)	6 949	(977)
- Securities	134 271	(127 728)	8 974	(2 337)
- Precious metals	1 097	(1 097)	-	-
- Interest rate	5 277	(5 180)	942	(845)
- Currency-interest rate	26 335	(25 558)	1 400	(623)
<b>Total derivative financial instruments</b>	<b>372 698</b>	<b>(359 309)</b>	<b>18 265</b>	<b>(4 782)</b>

### 33 Derivative Financial Instruments (continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2018 and covers the contracts with settlement dates after the respective end of the reporting period:

<i>In millions of Russian Roubles</i>	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
<b>Forwards and swaps</b>				
- Currency	216 849	(213 176)	9 490	(5 817)
- Securities	146 384	(141 502)	7 859	(2 978)
- Precious metals	1 515	(1 526)	6	(17)
- Interest rate	1 797	(1 795)	238	(236)
<b>Options</b>	3 580	(3 581)	171	(165)
<b>Futures</b>				
- Index	90	(88)	3	-
<b>Total derivative financial instruments</b>	<b>370 215</b>	<b>(361 668)</b>	<b>17 767</b>	<b>(9 213)</b>

As at 31 December 2019 and 2018, the Group had no foreign exchange swaps with fair value individually above 10% of the Group's equity.

Refer to Note 34 for the disclosure of fair value hierarchy for derivative financial instruments. Geographical and liquidity analyses of derivative financial instruments are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

### 34 Fair Value of Financial Instruments

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 estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

**Financial instruments carried at fair value.** Trading securities, investment securities at fair value through other comprehensive income, and related trading and investment securities pledged under repurchase agreements are carried on the consolidated statement of financial position at their fair value based on quoted market prices and valuation techniques where all of material inputs are observable.

Financial instruments at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable on the market. Derivative financial instruments are measured at fair value as assets when fair value is positive and as liabilities when fair value is negative. The Group uses cash flow discounting technique using observable market data about yield curves changes, as well as market statistical data, reflecting the distribution of the probability of default of financial instruments over time.

Certain loans to customers did not meet the SPPI criterion. Therefore, these loans are classified by the Group as financial assets at FVTPL.

The Group determines the fair value in relation to securities that are not traded in an active market as a price of a security, which can be determined taking into account the specific conditions of the transaction, the circulation characteristics of the security and other indicators, information about which may serve as a basis for such a calculation, including the involvement of an independent appraiser to assess the fair value.

### 34 Fair Value of Financial Instruments (continued)

**Cash and cash equivalents** are carried at amortised cost which approximates its current fair value.

**Loans and receivables.** The fair value of floating rate instruments is normally equals their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Loans at fair value through profit or loss are valued using a combination of approaches. Where appropriate, loans are valued with reference to observable prices of debt securities issued by the borrower or by comparable entities. In other cases, valuation is performed using internal models based on present value techniques or, in some circumstances (for example, in respect of cash flow from assets held as collateral), external valuation reports. The non-observable inputs to the models include adjustments for credit, market and liquidity risks associated with the expected cash flows from the borrower's operations or in respect of collateral valuation.

**Investment securities carried at amortised cost.** The fair value for investment securities carried at amortised cost is based on quoted market prices and valuation techniques with all material inputs observable.

**Liabilities carried at amortised cost.** The fair value of bonds issued is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

### 34 Fair Value of Financial Instruments (continued)

#### (a) Fair value of financial instruments carried at amortised cost and at fair value

<i>In millions of Russian Roubles</i>	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets carried at amortised cost</b>				
Cash and cash equivalents	403 564	403 564	390 585	390 585
Mandatory cash balances with the Bank of Russia	22 334	22 334	20 651	20 651
Due from other banks	50 543	47 079	38 717	41 015
Loans and advances to customers				
- Loans to corporates	1 650 485	1 656 182	1 503 878	1 515 051
- Lending for food interventions	18 838	18 838	26 446	26 446
- Loans to individuals	439 792	432 753	402 422	407 937
Investment securities				
- Corporate bonds	42 454	42 991	37 308	37 245
- Municipal and subfederal bonds	10 793	11 349	15 838	15 931
- Federal Loan bonds (OFZ)	4 824	4 905	3 537	3 350
- Corporate Eurobonds	895	895	208	208
Other financial assets	9 109	9 109	8 002	8 002
<b>Total financial assets carried at amortised cost</b>	<b>2 653 631</b>	<b>2 649 999</b>	<b>2 447 592</b>	<b>2 466 421</b>
Financial assets carried at fair value	469 367	469 367	577 572	577 572
<b>Total financial assets</b>	<b>3 122 998</b>	<b>3 119 366</b>	<b>3 025 164</b>	<b>3 043 993</b>
<b>Financial liabilities carried at amortised cost</b>				
Due to other banks:				
- Term borrowings from other banks	51 977	53 920	83 375	84 787
- Term borrowings from the Bank of Russia	45 280	44 956	48 054	47 147
- Correspondent accounts and overnight placements of other banks	12 262	12 262	40 101	40 101
Customer accounts:				
- State and public organisations	383 135	383 448	593 569	594 114
- Other legal entities	911 538	913 744	792 663	792 743
- Individuals	1 191 435	1 202 026	1 034 819	1 031 971
Promissory notes issued	47 358	47 358	42 341	42 341
Bonds issued:				
- Bonds issued on domestic market	174 954	186 861	142 609	145 806
Other financial liabilities	23 436	23 436	3 669	3 669
<b>Total financial liabilities carried at amortised cost before subordinated debts</b>	<b>2 841 375</b>	<b>2 868 011</b>	<b>2 781 200</b>	<b>2 782 679</b>
Subordinated debts	134 089	143 171	147 279	153 774
<b>Total financial liabilities carried at amortised cost</b>	<b>2 975 464</b>	<b>3 011 182</b>	<b>2 928 479</b>	<b>2 936 453</b>
Financial liabilities carried at fair value	4 782	4 782	9 213	9 213
<b>Total financial liabilities</b>	<b>2 980 246</b>	<b>3 015 964</b>	<b>2 937 692</b>	<b>2 945 666</b>

#### (b) Analysis by fair value hierarchy of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- (i) Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- (iii) Level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

### 34 Fair Value of Financial Instruments (continued)

**Fair value hierarchy.** For the purpose of fair value disclosures, the Group 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 as explained above.

Analysis of financial and non-financial instruments as at 31 December 2019 is as follows:

<i>In millions of Russian Roubles</i>	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with non- observable inputs (Level 3)	Total
<b>Assets measured at fair value</b>				
Trading securities	21 974	-	-	21 974
Investment securities	321 329	51 880	128	373 337
Derivative financial instruments	-	18 265	-	18 265
Loans to customers at fair value through profit or loss	-	-	55 791	55 791
Office premises	-	-	27 349	27 349
Other non-financial assets	118	-	-	118
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	-	403 564	-	403 564
Mandatory cash balances with the Bank of Russia	-	-	22 334	22 334
Due from other banks	-	47 079	-	47 079
Loans and advances to customers	-	-	2 107 773	2 107 773
Investment securities	52 765	7 375	-	60 140
Other financial assets	-	-	9 109	9 109
<b>Total financial and non-financial assets</b>	<b>396 186</b>	<b>528 163</b>	<b>2 222 484</b>	<b>3 146 833</b>
<b>Liabilities measured at fair value</b>				
Derivative financial instruments	-	4 782	-	4 782
<b>Liabilities for which fair values are disclosed</b>				
Due to other banks	-	111 138	-	111 138
Customer accounts	-	-	2 499 218	2 499 218
Promissory notes issued	-	-	47 358	47 358
Bonds issued:				
- Bonds issued on domestic market	142 322	44 539	-	186 861
Other financial liabilities	-	-	23 436	23 436
<b>Total financial liabilities before subordinated debts</b>	<b>142 322</b>	<b>160 459</b>	<b>2 570 012</b>	<b>2 872 793</b>
Subordinated debts	27 354	115 817	-	143 171
<b>Total financial liabilities</b>	<b>169 676</b>	<b>276 276</b>	<b>2 570 012</b>	<b>3 015 964</b>

### 34 Fair Value of Financial Instruments (continued)

Analysis of financial and non-financial instruments as at 31 December 2018 is as follows:

<i>In millions of Russian Roubles</i>	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with non- observable inputs (Level 3)	Total
<b>Assets measured at fair value</b>				
Trading securities	17 362	1 864	-	19 226
Investment securities	470 092	43 083	2 383	515 558
Derivative financial instruments	-	17 767	-	17 767
Loans to customers at fair value through profit or loss	-	-	25 021	25 021
Office premises	-	-	28 171	28 171
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	-	390 585	-	390 585
Mandatory cash balances with the Bank of Russia	-	-	20 651	20 651
Due from other banks	-	41 015	-	41 015
Loans and advances to customers	-	-	1 949 434	1 949 434
Investment securities held to maturity	48 762	7 972	-	56 734
Other financial assets carried at amortised cost	-	-	8 002	8 002
<b>Total financial and non-financial assets</b>	<b>536 216</b>	<b>502 286</b>	<b>2 033 662</b>	<b>3 072 164</b>
<b>Liabilities measured at fair value</b>				
Derivative financial instruments	-	9 213	-	9 213
<b>Liabilities for which fair values are disclosed</b>				
Due to other banks	-	172 035	-	172 035
Customer accounts	-	-	2 418 828	2 418 828
Promissory notes issued	-	-	42 341	42 341
Bonds issued				
- Bonds issued on domestic market	106 781	39 025	-	145 806
Other financial liabilities	-	-	3 669	3 669
<b>Total financial liabilities before subordinated debts</b>	<b>106 781</b>	<b>220 273</b>	<b>2 464 838</b>	<b>2 791 892</b>
Subordinated debts	28 194	125 580	-	153 774
<b>Total financial liabilities</b>	<b>134 975</b>	<b>345 853</b>	<b>2 464 838</b>	<b>2 945 666</b>

The following table show a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

<i>In millions of Russian Roubles</i>	At 31 December 2018	Total gains	New assets recognised	Assets derecognised	At 31 December 2019
<b>Financial assets</b>					
Loans to customers at fair value through profit or loss	25 021	3 550	35 302	(8 082)	55 791
Investment securities at fair value through profit or loss	2 383	46	-	(2 301)	128
<b>Total level 3 financial assets</b>	<b>27 404</b>	<b>3 596</b>	<b>35 302</b>	<b>(10 383)</b>	<b>55 919</b>

<i>In millions of Russian Roubles</i>	At 31 December 2017	Transfers at adoption of IFRS 9	Total gain/(loss) recorded in profit or loss	New assets recognised	Assets derecognised	At 31 December 2018
<b>Financial assets</b>						
Loans to customers at fair value through profit or loss	n/a	24 022	2 485	10 757	(12 243)	25 021
Investment securities at fair value through profit or loss	n/a	-	-	2 383	-	2 383
<b>Total level 3 financial assets</b>	<b>n/a</b>	<b>24 022</b>	<b>2 485</b>	<b>13 140</b>	<b>(12 243)</b>	<b>27 404</b>

### 34 Fair Value of Financial Instruments (continued)

Gains or losses on Level 3 financial assets included in the profit or loss for the period comprise:

<i>In millions of Russian Roubles</i>	For the year ended 31 December 2019			For the year ended 31 December 2018		
	Realised gains/ (losses)	Unrealised gains/ (losses)	Total	Realised gains/ (losses)	Unrealised gains/ (losses)	Total
Total gains included in the profit or loss for the period*	4 951	(1 355)	3 596	2 263	222	2 485

\* Gains are recorded for Interest income and Gains less losses from financial instruments and loans to customers at fair value through profit or loss.

#### Loans at fair value through profit or loss

The Group determines the fair value of loans based on discounted cash flow models taking into account the borrower's credit risk. The models use a number of unobservable input market data, the main ones being the discount rate, the value of collateral and credit spread.

As of 31 December 2019, if the discount rate used by the Group in the model increases/decreases by 1%, the book value of loans will decrease by RR 1 845 million / increase by RR 1 796 million (31 December 2018: decrease by RR 513 million / increase by RR 535 million). The discount rates used are in range from 4.78% to 20.21% (31 December 2018: from 8.87% to 40.94%).

As of 31 December 2019, the impact of collateral in assessing loans at fair value was RR 83 million (31 December 2018: RR 83 million).

#### Investment securities at fair value through profit or loss

Investment securities at fair value through profit or loss include unquoted equity securities at fair value through an independent appraiser. The estimation was based on the income approach using the discounted dividend method, which includes the forecast and post-forecast period of activity. Forecasting was based on the analysis of the structure of financial investments, the company's strategy for working with clients, assumptions on the forecast of changes in the future of reserves, income from investing funds, the company's own funds. When calculating the total market value of securities, a discount for lack of liquidity was applied expertly. As of 31 December 2018, if the liquidity discount were increased/decreased by 10%, the carrying amount of investment securities at fair value through profit or loss would be lower/higher by RR 252 million.

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2019:

<i>In millions of Russian Roubles</i>	Transfers between Level 1 and Level 2	
	From Level 1 to Level 2	From Level 2 to Level 1
<b>Financial assets</b>		
Trading securities	-	1 818
Investment securities at fair value through other comprehensive income	1 308	3 585
<b>Total transfers of financial assets</b>	<b>1 308</b>	<b>5 403</b>

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2018:

<i>In millions of Russian Roubles</i>	Transfers between Level 1 and Level 2	
	From Level 1 to Level 2	From Level 2 to Level 1
<b>Financial assets</b>		
Investment securities at fair value through other comprehensive income	-	3 168
<b>Total transfers of financial assets</b>	<b>-</b>	<b>3 168</b>

### 34 Fair Value of Financial Instruments (continued)

Financial instruments are transferred from Level 2 to Level 1 of the fair value hierarchy when they become traded in active markets and fair value can be determined based on quoted prices in active markets.

Financial instruments are transferred from Level 1 to Level 2 when they ceased to be traded in active markets. The liquidity on the market is not sufficient to use market prices for valuation and as a result fair value is determined using valuation techniques with all material inputs observable.

There were no other transfers between levels of the fair value hierarchy during 2019 and 2018.

The following table shows the quantitative information as at 31 December 2019 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

<b>Assets</b>	<b>Fair value, in millions of Russian Roubles</b>	<b>Valuation technique</b>	<b>Inputs used</b>		
			<b>Input</b>	<b>Min</b>	<b>Max</b>
Office premises and construction in progress (based on valuation at 31 December 2018, fair value of new objects acquired in 2019 equals to current value)	27 349	Comparative method	Trade discount	6.0%	21.0%

The following table shows the quantitative information as at 31 December 2018 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

<b>Assets</b>	<b>Fair value, in millions of Russian Roubles</b>	<b>Valuation technique</b>	<b>Inputs used</b>		
			<b>Input</b>	<b>Min</b>	<b>Max</b>
Office premises and construction in progress (based on valuation at 31 December 2018)	28 171	Comparative method	Trade discount	6.0%	21.0%



### 35 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property, the Ministry of Finance of the Russian Federation and The State Corporation Deposit Insurance Agency. Refer to Note 1.

In these consolidated financial statements, balances and transactions with the state-controlled entities and parties that are related to such entities and balances and transactions with related parties represented by key management and their family members are disclosed.

The outstanding balances with related parties were as follows:

<i>In millions of Russian Roubles</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Cash and cash equivalents</b>		
Bank of Russia	74 594	86 289
Other banks	164 677	148 301
<b>Loans and advances to customers</b>		
Loans and advances to customers (before impairment)	254 740	229 223
Key management and their family members	7	6
Less: allowance for impairment	(14 743)	(10 833)
Derivative financial instruments — assets	9 797	9 405
<b>Securities</b>		
Securities issued by Russian Federation	231 086	212 179
Securities of entities and banks	101 903	272 115
Less: allowance for impairment	(82)	(300)
Due from other banks	32 630	10 520
<b>Other assets</b>		
State Corporation Deposit Insurance Agency	327	826
Accrued subsidies under the government program to subsidise mortgage and car loans	-	3
<b>Customer accounts</b>		
Entities	652 521	800 158
Key management and their family members	4 224	3 209
<b>Due to other banks</b>		
Bank of Russia	45 280	48 054
Other banks	14 491	93 743
Derivative financial instruments — liabilities	408	2 039
Subordinated debts	71 803	80 694
<b>Credit related commitments</b>		
Undrawn credit lines	4 017	1 182
Performance guarantees	10 805	8 808
Less: provision for impairment	(20)	(34)
Financial guarantees received	21 072	27 885

### 35 Related Party Transactions (continued)

The income and expense items with related parties were as follows:

<i>In millions of Russian Roubles</i>	<b>2019</b>	<b>2018</b>
<b>Interest income on cash and cash equivalents</b>		
Bank of Russia	4 402	9 700
Other banks	881	1 035
Interest income on due from other banks	3 062	450
<b>Interest income on loans and advances to customers</b>		
Loans to legal entities	16 479	16 754
Key management and their family members	4	6
<b>Interest income on securities</b>		
Securities issued by Russian Federation	20 147	16 014
Securities of entities and banks	8 682	13 445
<b>Gains less losses / (losses net of gains) from securities</b>		
Securities issued by Russian Federation	96	1 522
Securities of entities and banks	612	(922)
<b>Fee and commission income</b>		
Commission received from the Deposit Insurance Agency	119	246
Gains less losses / (losses net of gains) from derivative financial instruments	6 833	12 011
Gains from initial recognition of financial instruments at fair value	-	23 119
<b>Interest expense on customer accounts</b>		
Entities	(46 599)	(42 616)
Key management and their family members	(173)	(42)
Interest expense on subordinated debts	(3 634)	(3 893)
<b>Interest expense on due to other banks</b>		
Bank of Russia	(3 780)	(1 293)
Other banks	(671)	(656)
<b>Administrative and other operating expenses</b>		
Payments to the Deposit Insurance Fund	(7 663)	(5 711)

In 2019 transactions with the shareholder included share capital increase, dividends paid, taxes paid and subsidies received under the government program to subsidize lending (2018: share capital increase, dividends paid, taxes paid and subsidies received under the government program to subsidize lending).

In 2019, the Bank increased its share capital by issuing 29 635 ordinary shares with the total nominal amount of RR 29 635 million (2018: 25 000 ordinary shares with the total nominal amount of RR 25 000 million). All shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

In July 2019, dividends were paid out to the Bank's shareholder in the amount of RR 1 126 million (in July 2018, dividends were paid out to the Bank's shareholder in the amount of RR 884 million).

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. In 2019 total remuneration of the key management amounted of RR 601 million (2018: RR 456 million) including the payments to pension funds and social fund amounted of RR 100 million (2018: RR 72 million). Total remuneration of the key management includes salaries, discretionary bonuses and other short-term benefits. Starting from 2017, the Group adopted a corporate pension plan for employees (Note 25). Expenditures for the key management in respect of defined pension contribution plans for 2019 amounted of RR 210 million and are payable on the occurrence of a retirement conditions in accordance with the laws of the Russian Federation (2018: none).

### 36 Acquisition and Disposal of Subsidiaries and Assets Held for Sale

#### (a) Business Combination

At the end of 2018, the Group obtained control over LLC Tambov Sugar Company and LLC Tambovsakharinvest (hereinafter, "TSK Group"). Taking into account potential rights, the Group's share in LLC Tambov Sugar Company as at 31 December 2018 was 74.99%.

The following is a distribution of the aggregate acquisition value at the fair value of the assets and liabilities of the TSK Group acquired.

<i>In millions of Russian Roubles</i>	Note	Fair value recognised on acquisition
<b>Assets</b>		
Cash and cash equivalents		4
Property and equipment	11	8 272
		<b>8 276</b>
<b>Liabilities</b>		
Deferred tax liability	26	1 186
Other liabilities		77
		<b>1 263</b>
<b>Total identifiable net assets</b>		<b>7 013</b>
Consideration transferred		-
Non-controlling interests		1 754
Fair value of pre-existing relationships		5 259
Less: fair value of the identifiable net assets of the acquired Group		(7 013)
<b>Goodwill</b>		<b>-</b>

In accordance with IFRS 3 *Business Combinations*, the value of the consideration transferred upon acquisition includes a loan provided by the Group to a subsidiary in the amount of RR 5 260 million, which is shown as "Derecognition of pre-existing relationships". Since the carrying value of the loan received is approximately equal to the fair value of the loan provided by the Group, such a settlement of intragroup relationships that existed prior to the acquisition did not affect the result in the consolidated statement of profit or loss and other comprehensive income.

Acquiring the TSK Group at the beginning of the reporting period would not have a material effect on the Group's profit.

Below is information about cash flows from the acquisition of TSK Group for 2018.

<i>In millions of Russian Roubles</i>	
Cash and cash equivalents of the TSK Group acquired	4
Less: cash transferred	-
Less: intragroup balances	(4)
<b>Net cash flow during the reporting period</b>	<b>-</b>

#### (b) Disposal of Subsidiaries

In March 2019, the Group ceased the control over LLC Tambov Sugar Company and LLC Tambovsakharinvest (hereinafter, "TSK Group").

As a result of disposal, the Group recognized a loss of RR 159 million as part of other operating expenses.

### 36 Acquisition and Disposal of Subsidiaries and Assets Held for Sale (continued)

The table below shows the assets and liabilities of the TSC Group at the date of disposal:

<i>In millions of Russian Roubles</i>	<b>Cost at the time of disposal</b>
<b>Assets</b>	
Property and equipment	8 501
Other assets	22
<b>Liabilities</b>	
Deferred tax liability	1 230
Other liabilities	83
	<b>1 313</b>
<b>Total net assets derecognised</b>	
Net assets	7 210
Non-controlling interests	(1 803)
	<b>5 407</b>

In October 2019, the Group lost control over LLC Agrotorg Troitsk (31 December 2018: the Group's share was 100%).

As a result of this disposal, the Group recognized a loss of RR 23 million under the item "Other operating income/(expenses)" of the consolidated statement of profit or loss and other comprehensive income.

Consideration received in 2019 on the sale includes cash in the amount of RR 15 million.

#### (c) Assets held for sale

During previous years the Group transferred certain assets from premises and equipment and repossessed collateral to assets held for sale. The Group expects the sale to be completed by the end of 2020.

Assets held for sale are accounted for at the lower of net carrying value and fair value less costs to sell with expenses recognised in profit or loss after reclassification.

As at 31 December 2019, the carrying value of premises and equipment and repossessed collateral that have been reclassified to assets held for sale is as follows:

<i>In millions of Russian Roubles</i>	<b>Balance amount (before reclassi- fication)</b>	<b>Accumula- ted depre- ciation (before reclassi- fication)</b>	<b>Net carrying value before reclassi- fication</b>	<b>Impairment</b>	<b>Carrying value after reclassi- fication</b>
Reclassified from repossessed collateral before 2019	725	(29)	696	(56)	640
Reclassified from repossessed collateral in 2019	849	-	849	-	849
Assets disposed of in 2019	(355)	-	(355)	-	(355)
<b>Total</b>	<b>1 219</b>	<b>(29)</b>	<b>1 190</b>	<b>(56)</b>	<b>1 134</b>

### 36 Acquisition and Disposal of Subsidiaries and Assets Held for Sale (continued)

As at 31 December 2018, the carrying value of premises and equipment and repossessed collateral that have been reclassified to assets held for sale is as follows:

<i>In millions of Russian Roubles</i>	Balance amount (before reclassification)	Accumulated depreciation (before reclassification)	Net carrying value before reclassification	Impairment	Carrying value after reclassification
Reclassified from repossessed collateral before 2018	423	(29)	394	(56)	338
Reclassified from repossessed collateral in 2018	828	-	828	-	828
Assets disposed of in 2018	(526)	-	(526)	-	(526)
<b>Total</b>	<b>725</b>	<b>(29)</b>	<b>696</b>	<b>(56)</b>	<b>640</b>

The movement in net carrying value of assets held for sale before reclassification is as follows:

<i>In millions of Russian Roubles</i>	Reclassified from repossessed collateral	Reclassified from premises and equipment	Total
<b>Net carrying value before reclassification as at 1 January 2019</b>	<b>605</b>	<b>35</b>	<b>640</b>
Additions during the period	385	-	385
Reclassified during the period	464	-	464
Disposed during the period	(355)	-	(355)
<b>Net carrying value before reclassification as at 31 December 2019</b>	<b>1 099</b>	<b>35</b>	<b>1 134</b>

### 37 Changes in Liabilities Arising from Financing Activities

<i>In millions of Russian Roubles</i>	Bonds issued	Eurobonds issued	Subordinated debts	Total liabilities from financing activities
<b>Carrying amount at 31 December 2017</b>	<b>130 742</b>	<b>113 819</b>	<b>133 444</b>	<b>378 005</b>
Proceeds from issue	57 900	-	-	57 900
Proceeds from sale of previously bought back liabilities	52	37 026	219	37 297
Redemption	(5 396)	(146 392)	-	(151 788)
Buy back of liabilities	(40 898)	(11 332)	(5 886)	(58 116)
Foreign currency translation	-	8 646	18 915	27 561
Other	209	(1 767)	587	(971)
<b>Carrying amount at 31 December 2018</b>	<b>142 609</b>	<b>-</b>	<b>147 279</b>	<b>289 888</b>
Proceeds from issue	30 000	-	-	30 000
Proceeds from sale of previously bought back liabilities	15 803	-	820	16 623
Redemption	(4 575)	-	-	(4 575)
Buy back of liabilities	(8 834)	-	(1 269)	(10 103)
Foreign currency translation	-	-	(12 482)	(12 482)
Other	(49)	-	(259)	(308)
<b>Carrying amount at 31 December 2019</b>	<b>174 954</b>	<b>-</b>	<b>134 089</b>	<b>309 043</b>

The "Other" line includes the effect of accrued but not yet paid interest on bonds issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

### **38 Events after the End of the Reporting Period**

In January 2020, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million.

In February 2020, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 4 854 million at the put option date.

In February-March 2020, the Group issued on the domestic market RR 2 481 million bonds (placed at par) maturing in January 2023 with a coupon at 6.05% per annum payable monthly.

At the beginning of March 2020, in Russia there was a significant depreciation of ruble against the dollar and the euro, a decrease in the price of oil and exchange indices. As of the reporting date, the official ruble rate was 73.8896 rubles to the US dollar and 82.3056 rubles to the euro.

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event.

As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Group's IFRS9 estimates of expected credit loss provisions in 2020.