PJSC MTS Bank

Consolidated Financial Statements and
Independent Auditor’s Report for 2019
Translated from the original in Russian

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Public Joint-Stock Company MTS Bank

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Public Joint-Stock Company MTS Bank (the "Bank") and its subsidiaries (the "Group") as at 31 December 2019, and the related consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year than ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance;
- An assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation ("RF");
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by the Bank's Management Board on 31 March 2020.

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

31 March 2020
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2020
Moscow

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5 Lesnaya Street
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Russia

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of the Public Joint-Stock Company MTS Bank

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company MTS 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, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 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 the year then ended 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* (the "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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Assessment and measurement of expected credit losses on loans to customers We focused on this area because assessment and measurement of the allowance for expected credit losses require significant management's judgement as well as use of estimates and subjective assumptions. Key areas of judgment and estimates related to the assessment of allowances for expected credit losses on loans to customers included the following: • Determination of the impairment stage for loans assessed on an individual basis which is based on timely identification of default events and significant increases in credit risk; • Evaluation of the probability of default of loans assessed on an individual basis at the first and the second stages of impairment as well as loans assessed on a collective basis. In identifying significant increases in credit risk and for calculating expected credit losses requires the use of data from both external and internal sources, as well as the application of complex and subjective judgements by management. Therefore, a high degree of auditor judgment and an increased extent of effort was required, including the need to involve our internal actuarial specialists, to perform audit procedures carried out to evaluate the reasonableness of management's estimate of the allowance for loan losses. See Note 4 to the consolidated financial statements on pages 35-37, Note 3 on pages 16-35, Note 18 on pages 50-57 and Note 35 on pages 82-96	Our audit procedures related to the assessment and measurement of expected credit losses on loans to customers included: • Testing the design and the effectiveness of internal controls over the correct classification of the loan portfolio between stages of credit risk and the use of appropriate key assumptions on the assessment of probability of default for loans to customers; • Assessment of the methodology, models and techniques used by the Group's management to determine expected credit losses for compliance with requirements of IFRS 9, Financial Instruments; • Testing of the completeness and accuracy of data, including historical data, using external and internal information; • For individually assessed loans, obtaining the Group's schedule classifying all borrowers between stages of credit risk and, based on information from open sources, on a sample basis, testing that borrowers with default indicators were appropriately classified for the purposes of the expected credit loss calculation; • For evaluation of probability of default of individually assessed loans, with the involvement of our internal actuarial specialists, obtaining the validation report and testing of the outcome of the model against observed losses, as well as performing an analysis of the acceptable appropriate ranges of probability of defaults; and • For collectively assessed loans, with the assistance of our internal actuarial specialists, performing an analysis of the integrity of the models and verifying the most critical underlying assumptions against historical data and recent trends of default ratios. We also assessed the compliance of the disclosures in the consolidated financial statements with the requirements of IFRS 9, *Financial Instruments*.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Determining the cost and net realizable value of property for resale According to the Group's accounting policies, property for resale is measured at the lower of its costs and net realisable value, which is the fair value of property, less cost to sell. Cost of properties, mainly acquired by the Group as repossessed collateral securing loans to customers, is determined as fair value less costs to sell on the date of initial recognition. Determining the cost and net realizable value is a key audit matter due to high degree of subjectivity and judgment required in particular, when it is based on an unobservable data. Further, the principal assumptions used in the assessment are dependent on the individual characteristics of each object. See Note 21 to the consolidated financial statements on page 61, Note 3 on pages 16-35 and Note 5 on pages 37-39	We obtained an understanding of the Group's processes and control procedures over the assessment of cost and net realizable value of property for resale, when the valuation is performed internally or by the independent appraisers. We analysed consistency of methodology and valuation techniques as well as reasonableness of the underlying assumptions for specific classes of properties, with the involvement of our internal valuation specialists. We tested, on a sample basis, the accuracy of input data used in the valuation models by reconciling it with supporting documentation. We also addressed completeness and accuracy of disclosures in relation to valuation of property for resale in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report and the Quarterly report of the issuer for the first quarter of 2020, but does not include the consolidated financial statements and our auditor's report thereon. The mentioned reports are 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.

When we read the Annual Report and the Quarterly report of the issuer for the first quarter of 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 judgement 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.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our 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 on procedures performed in accordance with Federal Law No. 395-1 dated 2 December 1990 *On Banks and Banking Activities*

Management of the Bank is responsible for compliance with the obligatory ratios established by the Bank of Russia (the "obligatory ratios"), as well as for compliance of the Bank's internal control and risk management systems with the Bank of Russia (the "CBR") requirements

According to Article 42 of Federal Law No. 395-1 *On Banks and Banking Activities* dated 2 December 1990 (the "Federal Law") in the course of our audit of the Bank's financial statements for 2019 we performed procedures with respect to the Bank's compliance with the obligatory ratios as at 1 January 2020 and compliance of its internal control and risk management systems with the CBR requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Bank's policies, procedures and methodologies with the CBR requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. With respect to the Bank's compliance with the mandatory ratios: the mandatory ratios as at 1 January 2020 were within the limits established by the Bank of Russia.

   We have not carried out any procedures towards the Bank's accounting data, apart from the procedures that we considered necessary for the purpose of expressing an opinion on whether the Bank's statements fairly represent in all material respects its financial position as at 31 December 2019 and its financial results and cash flows for 2019 in accordance with the Russian rules for the preparation of annual financial statements by credit institutions.

2. With respect to compliance of the Bank's internal control and risk management systems with the CBR requirements:

   a. in accordance with the CBR requirements and recommendations as at 31 December 2019 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors and the Bank's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBR;
   b. as at 31 December 2019, the Bank had duly approved in accordance with the CBR requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks;
   c. as at 31 December 2019, the Bank had a reporting system with regard to the Bank's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;
   d. frequency and consistency of reporting made by the Bank's risk management functions and internal audit function during 2019 on the Bank's credit, operational, market, interest rate, legal risk, liquidity risk and reputational risk management, is in compliance with the Bank's internal documents; the related reports include the findings of the Bank's risk management functions and internal audit function in terms of evaluating the effectiveness of the Bank's related methods and recommendations on their improvement;

e. as at 31 December 2019, the scope of authority of the Bank's Board of Directors and its executive bodies comprises control over compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control the efficiency and consistency of how the Bank's risk management policies applied during 2019, the Bank's Board of Directors and its executive bodies regularly discussed reports prepared by the Bank’s Risk Management and Internal Audit Departments and considered the proposed corrective measures.

We have carried out procedures with respect to the Bank’s internal control and risk management systems solely to report on the findings related to compliance of the Bank’s internal control and risk management systems with the CBR requirements.

Anna Zdanevych
Engagement Partner

31 March 2020

The Entity: Public Joint-Stock Company MTS Bank

State Registration Certificate No. 2268 dated 29 January 1993

Certificate of Registration in the Unified State Register of Legal Entities: No. 1027739053704 dated 8 August 2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39.

Address: 18 Prospekt Andropova, Bldg. 1, Moscow, 115432, Russia

The Audit Firm: AO Deloitte & Touche CIS

Certificate of State Registration No. 018.482 issued by Moscow Registration Chamber on 30 October 1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register No. 77 004840299 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39 on 13 November 2002.

Member of Self-Regulated Organization of Auditors “Sodruzhestvo” (Association), ORNZ 12006020384.

Public Joint-Stock Company MTS Bank

Consolidated Statement of Profit or Loss
for the year ended 31 December 2019
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	2019	2018 (restated)
Interest income	6, 32	18 632 791	15 867 721
Interest expense	6, 32	(7 038 673)	(6 235 698)
Net interest income before allowance for expected credit losses on interest bearing assets		**11 594 118**	**9 632 023**
Allowance for expected credit losses on interest bearing assets	7, 32	(4 028 410)	(2 227 265)
Net interest income		**7 565 708**	**7 404 758**
Net gain on securities at fair value through profit or loss	8	736 715	976 543
Net gain/(loss) on operations with derivative financial instruments	9, 32	352 034	(455 955)
Net loss on foreign exchange operations	10, 32	(572 203)	(58 954)
Fee and commission income	11, 32	11 008 767	6 039 791
Fee and commission expense	11, 32	(5 402 494)	(4 021 137)
Net loss recognized on disposal of subsidiaries		-	(15 261)
(Allowance)/recovery of allowance for expected credit losses on other transactions	32	(3 667)	9 603
Change in value of property for resale	5, 21	(364 362)	(382 436)
Net loss on sale of property for resale	5, 21	(108 788)	(122 646)
Revaluation of property, plant and equipment	20	(34 050)	(7 688)
Share of profits in joint venture	19	35 946	-
Other income	12, 32	353 422	1 194 582
Net non-interest income		**6 001 320**	**3 156 442**
Operating income		**13 567 028**	**10 561 200**
Operating expenses	13, 32	(11 321 604)	(9 558 417)
Profit before tax		**2 245 424**	**1 002 783**
Income tax expense	14	(426 677)	(388 456)
NET PROFIT		**1 818 747**	**614 327**
Attributable to:			
Shareholders of the parent Bank		1 818 747	614 327

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

31 March 2020
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2020
Moscow

The notes on pages 14-97 form an integral part of these consolidated financial statements.

Public Joint-Stock Company MTS Bank

Consolidated Statement of Other Comprehensive Income
for the year ended 31 December 2019
(in thousands of Russian Rubles)

	Notes	2019	2018
Net profit for the period		1 818 747	614 327
OTHER COMPREHENSIVE INCOME			
Items that will not be subsequently reclassified to profit or loss:			
Revaluation of property, plant and equipment	20	(12 450)	6 960
Income tax	14	2 490	(1 392)
Items that may be reclassified subsequently to profit or loss:			
Revaluation of securities at fair value through other comprehensive income		-	83
Change in provision for securities at fair value through other comprehensive income		-	(117)
Income tax		-	(17)
Other comprehensive (loss)/income after income tax		(9 960)	5 517
TOTAL COMPREHENSIVE INCOME		**1 808 787**	**619 844**
Attributable to:			
Shareholders of the parent Bank		1 808 787	619 844

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

31 March 2020
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2020
Moscow

The notes on pages 14-97 form an integral part of these consolidated financial statements.

Public Joint-Stock Company MTS Bank

Consolidated Statement of Financial Position
as at 31 December 2019
(in thousands of Russian Rubles)

	Notes	31 December 2019	31 December 2018 (restated)
ASSETS:			
Cash and balances with the Central Bank	15	23 365 171	8 685 806
Investments in securities	16, 32	28 726 697	53 001 366
Due from banks	17, 32	6 012 463	4 392 829
Loans to customers	18, 32	107 437 605	72 571 216
Investments in a joint venture	19, 32	658 467	690 102
Derivative financial instruments	27, 32	26 277	228 062
Property, plant and equipment and intangible assets	20	5 206 162	3 663 801
Right-of-use assets	22	596 958	-
Property for resale	5, 21	2 836 514	3 360 620
Current income tax assets		-	74 006
Deferred income tax assets	14	3 250 523	3 244 416
Other assets	23, 32	1 415 795	1 390 267
TOTAL ASSETS		**179 532 632**	**151 302 491**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other financial institutions	24, 32	12 305 308	7 749 869
Customer accounts	25, 32	129 097 349	116 674 392
Debt securities issued	26, 32	2 429 216	1 717 129
Lease liabilities	22, 32	627 781	-
Derivative financial instruments	27, 32	25 257	373 147
Obligations on securities return		271 645	393 541
Current income tax liabilities		126 508	-
Other liabilities	28, 32	5 608 741	5 321 472
TOTAL LIABILITIES		**150 491 805**	**132 229 550**
EQUITY:			
Share capital	29	12 142 288	10 882 298
Treasury shares	29	(77 285)	(77 285)
Share premium	29	9 440 950	7 200 940
Perpetual bonds	29	5 000 000	-
Property, plant and equipment revaluation reserve		51 607	61 567
Retained earnings		2 483 267	1 005 421
TOTAL EQUITY		**29 040 827**	**19 072 941**
TOTAL LIABILITIES AND EQUITY		**179 532 632**	**151 302 491**

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

31 March 2020
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2020
Moscow

The notes on pages 14-97 form an integral part of these consolidated financial statements.

Public Joint-Stock Company MTS Bank

Consolidated Statement of Changes in Equity for the year ended 31 December 2019
(in thousands of Russian Rubles)

	Notes	Share capital	Treasury shares	Share premium	Perpetual bonds	Financial assets available-for-sale revaluation reserve	Revaluation reserve for securities at fair value through other comprehensive income	Property, plant and equipment revaluation reserve	Retained earnings/ (accumulated deficit)	TOTAL EQUITY
31 December 2017		**10 882 298**	**-**	**7 200 940**	**-**	**614 370**	**-**	**55 999**	**2 472 303**	**21 225 910**
Effect of transition to IFRS 9		-	-	-	-	(614 370)	51	-	(1 844 200)	(2 458 519)
Effect of transition to IFRS 15		-	-	-	-	-	-	-	(229 215)	(229 215)
1 January 2018		**10 882 298**	**-**	**7 200 940**	**-**	**-**	**51**	**55 999**	**398 888**	**18 538 176**
Purchase of own shares	29	-	(77 285)	-	-	-	-	-	-	(77 285)
Dividends paid		-	-	-	-	-	-	-	(7 794)	(7 794)
Total comprehensive income		-	-	-	-	-	(51)	5 568	614 327	619 844
31 December 2018		**10 882 298**	**(77 285)**	**7 200 940**	**-**	**-**	**-**	**61 567**	**1 005 421**	**19 072 941**
Issue of ordinary shares	29	1 259 990	-	2 240 010	-	-	-	-	-	3 500 000
Issue of perpetual bonds	29	-	-	-	5 000 000	-	-	-	-	5 000 000
Interest paid on perpetual bonds		-	-	-	-	-	-	-	(301 671)	(301 671)
Dividends paid		-	-	-	-	-	-	-	(39 230)	(39 230)
Total comprehensive income		-	-	-	-	-	-	(9 960)	1 818 747	1 808 787
31 December 2019		**12 142 288**	**(77 285)**	**9 440 950**	**5 000 000**	**-**	**-**	**51 607**	**2 483 267**	**29 040 827**

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

31 March 2020
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2020
Moscow

The notes on pages 14-97 form an integral part of these consolidated financial statements.

Public Joint-Stock Company MTS Bank

Consolidated Statement of Cash Flows
for the year ended 31 December 2019
(in thousands of Russian Rubles)

	Notes	2019	2018 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		18 271 061	15 425 097
Interest paid		(6 401 103)	(6 164 270)
Realized gain on securities at fair value through profit or loss		572 027	675 411
Realized gain/(loss) on derivative financial instruments		205 929	(109 205)
Realized (loss)/gain on foreign currency transactions		(2 436 776)	1 379 134
Fee and commission income		11 078 051	5 684 076
Fee and commission expense		(5 436 667)	(4 047 896)
Other operating income		259 680	809 844
Administrative and other operating expenses		(10 819 359)	(7 930 529)
Income tax paid		(230 647)	(558 325)
Cash inflow from operating activities before changes in operating assets and liabilities		**5 062 196**	**5 163 337**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the Central Bank		(326 441)	(101 964)
Securities at fair value through profit or loss		9 133 716	3 427 591
Due from banks		(201 704)	(166 745)
Loans to customers		(38 685 933)	(20 011 905)
Property for resale		468 252	545 190
Other assets		135 502	(588 846)
Increase/(decrease) in operating liabilities:			
Obligations on securities return		(119 605)	390 882
Due to banks and other financial institutions		4 571 263	6 459 789
Customer accounts		15 099 588	(1 099 194)
Debt securities issued, other than bonds issued		1 072 879	287 291
Other liabilities		670 269	1 267 228
Net cash outflow from operating activities		**(3 120 018)**	**(4 427 346)**

Public Joint-Stock Company MTS Bank

Consolidated Statement of Cash Flows (continued)
for the year ended 31 December 2019
(in thousands of Russian Rubles)

	Notes	2019	2018 (restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(2 333 743)	(1 417 208)
Revenue from sale of property, plant and equipment and intangible assets		18 860	52 828
Sale of securities at fair value through other comprehensive income		-	342 970
Purchase of securities at amortized cost		-	(10 784 394)
Redemption of securities at amortized cost		14 424 884	8 000 993
Proceeds from investments in a joint venture		67 581	-
Cash inflow on sale of subsidiaries		-	444 887
Net cash inflow/(outflow) from investing activities		**12 177 582**	**(3 359 924)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease payments		(280 136)	-
Redemption of bonds issued		(363 864)	(652 376)
Proceeds from issue of ordinary shares		3 500 000	-
Purchase of own shares		-	(77 285)
Dividends paid		(39 230)	(7 794)
Proceeds from issue of perpetual bonds		5 000 000	-
Redemption of perpetual bonds issued		(301 671)	-
Net cash inflow/(outflow) from financing activities		**7 515 099**	**(737 455)**
Change in interest accrued on cash and cash equivalents		(382)	(1 411)
Change in allowance for expected credit losses for cash and cash equivalents		33 139	(13 121)
Effect of foreign currencies exchange rate fluctuations on cash and cash equivalents		(647 173)	312 250
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**15 958 247**	**(8 227 007)**
CASH AND CASH EQUIVALENTS, beginning of the period	**15**	**10 558 970**	**18 785 977**
CASH AND CASH EQUIVALENTS, end of the period	**15**	**26 517 217**	**10 558 970**

On behalf of the Management Board:

I. V. Filatov
Chairman of the Management Board

31 March 2020
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2020
Moscow

The notes on pages 14-97 form an integral part of these consolidated financial statements.

(in thousands of Russian Rubles, unless otherwise indicated)

1. Organization

Public Joint-Stock Company MTS Bank ("MTS Bank") is a joint-stock bank. The Bank was incorporated in the Russian Federation as an open joint stock company in 1993. Former title of MTS Bank is Joint-Stock Commercial Bank 'Moscow Bank for Reconstruction and Development' (Open Joint-Stock Company) ("MBRD"). The title was changed by the decision of the shareholders' meeting held on 16 December 2011. In accordance with the change in Russian Federation legislation in 2014 MTS Bank changed its legal form from OJSC to PJSC.

MTS Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 2268. MTS Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at: 18 Prospekt Andropova, Bldg. 1, Moscow, 115432, Russian Federation.

As at 31 December 2019 and 2018, MTS Bank had 6 and 7 operating offices in the Russian Federation (the "RF"), respectively.

MTS Bank is a parent of a banking group (the "Group"). As at 31 December 2019, the Group fully controlled the following companies: CJSC Mortgage Agent MTSB, LLC VektorA, LLC Skyfreight.

In addition, as at 31 December 2019 and 2018, the Group exercises 100% control over the following investment funds:

- Closed unit investment combined fund Kapitalny 2;
- Closed unit investment real estate fund Uralskaya Nedvizhimost 1;
- Closed unit investment real estate fund Uralskaya Nedvizhimost 2;
- Closed unit investment real estate fund Bashkirskaya Nedvizhimost 2;
- Closed unit investment annuity fund Rentny 2;
- Closed unit investment real estate fund Rentny 3.

As at 31 December 2019 and 2018, the Group held 59.7% of units of closed unit investment real estate fund Sistema – Rentnaya Nedvizhimost 1. As at the above dates, investments in the fund were accounted for as a joint venture using equity method.

As at 31 December 2019 and 2018, the shareholding structure of MTS Bank was as follows:

	31 December 2019	31 December 2018
Shareholder		
Mobile Telesystems B.V.	99,53	55,00
PJSC JSFC Sistema ("Sistema")	-	43,24
OJSC Moscow City Telephone Network	0,21	0,24
PJSC MTS Bank (treasury shares)	0,24	0,27
Other	0,02	1,25
Total	**100,00**	**100,00**

1. Organization (continued)

As at 31 December 2019 and 2018, Sistema directly or indirectly owned 44.36% and 72.30% of the share capital of MTS Bank, respectively. Mr. V.P. Evtushenkov is ultimate beneficiary owner of Sistema.

In February 2019, PJSC MTS acquired through its 100% controlled subsidiary, Mobile TeleSystems B.V., 39.48% of shares of MTS Bank from Sistema.

As a result of the above acquisition and subscription for additional shares issued by MTS Bank, the share of PJSC MTS in the capital of MTS Bank increased from 55.24% to 99.74% (including the share of PJSC MGTS in the amount of 0.21%), while the direct ownership of Sistema in the capital of MTS Bank decreased to 0%.

2. Basis of presentation

Key accounting principles

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

Going concern**.** These financial statements have been prepared on the assumption that the Group is a going concern and will continue its operation for the foreseeable future. The management of the Group believes that the going concern assumption is fully applied to the Group.

Other basis of presentation criteria. These consolidated financial statements are presented in thousands of Russian Rubles (“RUB thousand”), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. In these consolidated financial statements, fair value measurements and/or fair value disclosures are made on the basis above, except for measurements similar to fair value such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are prices, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2. Basis of presentation (continued)

The Bank and its subsidiaries registered in the Russian Federation maintain their accounting records in accordance with the Russian Accounting Standards ("RAS"). These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent of the Group is the Russian Ruble ("RUB"). The Russian Ruble is the presentational currency of the consolidated financial statements of the Group. All values are rounded to the nearest thousand Rubles, except where otherwise indicated.

Offsetting. Financial assets or liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

3. Significant accounting policies

The Group applied the same principles of the accounting policy, presentation and methods of computation to prepare these consolidated financial statements for the year ended 31 December 2019, as for the consolidated financial statements for the year ended 31 December 2018, except for changes in the accounting policies with respect to investment property, fee and commission expenses, cash and cash equivalents (see Note 5 below) and the effect from adoption of the new and revised standards and interpretations.

New and amended IFRSs effective in the current year

IFRS 16 Leases. Starting from 1 January 2019, the Group implemented a new IFRS 16 *Leases*.

IFRS 16 introduces new or amended lease accounting requirements. The standard introduces significant changes in lease accounting by eliminating the differences between operating and financial leases, requiring the recognition of a right-of-use asset and corresponding lease liability on the date of recognition for all leases, other than short-term leases and low-value asset leases. In contrast to lessee accounting, lessor accounting has remained actually unchanged. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial adoption of IFRS 16 by the Group is 1 January 2019.

The Group selected a model of the modified retrospective application of IFRS 16 in accordance with IFRS 16. Accordingly, the Group did not restate the comparatives.

Impact of new definition of leases. As part of the transition to IFRS 16, the Group used the practical expedient that allows not to determine again whether a contract is, or contains, a lease. Therefore, the definition of a lease under IAS 17 and IFRIC 4 still applies to leases entered into or modified before 1 January 2019.

The changes in the lease definition mainly relate to the concept of control. IFRS 16 distinguishes leases and service contracts on the basis of whether the use of an identified asset is controlled by a customer. IFRS 16 classifies a contract as a lease if the client is entitled to control the use of an identified asset during a period of time in exchange for consideration. This contrasts with the emphasis on risks and benefits in IAS 17 and IFRIC 4.

The Group applied the lease definition and the related IFRS 16 guidance to all lease contracts entered into or modified on or after 1 January 2019, regardless of whether the Group is a lessor or a lessee under such lease contracts.

(in thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Impact on lessee accounting

Operating leases: IFRS 16 changed the lease accounting by the Group previously classified as operating leases under IAS 17 (off-balance sheet accounting).

When initially applying IAS 16 to all lease contracts (except as indicated below), the Group:

- recognizes a right-of-use asset and a corresponding lease liability in the consolidated statement of financial position at the present value of future lease payments;
- recognizes the depreciation of a right-of-use asset and interest expense on a lease liability in the consolidated statement of profit or loss;
- separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

In the IFRS 16 model, lease incentives (e.g. a free-of-charge period) are recognized as part of right-of-use assets and liabilities. In the IFRS 17 model, lease incentives were treated as lease liability recognized as a reduction of rental expense on a straight-line basis. According to IFRS 16, the right-of-use assets are assessed for impairment in accordance with IAS 36 *Impairment of Assets*.

In accordance with IFRS 16, the Group recognizes expenses on short-term leases with a period of up to 12 months and leases of low-value assets (e.g. office furniture and personal computers) on a straight-line basis. These expenses are included in operating expenses of the consolidated statement of profit or loss.

Impact of initial application of IFRS 16 on the financial statements: The tables below show the adjustments for each financial statement item affected by the application of IFRS 16 for the current and prior years.

Impact on the statement of profit or loss	**2019**
Increase in other income	37
Increase in depreciation charge on the right-of-use asset	(310 996)
Increase in interest expenses	(43 621)
Decrease in other expenses	302 453
Decrease in profit for the year	**(52 127)**

Effect on assets, liabilities and equity as at 1 January 2019	**As previously reported**	**IFRS 16 adjustments**	**Restated amounts**
Right-of-use assets	-	432 237	432 237
Other assets	1 390 267	(29 969)	1 360 298
Total effect on assets	**1 390 267**	**402 268**	**1 792 535**
Lease liabilities	-	402 268	402 268
Total effect on liabilities	**-**	**402 268**	**402 268**
Retained earnings	**-**	**-**	**-**

In the current year, the Group adopted a number of amendments to IFRS including the standards and interpretations issued by the International Accounting Standards Board ("IASB") which are effective for annual periods, beginning from 1 January 2019. The application of those amendments had no material impact on the disclosures or the amounts recognized in these consolidated financial statements.

3. Significant accounting policies (continued)

Leases

The Group as a lessee

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. The Group recognizes a right-of-use asset and a corresponding lease liability under all lease contracts where the Group is a lessee, except for leases of low-value assets (e.g. tablets, personal computers, office furniture and telephones). For these lease contracts, the Group recognizes lease payments as operating expenses on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the future lease payments that are not paid at the lease commencement date and discounted at the contractual borrowing rate implicit in the lease. The Group uses the incremental borrowing rate, if the rate implicit in the lease cannot be readily determined.

Lease payments included in the lease liability comprise:

- fixed payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the lease commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease liabilities are shown in a separate line item in the consolidated statement of financial position.

Subsequently, lease liabilities are measured by increasing the carrying value to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying value to reflect lease payments made.

The Group remeasures the lease liability (and makes an appropriate adjustment to the relevant right-of-use asset) when:

- The lease term has changed or a significant event or change has occurred in the circumstances that resulted in a change in the assessment of the exercise of the purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using the revised discount rate.
- Lease payments are changed due to changes in the index or rate or a change in the expected payment at the guaranteed residual value, and in these cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the change in lease payments is a result of a change in the floating interest rate, in this case the revised discount rate is used).
- The lease is modified and the change in the lease is not taken into account as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using the revised discount rate at the effective date of the modification.

The right-of-use assets include an initial assessment of the relevant lease liability, lease payments made on or before the day the lease comes into effect, less any incentive lease payments received and initial direct costs. Subsequently, property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses.

3. Significant accounting policies (continued)

If the Group has an obligation to dismantle or liquidate the leased asset, restore the occupied area on which it is located, or restore the underlying asset to the state required by the lease terms, the allowance is recognized and measured in accordance with IAS 37. Costs associated with the right-of-use assets are included in the corresponding right-of-use asset, unless these costs are associated with the development of inventories.

The right-of-use assets are amortized over the shorter of the two periods: the lease term or the useful life of the underlying asset. If the lease transfers ownership of the underlying asset or the value of the right-of-use asset reflects that the Group expects to exercise the purchase option, the corresponding right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation begins on the date of the lease inception.

The right-of-use assets are shown in a separate line item in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and recognizes the identified impairment losses as described in the property, plant and equipment policy.

***The Group as a lessor*.** The Group enters into leases as a lessor in respect of certain properties for resale.

Income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Accounting principles, presentations and calculation methods that were used only in the preparation of the Group's financial statements for the year ended 31 December 2018

Leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor. Income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as a lessee. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Accounting principles, presentations and calculation methods for the current reporting period that were used in the preparation of the Group's financial statements for the years ended 31 December 2019 and 2018

Basis of consolidation. The consolidated financial statements incorporate the financial statements of MTS Bank and entities controlled by MTS Bank (its subsidiaries).

Control is achieved when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

3. Significant accounting policies (continued)

MTS Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When MTS Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. MTS Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when MTS Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring its accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in the existing subsidiaries. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

When the Group loses control over a subsidiary due to a related party transaction, the difference between the fair value of the transferred interest and the consideration received is recognized in equity.

3. Significant accounting policies (continued)

Net interest income. Interest income and expense for all financial instruments except for those measured or designated as at fair value through profit or loss (FVTPL) are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss accounts using the effective interest method. Interests on financial instruments of the FVTPL category are included in the 'Net interest income' and are calculated according to the contractual terms for the accrual of interest income/expense.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities.

For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Recognition of fee and commission income and expense. Loan origination fees together with the related direct costs are recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred together with the related direct costs, and recognized as an adjustment to the effective interest rate upon the interception of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment.

Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized as services are provided. Expenses for services and commissions paid are recognized as services are received, including commissions for settlement and cash transactions, information and technical interaction.

Recognition of dividend income. Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

3. Significant accounting policies (continued)

Classification and measurement of financial assets. All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortized cost at the end of subsequent accounting periods. Debt instruments held within a business model, whose objective is achieved both by obtaining contractual cash flows and selling the financial asset, are measured at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss. In addition, in accordance with IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized in profit or loss.

For an asset to be classified and measured at amortized cost or at fair value through other comprehensive income ("FVTOCI"), its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal).

Interest consists of 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, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Group has more than one business model for managing its financial instruments that reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

Debt securities and loans to customers are held by the Group within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. These debt securities are accounted for by the Group at amortized cost in accordance with IFRS 9.

Debt securities are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the notes in the open market, and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. The Group accounts for these debt securities at fair value through other comprehensive income in accordance with IFRS 9.

Investments in fund units and equity securities are accounted for in accordance with IFRS 9 at fair value through profit or loss.

At initial recognition of a financial asset, the Group determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Group has not identified a change in its business models.

3. Significant accounting policies (continued)

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. In contrast, when derecognizing equity instruments designated as measured at FVTOCI, the cumulative gain/loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but transferred within equity. Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

Impairment. The Group recognizes allowances for ECLs on the financial instruments that are not measured at FVTPL.

The group developed a valuation technique of allowances based on the analysis of expected credit losses. In accordance with it, depending on the change in the level of credit risk of a financial instrument since its initial recognition, financial instruments are divided into 3 groups:

- Stage 1 of credit quality – financial instruments with a low level of credit risk, that is, the borrower has a stable ability to fulfill liabilities under the contract in the near future, adverse changes in economic and commercial conditions in the long term can, but not necessarily, reduce its ability to fulfill liabilities under the loan agreement;
- Stage 2 of credit quality – financial instruments for which there is a significant deterioration of credit risk as compared with the moment of initial recognition;
- Stage 3 of credit quality – financial instruments that have at least one of the signs of default.

For financial instruments referred to the stage 1 of credit quality, the allowance is valued based on expected credit losses for 12 months. For financial instruments for which there is a significant increase in credit risk from the time of initial recognition, the allowance is valued taking into account expected credit losses over the entire lifetime.

Signs of deterioration in credit quality, indicating an increase in credit risk on corporate borrowers and debt securities, evaluated on an individual basis, entailing the transfer of financial instruments from stage 1 to stage 2 of credit quality are presented below:

Loans to corporate borrowers

- Relative increase in PD ("probability of default") compared with the moment of initial recognition by two or more times;
- Overdue principal and/or interest for more than 30 calendar days in banks;
- Risk restructuring, when the debtor is able to repay the debt in the normal course of business;
- Identifying other factors indicating an increase in credit risk.

Debt securities

- Technical default (at least for one of the issuer's bond issues);
- Restructuring of the issuer's liabilities on bonds (at least on one of the bonds issues), except the case of a change in its conditions that meets the criteria for risk-free restructuring;
- Identifying other factors indicating an increase in credit risk.

Amounts due from credit institutions

- Default of a credit institution;
- Restructuring of the credit institution's liability to the Bank, except the case of a change in its conditions that meets the criteria for risk-free restructuring;
- Identifying other factors indicating an increase in credit risk.

3. Significant accounting policies (continued)

Description of the default indicators of corporate borrowers and debt securities is presented below:

Corporate borrowers

- The existence of overdue principal and/or interest for more than 90 days;
- The existence of overdue principal and/or interest for a period of less than 90 calendar days in banks if there are other facts indicating that it is impossible to fulfill liabilities to the Group;
- Appeal to creditors (including the Group) for restructuring due to the inability to settle the liabilities;
- Default on bonds (except for technical default);
- The introduction of bankruptcy proceedings;
- Bank filing a claim/claims for declaring a borrower bankrupt;
- Appeal of the borrower to the court with a statement of bankruptcy or taking measures aimed at non-settlement of its liabilities to the creditor bank (for example, the borrower challenges the terms of a credit transaction in court (subject to refusal to service and pay liabilities to the bank);
- Writing-off a part of the borrower's debt by the Group;
- Sale of a credit claim with significant economic losses due to the deterioration in the quality of the credit claim;
- Repayment of liabilities to the Group due to the provision of other loans by the Group (excluding cases when such payments are stipulated by the terms of loan agreements);
- The borrower imposes a moratorium on repayment of debt liabilities to creditors;
- Revocation of licenses/permits necessary for the principal activity from the borrower;
- Provision of critical (forced) restructuring by the Group for economic or legal reasons related to the financial difficulties of the borrower, which the lender would not have decided under any other circumstances in which the borrower's operational activity is no longer the source of repayment, i.e. the borrower is not able to repay the debt in the normal course of business (for example, the source of redemption is the sale of assets, the funds of the guarantor, etc.);
- Other credit risk factors indicating the impossibility of meeting liabilities to the Group.

Debt securities

The delay in the fulfillment of liabilities by the issuer, the duration of which exceeded 10 working days (unless a shorter period is provided for by the issuing documents), or a refusal to fulfill the specified liability in the following cases:

- Payment of the next interest income (coupon) on the bonds;
- Redemption of the nominal value of the bond (redemption of the part of the nominal value if the redemption of the nominal value is carried out by installments);
- Fulfillment of the obligation to purchase bonds, if it is provided for by the terms of the issue (redemption on an offer).

The event of default of a bank or a non-bank credit institution is considered to take place when the counterparty has failed to fulfill its obligations to the Bank (except for events when such failures are specified by the terms of bond issued by such counterparties) for over 5 working days.

As part of collective valuation, retail loans, as well as loans issued to small and medium-sized businesses, are divided into credit quality stages, depending on the period of overdue debts.

Stage 1 contains only non-overdue loans, stage 2 contains loans with overdue debts from 1 to 90 days, stage 3 of credit quality contains loans with overdue debts more than 90 days.

The group may also use additional factors to move a financial instrument to the stage with a higher level of credit risk, for example, the loan restructuring.

3. Significant accounting policies (continued)

The allowance for expected credit losses within the collective valuation is calculated by product groups of retail loans and loans provided to small and medium-sized businesses.

As part of an individual valuation of of retail loans and loans of small and medium-sized businesses, assignment to one of the credit quality stages is a result of cumulative assessment of overdue and nonoverdue amounts, valuation of the cash flows for a financial instrument, as well as the market value of the collateral (if available).

Acquired impaired financial assets are classified into stage 3 of the credit impairment. When a financial instrument is modified, the credit impairment stage is determined similar to the initial instrument.

If the Group does not have reasonable expectations regarding the recovery of a financial asset in full or partially, the gross carrying amount of such a financial asset should be reduced. Such a reduction represents (partial) derecognition of the financial asset.

The mechanism for calculating expected credit losses ("ECL") is described below:

ECL = PD*LGD*EAD

The probability of default (PD) is calculated on the basis of statistical data and reflects the estimated value of the probability of default occurring within a certain period of time (12 months or the entire life of a financial instrument). Loss given default (LGD) reflects the estimated value of losses that occur in the event of default as calculated on the basis of statistical data. Based on the available information on the level of losses, the Group uses different models to estimate the level of LGD. If sufficient information on the level of losses is available, this parameter is valued by comparing the exposure at default (EAD) and the amount of expected fees.

EAD – exposure at default, includes the gross carrying amount due from a debtor and the amount of the unused credit line limit taking into account the credit conversion factor determined based on internal bank statistics and updated on an annual basis.

The allowance for financial guarantees issued by the Bank is assessed in accordance with the approaches outlined above with the inclusion in the calculation of an additional parameter of the probability of guarantee disclosure. The allowance for loans granted for investment projects is assessed based on the analysis of the discounted cash flows.

Write-off of loans and advances. Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Usually, the Group writes off unsecured debt overdue for the period of 720 days against the related allowance for impairment. Subsequent recoveries of amounts previously written off are included in net interest income in the consolidated statement of profit and loss in the period of recovery. For assets written off, recovery activities continue after the date of write-off.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the derecognized part and the consideration received for the derecognized part and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the fair values of those parts.

3. Significant accounting policies (continued)

Share-based payments. The liability on cash-settled share-based payments is initially recognized at fair value. The fair value of the liability is estimated at the reporting date until the liability is settled, as well as at the date of settlement. At the same time, changes in fair value are recorded within profit and loss for the period.

Due from banks. In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

***Cash and cash equivalents*.** Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with banks, the Central Bank of the Russian Federation, term deposits with the Central Bank of the Russian Federation with original maturity less than 90 days, reverse repurchase agreements and short-term bank deposits with original maturities of less than 90 days.

The minimum reserve deposits with the CBR are subject to restrictions to their availability and therefore are not included in cash and cash equivalents.

Property for resale. Property not used by the Group in operating activities and received by the Group primarily as repossessed collateral for loans to customers is recognized as property for resale in the statement of financial position in accordance with IAS 2 *Inventories* at the lower of cost and net realizable value.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy, which applies for corporate and retail portfolio.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group’s policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, and covenants.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

3. Significant accounting policies (continued)

In the case where the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in profit or loss and accumulated in equity is recognized in profit or loss.

3. Significant accounting policies (continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain/loss that had been recognized in equity is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Investments in a joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent.

The results and assets and liabilities of a joint venture are incorporated in these financial statements using the equity method of accounting.

Under the equity method, investments in a joint venture are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the joint venture. When the Group’s share of losses of a joint venture exceeds the Group’s interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group’s net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Investments in a joint venture are accounted for using the equity method from the date on which the investee becomes a joint venture. Any excess of the cost of the investment over the Group’s share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group ceases to use the equity method when the entity ceases to be a joint venture.

When Group reduces its ownership interest in a joint venture but continues to use the equity method, the Group reclassifies the proportion of the gain or loss that had previously been recognized in other comprehensive income to profit or loss relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Profit and losses resulting from the transactions with the joint venture are recognized in the Group’s consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

3. Significant accounting policies (continued)

Derivative financial instruments

Forwards and futures. Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The differences in the risk associated with forward and futures contracts are mainly due to credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange helps ensure that these contracts are always honored. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps. Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled. Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts. The Group purchases credit default swaps from monocline insurers and banks in order to mitigate the risk of default by the counterparty on the underlying security referenced by the swap.

Options. Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from or sell to the bank the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 27.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in profit or loss.

Property, plant and equipment and intangible assets. Property, plant and equipment (other than buildings) and intangible assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property, plant and equipment (other than buildings) and intangible assets acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and recognized impairment losses, if any.

3. Significant accounting policies (continued)

Depreciation is recognized so as to write off the cost or deemed cost (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	2%
Furniture and equipment	20%
Intangible assets	20%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation.

Any revaluation increase arising on the revaluation of property and equipment is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease from the same asset recognized previously in the consolidated statement of profit or loss. In this case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged as an expense to the extent that it exceeds the positive balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount. In this case the impairment loss is treated as a revaluation decrease.

3. Significant accounting policies (continued)

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Recovery of impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount. In this case the recovery of impairment loss is treated as a revaluation increase.

Taxation. Income tax expense comprises current tax and deferred tax.

Current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit and loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current and deferred income tax for the year. Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. Significant accounting policies (continued)

Operating taxes. The Group operates in the Russian Federation, with various other taxes applicable to the Group. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions**.** Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to fulfill the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to fulfill the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to fulfill the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial liabilities. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

<u>Financial liabilities at fair value through profit or loss.</u> A financial liability is classified as a financial liability at fair value through profit or loss when (i) it is either held for trading or (ii) it is designated as measured at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis;
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in interest expenses of the statement of profit and loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value that is attributable to changes in the credit risk of that liability is recognized in OCI, unless such recognition would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

3. Significant accounting policies (continued)

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

Derecognition of financial liabilities. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group and the existing lender exchange debt instruments with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If modification is not significant, the difference between: (1) the carrying amount of the liability before modification; and (2) the present value of the cash flows after the modification is charged to profit or loss as other income or expenses.

Contingent liabilities. Contingent liabilities are not recognized in the consolidated statement of financial position (excluding loan commitments and financial guarantee contracts) but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Group's revenue recognition policies.

Financial guarantee contracts that are not classified as at FVTPL are presented as estimated liabilities in the statement of financial position, and the results of the revaluation are recorded as other income. There were no financial guarantee contracts classified by the Group as FVTPL.

Loan commitments. The Group issues loan commitments. Financial commitments to provide loans are initially recognized at their fair value, which is normally equal to the amount of fees and commission income received. Such loan commitment fees and commission income are recognized as deferred income and included in the carrying value of the loan on initial recognition. At the end of each reporting period, loan commitments are measured at the amount of the allowance for credit losses determined using the expected credit loss model. For credit commitments (when these components can be separated from a loan), a separate allowance for credit losses is recognized as a liability in the consolidated statement of financial position.

(in thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Retirement benefit obligations. In accordance with the requirements of the Russian legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the Russian Pension Fund that transfers them to pension funds selected by employees. The Group does not have an obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the Russian state pension system. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Exchange rate. The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2019	**31 December 2018**
RUB/ USD	61,9057	69,4706
RUB/EUR	69,3406	79,4605
RUB/Gold (1 gram)	3 008,3600	2 856,6800

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Fiduciary activities. The Group provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

Share capital and share premium. Contributions to share capital made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event in accordance with IAS 10 *Events after the Reporting Date* and disclosed accordingly.

Perpetual bonds. The Group recognizes perpetual bonds as an equity instrument if such bonds have an indefinite maturity and the possibility of marking coupon payments (without the acquisition of rights by investors to accumulate these unpaid coupons). When deciding on coupon payments on perpetual bonds, the payment is recognized similarly to declared dividend payments.

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- Property revaluation reserve, which comprises revaluation reserve of buildings;
- Other capital reserve, which includes the portions of compound financial liabilities that qualify for treatment as equity.

3. Significant accounting policies (continued)

New and revised IFRS in issue but not yet effective

At the time of approval of these financial statements the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	*Insurance Contracts*
IFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IFRS 3	*Definition of Business*
Amendments to IAS 1 and IAS 8	*Definition of Materiality*
Conceptual framework	*Amendments to References to the Conceptual Framework in IFRS Standards*

The management does not expect that the application of the Standards above will have a significant impact on financial statements of the Group in subsequent periods.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the change and future periods if the revision affects both current and future periods.

***Critical judgments in applying accounting policies*.** The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Expected credit losses:

In the reporting year, the Group made no changes to the methodology and models for estimating expected credit losses.

<u>Business model assessment</u>. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and the impact of disposal on the business model under which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate. In case of irrelevance of the model, the analysis is conducted for changes in the business model and possible changes in the classification of the relevant assets.

<u>Significant increase in credit risk</u>. As explained in Note 3, estimated credit losses ("ECL") are measured as a provision equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to Note 35 for more details.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Establishing groups of assets with similar credit risk characteristics. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Further details about the characteristics considered within the relevant judgement are given in Note 35. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses). As a result, the assets move from 12-month to lifetime ECLs, or vice versa. These movements can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used. The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 35 for more details on ECL and Note 33 for more details on fair value measurement.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Determination of the number and relative value of forward looking scenarios for each type of product/market and the definition of forward looking information related to each scenario. When measuring the level of credit losses, the Group uses reasonable forward-looking information, which is based on the assumptions about the future movement of various economic factors and how these factors will affect each other. Refer to Note 35 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

Probability of default (PD). PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 35 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

Loss given default (LGD). LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 35 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Valuation of financial instruments. The Group uses valuation techniques that include non-observable inputs to estimate the fair value of certain types of financial instruments. Note 33 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Revaluation of property, plant and equipment and property for resale. Buildings, except for construction in progress recorded at cost and tested for impairment, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation. Property for resale is measured at the lower of: its net realizable value, which is the fair value of the property less cost to sell, or its cost.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

The fair value is determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method that presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Deferred tax assets. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Assessment of probability is based on management's estimates of future taxable profit and involves the exercise of significant judgement from the Group's management.

The recoverability of the deferred tax asset has been determined using profitability forecasts used in the long-term business strategy of the Group, including the assumption of planned business changes within the Group. These assumptions were tested for sensitivity to confirm that the estimates used are not overestimated or aggressive. The forecast assumptions do not include any incremental tax planning strategies.

The Group believes it will utilize the deferred tax assets.

Provisions for possible payments. The Group discloses estimated (probable) liabilities under legal or constructive obligations and other conditions defined in IAS 37, clause 14. The Group provides for such liabilities if management believes that the probability of such obligations arising is higher than the probability of an event where such obligations will not arise.

5. Changes in accounting policy

In the consolidated financial statements for the year ended 31 December 2019, the Group voluntarily changed the accounting policies for investment property, presentation of cashback in commission expenses and cash and cash equivalents in order to present operations and transactions in accordance with their substance and intentions of the management. The Group believes that the revised accounting policies result in reliable and appropriate presentation of information for users.

Investment property. In 2019, the Group additionally analysed transactions with property previously recognized as investment property and carried at fair value in accordance with IAS 40 *Investment Property*, and decided to change the accounting policies for such property. In accordance with the revised accounting policies, property, which is not used by the Group in operating activities and received primarily as repossessed collateral for loans to customers is included in property for resale in the consolidated statement of financial position in accordance with IAS 2 *Inventories* at the lower of cost or net realizable value. The change in the accounting policies was applied by the Group retrospectively. As at 31 December 2018, the change in the valuation of property due to changes in the accounting policies was not significant.

Fee and commission expense. In 2019, the Group additionally analysed the recognition of fee and commission income and expense and, as a result, recognized the costs of customer incentive programs for card products (cashback) as a decrease in fee and commission income on acquiring and plastic card operations.

(in thousands of Russian Rubles, unless otherwise indicated)

5. Changes in accounting policies (continued)

The following changes have been made to the consolidated financial statements for the year ended 31 December 2018 to conform to the amended accounting policies in 2019.

	Consolidated statement of profit or loss for the year ended 31 December 2019		
	As previously reported For the year ended 31 December 2018	**Reclassification amount**	**For the year ended 31 December 2018 (restated)**
Fee and commission income	6 545 476	(505 685)	6 039 791
Fee and commission expense	(4 526 822)	505 685	(4 021 137)
Changes in fair value of investment property	(382 436)	382 436	-
Net loss on disposal of investment property	(122 646)	122 646	-
Change in value of property for resale	-	(382 436)	(382 436)
Net loss on sale of property for resale	-	(122 646)	(122 646)

	Consolidated statement of financial position as at 31 December 2019		
	As previously reported 31 December 2018	**Reclassification amount**	**31 December 2018 (restated)**
Investment property	3 360 620	(3 360 620)	-
Property for resale	-	3 360 620	3 360 620

	Consolidated statement of cash flows for the year ended 31 December 2019		
	As previously reported 31 December 2018	**Reclassification amount**	**31 December 2018 (restated)**
(Increase)/decrease in operating assets:			
Property for resale	-	545 190	545 190
Cash flows from investing activities			
Purchase of investment property	(79 992)	79 992	-
Proceeds from sale of investment property	625 182	(625 182)	-

Cash and cash equivalents. In 2019, the Group revised the composition of cash and cash equivalents and included short-term highly liquid instruments such as reverse repurchase agreements and short-term deposits with banks with an initial maturity of less than 90 days in the cash and cash equivalents in the consolidated statement of cash flows.

(in thousands of Russian Rubles, unless otherwise indicated)

5. Changes in accounting policies (continued)

The effect of above changes in the consolidated statement of cash flows is as follows:

	Consolidated statement of cash flows For the year ended 31 December 2019		
	As previously reported For the year ended 31 December 2018	**Reclassification amount**	**For the year ended 31 December 2018 (restated)**
(Increase)/decrease in operating assets:			
Due from banks	1 881 152	(2 047 897)	(166 745)
Change in interest accrued on cash and cash equivalents	-	(1 411)	(1 411)
Change in allowance for expected credit losses for cash and cash equivalents	-	(13 121)	(13 121)
Net increase/(decrease) in cash and cash equivalents	**(6 164 577)**	**(2 062 430)**	**(8 227 007)**
Cash and cash equivalents, beginning of the period	**16 281 310**	**2 504 667**	**18 785 977**
Cash and cash equivalents, end of the period	**10 116 733**	**442 237**	**10 558 970**

In addition, the Group reclassified the results of foreign currency translation in the consolidated statement of cash flows to present the results on trading in foreign currency and the effect of foreign currency translation on the relevant items of the statement of cash flows. The Group also presented cash flows on debt instruments in financial activities in accordance with their nature.

The effect of above changes in the consolidated statement of cash flows is as follows:

	Consolidated statement of cash flows for the year ended 31 December 2019		
	As previously reported For the year ended 31 December 2018	**Reclassification amount**	**For the year ended 31 December 2018 (restated)**
Net cash outflow from operating activities	**(3 155 719)**	**(1 271 627)**	**(4 427 346)**
Including:			
due to reclassification of cash and cash equivalents	1 881 153	(2 047 898)	(166 745)
due to changes in the accounting policies for property for resale	-	545 190	545 190
due to reclassification of cash flows from operations with issued bonds	(365 085)	652 376	287 291
Net cash inflow/(outflow) from investing activities	**(2 947 417)**	**(412 507)**	**(3 359 924)**
including:			
due to changes in the accounting policies for property for resale	545 190	(545 190)	-
Net cash inflow/(outflow) from financing activities	**(85 079)**	**(652 376)**	**(737 455)**
including:			
due to reclassification of cash flows from operations with issued bonds	-	(652 376)	(652 375)
Other changes	23 638	274 080	297 718
Net increase/(decrease) in cash and cash equivalents	**(6 164 577)**	**(2 062 430)**	**(8 227 007)**
Cash and cash equivalents, beginning of the period	**16 281 310**	**2 504 667**	**18 785 977**
Cash and cash equivalents, end of the period	**10 116 733**	**442 237**	**10 558 970**

(in thousands of Russian Rubles, unless otherwise indicated)

6. Net interest income

	2019	2018
Interest income		
Interest income calculated using the effective interest method		
Financial assets at amortized cost		
Loans to customers	15 443 231	11 335 750
Investments in debt securities at amortized cost	1 581 010	2 376 953
Due from banks	748 871	973 150
Financial assets at fair value through other comprehensive income		
Investments in securities at fair value through other comprehensive income	-	1 989
Other interest income		
Investments in securities at fair value through profit or loss	859 679	1 179 879
Total interest income	**18 632 791**	**15 867 721**
Interest expenses		
Interest expense calculated using the effective interest method		
Financial liabilities at amortized cost		
Customer accounts	(6 714 993)	(5 945 470)
Debt securities issued	(157 226)	(205 596)
Due to banks and other financial institutions	(122 834)	(84 632)
Lease liabilities	(43 620)	-
Total interest expense	**(7 038 673)**	**(6 235 698)**

7. Allowance for expected credit losses on interest bearing assets

The allowance for expected credit losses on interest bearing assets comprised:

	2019	2018
Allowance for expected credit losses on loans to individuals (Note 18)	(4 015 780)	(1 875 487)
Allowance for expected credit losses on loans to legal entities (Note 18)	(30 392)	(376 711)
Recovery of allowance/(allowance) for expected credit losses on amounts due from banks (Note 17)	17 787	(11 634)
(Allowance)/recovery of allowance for expected credit losses on securities at amortized cost (Note 16)	(25)	36 450
Recovery of allowance for expected credit losses on securities at fair value through other comprehensive income	-	117
Total allowance for expected credit losses on interest bearing assets	**(4 028 410)**	**(2 227 265)**

8. Net gain on securities at fair value through profit or loss

Net gain on securities at fair value through profit or loss comprised:

	2019	2018
Realized gain on trading operations	574 318	675 411
Fair value adjustments	162 397	301 132
Net gain on securities at fair value through profit or loss	**736 715**	**976 543**

(in thousands of Russian Rubles, unless otherwise indicated)

9. Net gain/(loss) on operations with derivative financial instruments

Net gain/(loss) on operations with derivative financial instruments comprised:

	2019	2018
Realized gain on derivatives	351 014	(310 870)
Fair value adjustments	1 020	(145 085)
Net gain/(loss) on operations with derivative financial instruments	**352 034**	**(455 955)**

Fair value adjustments for disposed derivative financial instruments are included in realized gain on derivatives.

10. Net loss on foreign exchange operations

Net loss on foreign exchange operations comprised:

	2019	2018
Trading, net	(2 436 776)	1 377 161
Foreign currency translation, net	1 864 573	(1 436 115)
Total net loss on foreign exchange operations	**(572 203)**	**(58 954)**

11. Fee and commission income and expense

Fee and commission income and expense comprised:

	2019	2018
Fee and commission income:		
Agent fees on insurance products	3 093 351	890 260
Acquiring and plastic card transactions	2 937 309	2 175 071
Settlements	1 051 654	464 482
Maintenance of accounts	1 076 708	321 749
Cash operations with plastic cards	826 323	552 949
Maintenance of bank cards	681 104	768 287
Other cash operations	466 563	422 194
Documentary operations	389 191	139 419
Foreign currency agent and controller operations	55 822	49 546
Other	430 742	255 834
Total fee and commission income	**11 008 767**	**6 039 791**
Fee and commission expense:		
Settlements	(2 903 251)	(1 810 451)
Information and technical interaction	(1 696 515)	(1 661 166)
Cash transactions	(261 926)	(285 612)
Debt collection expenses	(240 997)	(174 334)
Documentary operations	(187 240)	(72 460)
Other	(112 565)	(17 114)
Total fee and commission expense	**(5 402 494)**	**(4 021 137)**

(in thousands of Russian Rubles, unless otherwise indicated)

12. Other income

Other income comprised:

	2019	**2018**
Lease income	195 928	325 043
Gain on write-off of liabilities	91 936	365 825
Information and advisory services	7 732	6 318
Recovery of other assets previously written off	-	379 776
Fines and penalties	-	25 664
Other	57 826	91 956
Total other income	**353 422**	**1 194 582**

The recovery of other assets previously written off for 2018 includes the amount of insurance compensation of RUB 363,369 thousand.

13. Operating expenses

Operating expenses comprised:

	2019	**2018**
Staff costs	4 767 456	4 316 691
Social security contributions	960 362	882 019
Total personnel expenses	**5 727 818**	**5 198 710**
Communication services (Note 32)	1 244 331	616 834
Depreciation and amortization of property, plant and equipment and intangible assets	738 920	646 558
Call center services	668 339	483 021
Payments to the Deposit Insurance Agency	531 485	549 020
Software maintenance	460 910	285 463
Property, plant and equipment maintenance	403 973	426 881
Depreciation of right-of-use assets	310 996	-
Professional services	289 126	250 364
Advertising expenses	247 152	114 424
Office expenses	103 307	46 878
Taxes, other than income tax	89 362	96 032
Plastic cards	85 555	64 448
Security costs	61 637	64 337
Business trips	47 447	31 256
Fines and penalties	22 738	34 935
Disposals of property, plant and equipment	4 015	9 153
Other expenses	284 493	640 103
Total operating expenses	**11 321 604**	**9 558 417**

The Group approved motivation programs that give the Group employees' rights to receive cash payments determined based on number fantom and virtual shares awarded to them or an equivalent amount of PJSC MTS shares. The number of share awards is determined by the plan, and awards are contingent on the achievement of certain performance indicators, continuous employment until the end of the periods established by the plan and the approval awards by the appropriate collective body. The Group records these motivation programs in accordance with IFRS 2 *Share-based Payments* as transactions based on the shares with cash settlements. In 2019, the Group recorded expenses for such remuneration programs of RUB 372 551 thousand (2018: RUB 999 577 thousand) as part of staff costs and of RUB 57 373 thousand (2018: RUB 153 935 thousand) within social security contributions.

(in thousands of Russian Rubles, unless otherwise indicated)

14. Income tax

The Group calculates income tax due based on the tax accounts maintained and prepared in accordance with the tax regulations of RF where the Group and its subsidiaries operate. These requirements may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. As at 31 December 2019 and 2018, temporary differences relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits under tax law in that jurisdiction.

As at 31 December 2019 and 2018, tax effect of temporary differences comprised:

	31 December 2019	**31 December 2018**
Deferred tax assets/(liabilities) attributable to:		
Due from banks and loans to customers	1 350 217	1 339 383
Other assets	257 331	199 718
Property for resale	559 195	731 000
Investments in securities	47 193	(209 844)
Investments in a joint venture	(7 220)	(4 551)
Derivative financial instruments	(204)	29 017
Customer accounts	(20 759)	1 164
Property, plant and equipment and intangible assets	12 097	6 975
Other financial liabilities	126 342	424 925
Tax loss carried forward	5 704 909	5 501 758
Total deferred tax assets	**8 029 101**	**8 019 545**
Unrecognized deferred tax assets	(4 778 578)	(4 775 129)
Net deferred tax assets	**3 250 523**	**3 244 416**

In prior periods, the Group accrued tax losses that can be realized by offsetting with taxable profits of future periods. In recognizing deferred tax, the Group assessed the adequacy of future taxable profit taking into account the historical growth of the Group’s profitability and the new shareholder’s development and support strategy.

In 2019, the Group reviewed the accumulated tax losses and filed an amended tax return with the tax authorities.

As a result, as at 31 December 2019, tax losses carried forward included adjustments of tax loss carry-forward in the amount of RUB 399 600 thousand.

(in thousands of Russian Rubles, unless otherwise indicated)

14. Income tax (continued)

The reconciliation between income tax expense and consolidated profit before income tax for the years ended 31 December 2019 and 2018 comprised:

	2019	2018
Profit before tax	**2 245 424**	**1 002 783**
Tax at the statutory tax rate (20%)	449 084	200 557
Change in unrecognized deferred tax asset	(3 449)	164 934
Effect of income taxed at a different tax rate (15%)	(64 297)	(76 415)
Tax effect of permanent differences	40 648	99 380
Effect relating to prior periods	4 691	-
Income tax expense	**426 677**	**388 456**
Current income tax expense	432 785	464 737
Change in deferred tax assets	(6 108)	(76 281)
Income tax expense	**426 677**	**388 456**

As at 31 December 2019 and 2018, the Group did not recognize a part of deferred tax asset of RUB 4 778 578 thousand and RUB 4 775 129 thousand, respectively, as related tax losses are not expected to be utilized. The valuation of deferred tax assets is highly judgmental as discussed in Note 4.

For unrecognized tax assets there is no restriction on the period of their utilization in accordance with the effective Russian legislation.

Deferred tax assets/(liabilities)	**2019**	**2018**
Deferred tax assets at 1 January	**3 244 416**	**3 169 537**
Deferred tax liabilities at 1 January	**-**	**-**
Change in deferred income taxes recognized in profit or loss	3 617	76 281
Change in deferred income taxes recognized in other comprehensive income	2 490	(1 409)
Effect of foreign exchange rate changes	-	7
Deferred tax assets at 31 December	**3 250 523**	**3 244 416**
Deferred tax liabilities at 31 December	**-**	**-**

15. Cash and balances with the Central Bank

Cash and balances comprised:

	31 December 2019	31 December 2018
Balances with the Central Bank of the Russian Federation	20 078 217	5 853 167
Cash and cash equivalents	3 286 954	2 832 639
Total cash and balances with the Central Bank	**23 365 171**	**8 685 806**

As at 31 December 2019 and 2018, balances with the Central Bank of the Russian Federation include RUB 1 302 287 thousand and RUB 975 847 thousand, respectively, which represent the obligatory reserve deposits with the Central Bank. The Group is required to maintain obligatory reserve deposits with the Central Bank on a constant basis.

(in thousands of Russian Rubles, unless otherwise indicated)

15. Cash and balances with the Central Bank (continued)

Cash and cash equivalents presented in the statement of cash flows comprised:

	31 December 2019	31 December 2018 (restated)
Cash and balances with the Central Bank	23 365 171	8 685 806
Correspondent accounts with banks and other financial institutions	4 181 146	2 406 774
Reverse repurchase agreements with financial institutions with initial maturities of less than three months	257 588	367 218
Short-term bank deposits	22 286	114 844
	27 826 191	**11 574 642**
Less minimum reserve deposits with the Central Bank of the Russian Federation	(1 302 287)	(975 847)
Less allowance for expected credit losses	(6 687)	(39 825)
Total cash and cash equivalents	**26 517 217**	**10 558 970**

16. Investments in securities

Investments in securities comprised:

	31 December 2019	31 December 2018
Debt securities measured at amortized cost		
Corporate bonds	8 225 041	21 095 038
Debt securities of the RF constituent entities	7 231 735	9 423 068
Less allowance for expected credit losses	(3 502)	(3 477)
	15 453 274	**30 514 629**
Debt securities mandatorily measured at fair value through profit and loss		
- corporate and bank bonds	11 194 780	13 514 328
- Russian government debt securities	2 068 111	146 574
- debt securities of the RF constituent entities	10 532	19 410
	13 273 423	**13 680 312**
Equity securities at fair value through profit and loss		
Investments in bond funds	-	8 806 425
	-	**8 806 425**
Total investments in securities	**28 726 697**	**53 001 366**

(in thousands of Russian Rubles, unless otherwise indicated)

16. Investments in securities (continued)

Investments in bond funds represent investments in Russian funds investing mainly in bonds and Eurobonds of Russian issuers.

As at 31 December 2019, securities at amortized cost amounting to RUB 8 719 222 thousand (2018: RUB 2 282 563 thousand) and at fair value amounting to RUB 1 065 069 thousand (2018: RUB 0) were transferred as collateral under repurchase agreements (Note 24).

The movements in the allowance for expected credit losses on securities for the year ended 31 December 2019 are presented below:

	Stage 1	**Total**
Debt securities measured at amortized cost		
31 December 2018	**3 477**	**3 477**
Changes due to changes in credit risk, net	126	126
Assets redeemed or derecognized (except for write-off)	(101)	(101)
31 December 2019	**3 502**	**3 502**

The movements in the allowance for expected credit losses on securities for the year ended 31 December 2018 are presented below:

	Stage 1	**Total**
Debt securities measured at amortized cost		
1 January 2018	**39 927**	**39 927**
New assets received or purchased	11 395	11 395
Changes due to changes in credit risk, net	(44 322)	(44 322)
Assets redeemed or derecognized (except for write-off)	(3 523)	(3 523)
31 December 2018	**3 477**	**3 477**

Changes in the gross carrying amount of securities measured at amortized cost, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2019, are presented below:

	Stage 1	**Total**
31 December 2018	**30 518 106**	**30 518 106**
Assets redeemed or derecognized (except for write-off)	(14 424 884)	(14 424 884)
Other changes	(636 446)	(636 446)
31 December 2019	**15 456 776**	**15 456 776**

(in thousands of Russian Rubles, unless otherwise indicated)

16. Investments in securities (continued)

Changes in the gross carrying amount of securities measured at amortized cost, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2018, are presented below:

	Stage 1	**Total**
1 January 2018	**27 346 087**	**27 346 087**
New assets received or purchased	10 784 393	10 784 393
Assets redeemed or derecognized (except for write-off)	(8 000 992)	(8 000 992)
Repayment of interest and other changes	388 618	388 618
31 December 2018	**30 518 106**	**30 518 106**

Information on the quality of securities at amortized cost as at 31 December 2019 is presented below:

	Stage 1
Fitch-rated debt securities:	
BBB	15 281 160
BB	175 616
Less allowance for expected credit losses	(3 502)
31 December 2019	**15 453 274**

Information on the quality of securities held to maturity as at 31 December 2018 is presented below:

	Stage 1
Fitch-rated debt securities:	
BBB	26 975 958
BB	3 510 244
<BB	31 904
Less allowance for expected credit losses	(3 477)
31 December 2018	**30 514 629**

(in thousands of Russian Rubles, unless otherwise indicated)

17. Due from banks

Due from banks comprised:

	31 December 2019	31 December 2018
Correspondent accounts with banks and other financial institutions	4 181 146	2 406 774
Guarantee deposits in payment systems	1 558 328	1 543 995
Reverse repurchase agreements with financial institutions	257 588	367 218
Short-term bank deposits	22 286	114 844
	6 019 348	**4 432 831**
Less allowance for expected credit losses	(6 885)	(40 002)
Total due from banks	**6 012 463**	**4 392 829**

As at 31 December 2019 and 2018, due from banks included guarantee deposits totaling RUB 1 558 328 thousand and RUB 1 543 995 thousand, respectively, which are collateral under operations with payment systems.

As at 31 December 2019 and 2018, fair value of assets pledged and carrying amount of loans granted under the reverse repurchase agreements comprised:

	31 December 2019 Carrying amount of loans	31 December 2019 Fair value of collateral	31 December 2018 Carrying amount of loans	31 December 2018 Fair value of collateral
Corporate bonds	257 588	271 645	367 218	388 829
Total	**257 588**	**271 645**	**367 218**	**388 829**

As at 31 December 2019 and 2018, due from banks comprised balances of RUB 142 143 thousand and RUB 189 059 thousand, respectively, pledged as collateral for mortgage-backed bonds issued by the Group in 2014.

The movements in the allowance for expected credit losses on the amounts due from banks for the year ended 31 December 2019 are presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	**1 809**	**-**	**38 193**	**40 002**
New assets received or purchased	518	-	136	654
Changes due to changes in credit risk	(1 094)	-	(17 347)	(18 441)
Write-off against allowance	-	-	(16 601)	(16 601)
Recoveries of the assets previously written off	-	-	1 271	1 271
31 December 2019	**1 233**	**-**	**5 652**	**6 885**

(in thousands of Russian Rubles, unless otherwise indicated)

17. Due from banks (continued)

The movements in the allowance for expected credit losses on the amounts due from banks for the year ended 31 December 2018 are presented below:

	Stage 1	Stage 2	Stage 3	Total
1 January 2018	**1 149**	**25 824**	**17 319**	**44 292**
Transfer to Stage 3	-	(22 901)	22 901	-
New assets received or purchased	251	-	13 792	14 043
Changes due to changes in credit risk	409	(2 923)	105	(2 409)
Write-off against allowance	-	-	(16 296)	(16 296)
Recoveries of the assets previously written off	-	-	372	372
31 December 2018	**1 809**	**-**	**38 193**	**40 002**

Changes in the gross carrying amount of the amounts due from banks, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2019, are presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	**4 394 638**	**-**	**38 193**	**4 432 831**
New assets received or purchased	2 573 267	-	182	2 573 449
Write-off against allowance	-	-	(16 601)	(16 601)
Repayment and other changes	(955 717)	-	(14 614)	(970 331)
31 December 2019	**6 012 188**	**-**	**7 160**	**6 019 348**

Changes in the gross carrying amount of the amounts due from banks, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2018, are presented below:

	Stage 1	Stage 2	Stage 3	Total
1 January 2018	**6 483 838**	**25 824**	**17 318**	**6 526 980**
Transfer to Stage 3	-	(22 901)	22 901	-
New assets received or purchased	592 151	-	14 165	606 316
Write-off against allowance	-	-	(15 923)	(15 923)
Repayment and other changes	(2 681 351)	(2 923)	(268)	(2 684 542)
31 December 2018	**4 394 638**	**-**	**38 193**	**4 432 831**

(in thousands of Russian Rubles, unless otherwise indicated)

17. Due from banks (continued)

The quality of the amounts due from banks as at 31 December 2019 is presented below:

	Stage 1	Stage 3	Total
Fitch-rated due from banks:			
AA	22 362	-	22 362
A	2 277 361	-	2 277 361
BBB	2 518 980	-	2 518 980
BB	683 838	-	683 838
B	2 329	-	2 329
<B / Not rated	507 318	7 160	514 478
Less allowance for expected credit losses	(1 233)	(5 652)	(6 885)
31 December 2019	**6 010 955**	**1 508**	**6 012 463**

The quality of the amounts due from banks as at 31 December 2018 is presented below:

	Stage 1	Stage 3	Total
Fitch-rated due from banks:			
AA	5 251	-	5 251
A	2 243 340	-	2 243 340
BBB	1 230 523	-	1 230 523
BB	610 909	-	610 909
B	115 558	-	115 558
<B / Not rated	189 057	38 193	227 250
Less allowance for expected credit losses	(1 809)	(38 193)	(40 002)
31 December 2018	**4 392 829**	**-**	**4 392 829**

Amounts due from banks, which are not rated, represent unsettled operations on balances with credit institutions.

As at 31 December 2019 and 2018, there are no overdue amounts due from banks in Stage 1, which are not rated.

18. Loans to customers

Loans to customers comprised:

	31 December 2019	31 December 2018
Loans to customers	118 293 163	81 476 858
Less allowance for expected credit losses	(10 855 558)	(8 905 642)
Total loans to customers	**107 437 605**	**72 571 216**

(in thousands of Russian Rubles, unless otherwise indicated)

18. Loans to customers (continued)

The table below summarizes gross carrying amounts of loans to customers by type of collateral received:

	31 December 2019	31 December 2018
Loans collateralized by pledge of properties	14 077 268	14 236 954
Loans collateralized by guarantees of legal entities	13 284 263	17 984 333
Loans collateralized by pledge of securities	1 018 924	32 246
Loans collateralized by pledge of equipment	496 229	142 965
Loans collateralized by rights of claim	14 859	14 863
Loans collateralized by pledge of inventories	30	11 972
Loans collateralized by pledge of own promissory notes	-	361 369
Loans collateralized by other collateral	25 327	-
Unsecured loans	89 376 263	48 692 156
Loans to customers	**118 293 163**	**81 476 858**
Less allowance for expected credit losses	(10 855 558)	(8 905 642)
Total loans to customers	**107 437 605**	**72 571 216**

Amounts presented in the table above are the carrying amounts of loans issued and do not necessarily represent the fair value of collateral received.

As at 31 December 2019 and 2018, loans totaling RUB 3 277 042 thousand and RUB 3 535 728 thousand before allowance, respectively, that were individually determined to be impaired were collateralized by pledge of real properties, equipment, inventories, promissory notes and guarantees with fair value totaling RUB 912 684 thousand and RUB 1 661 076 thousand, respectively.

	31 December 2019	31 December 2018
Analysis by economic sector:		
Individuals	90 325 969	52 121 801
Trading	11 575 507	9 433 320
Real estate	6 093 733	5 458 361
Finance	2 344 507	2 180 511
Transport and communications	1 807 029	2 521 864
Manufacturing	1 641 294	4 152 695
Agriculture	1 128 065	1 808 891
Finance leases	1 188 116	1 023 550
Food production	141 047	173 128
Hotel business	27 971	36 979
Culture and art	4 146	13 265
Other	2 015 779	2 552 493
Loans to customers	**118 293 163**	**81 476 858**
Less allowance for expected credit losses	(10 855 558)	(8 905 642)
Total loans to customers	**107 437 605**	**72 571 216**

(in thousands of Russian Rubles, unless otherwise indicated)

18. Loans to customers (continued)

Loans to individuals comprised the following products:

	31 December 2019	**31 December 2018**
Consumer loans	62 971 274	30 651 888
Credit cards	15 617 856	9 778 256
Mortgage loans	11 163 930	11 667 863
Other	572 909	23 794
Loans to individuals	**90 325 969**	**52 121 801**
Less allowance for expected credit losses	(7 013 915)	(4 585 929)
Total loans to individuals	**83 312 054**	**47 535 872**

As at 31 December 2019 and 2018, loans to individuals comprised mortgage loans of RUB 812 630 thousand and RUB 1 160 958 thousand, respectively, pledged as collateral for mortgage-backed bonds issued by the Group in 2014.

As at 31 December 2019, the Group granted loans to one group of customers totaling RUB 4 055 234 thousand, which individually exceeded 10% of the Group's equity (as at 31 December 2018, the Group granted loans to two groups of customers totaling RUB 4 396 036 thousand).

As at 31 December 2019 and 2018, loans to customers included loans in Stage 2 totaling RUB 326 176 thousand and RUB 1 034 972 thousand, respectively, whose terms were renegotiated otherwise these loans would be past due. The revision of terms and conditions did not have a significant impact on the amortization cost of these loans and on the assessment of expected credit losses.

In 2019 and 2018, the Group sold certain loans to third parties with a discount to nominal value with no recourse and no service obligations associated with the loans. As at 31 December 2019 and 2018, such loans written off against allowance amounted to RUB 39 600 thousand and RUB 355 502 thousand, respectively, total loss from sales was RUB 13 635 thousand and RUB 68 430 thousand, respectively.

The movements in the allowance for expected credit losses on loans to legal entities for the year ended 31 December 2019 are presented below:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
31 December 2018	**316 561**	**595 143**	**3 408 009**	**4 319 713**
Transfer to Stage 1	19 100	(17 551)	(1 549)	-
Transfer to Stage 2	(47 711)	49 116	(1 405)	-
Transfer to Stage 3	(187 515)	(496 243)	683 758	-
New assets received or purchased	657 842	-	-	657 842
Changes due to changes in credit risk	(154 592)	(53 924)	(418 934)	(627 450)
Sales	(39 600)	-	-	(39 600)
Write-off against allowance	-	-	(862 511)	(862 511)
Recoveries of the assets previously written off	-	-	391 641	391 641
Foreign exchange differences	2 008	-	-	2 008
31 December 2019	**566 093**	**76 541**	**3 199 009**	**3 841 643**

(in thousands of Russian Rubles, unless otherwise indicated)

18. Loans to customers (continued)

The movements in the allowance for expected credit losses on loans to legal entities for the year ended 31 December 2018 are presented below:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
1 January 2018	**545 982**	**247 123**	**4 937 757**	**5 730 862**
Transfer to Stage 1	3 081	(77)	(3 004)	-
Transfer to Stage 2	(88 975)	88 975	-	-
Transfer to Stage 3	(125 445)	(47 258)	172 703	-
New assets received or purchased	373 085	-	-	373 085
Changes due to changes in credit risk	(387 703)	306 380	84 949	3 626
Sales	-	-	(355 502)	(355 502)
Write-off against allowance	-	-	(1 689 148)	(1 689 148)
Recoveries of the assets previously written off	-	-	260 254	260 254
Foreign exchange differences	(3 464)	-	-	(3 464)
31 December 2018	**316 561**	**595 143**	**3 408 009**	**4 319 713**

The movements in the allowance for expected credit losses on loans to individuals for the year ended 31 December 2019 are presented below:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
31 December 2018	**962 288**	**449 109**	**3 174 532**	**4 585 929**
Transfer to Stage 1	819 773	(629 595)	(190 178)	-
Transfer to Stage 2	(230 284)	309 996	(79 712)	-
Transfer to Stage 3	(1 853)	(1 585 361)	1 587 214	-
New assets received or purchased	1 706 678	-	-	1 706 678
Changes due to changes in credit risk	(1 331 537)	2 557 689	1 082 950	2 309 102
Write-off against allowance	-	-	(2 139 180)	(2 139 180)
Recoveries of the assets previously written off	-	-	551 386	551 386
31 December 2019	**1 925 065**	**1 101 838**	**3 987 012**	**7 013 915**

The movements in the allowance for expected credit losses on loans to individuals for the year ended 31 December 2018 are presented below:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
1 January 2018	**885 499**	**484 755**	**3 176 418**	**4 546 672**
Transfer to Stage 1	660 222	(444 097)	(216 125)	-
Transfer to Stage 2	(246 183)	318 408	(72 225)	-
Transfer to Stage 3	(2 073)	(1 224 102)	1 226 175	-
New assets received or purchased	1 344 367	-	-	1 344 367
Changes due to changes in credit risk	(1 679 544)	1 314 145	896 518	531 119
Write-off against allowance	-	-	(2 372 824)	(2 372 824)
Recoveries of the assets previously written off	-	-	536 595	536 595
31 December 2018	**962 288**	**449 109**	**3 174 532**	**4 585 929**

(in thousands of Russian Rubles, unless otherwise indicated)

18. Loans to customers (continued)

Changes in the gross carrying amount of loans to legal entities, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2019 are presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	**22 083 265**	**3 425 806**	**3 845 986**	**29 355 057**
Transfer to Stage 1	387 341	(384 789)	(2 552)	-
Transfer to Stage 2	(2 289 303)	2 291 928	(2 625)	-
Transfer to Stage 3	(521 478)	(1 175 903)	1 697 381	-
New assets received or purchased	13 109 964	-	-	13 109 964
Sales	(2 000 000)	-	-	(2 000 000)
Write-off against allowance	-	-	(862 511)	(862 511)
Repayment and other changes	(9 846 456)	(827 638)	(961 222)	(11 635 316)
31 December 2019	**20 923 333**	**3 329 404**	**3 714 457**	**27 967 194**

Changes in the gross carrying amount of loans to legal entities, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2018 are presented below:

	Stage 1	Stage 2	Stage 3	Total
1 January 2018	**19 640 853**	**2 679 577**	**5 936 266**	**28 256 696**
Transfer to Stage 1	7 862	(1 304)	(6 558)	-
Transfer to Stage 2	(1 782 342)	1 782 342	-	-
Transfer to Stage 3	(202 627)	(681 199)	883 826	-
New assets received or purchased	14 429 109	-	-	14 429 109
Sales	-	-	(355 502)	(355 502)
Write-off against allowance	-	-	(1 689 148)	(1 689 148)
Repayment and other changes	(10 009 590)	(353 610)	(922 898)	(11 286 098)
31 December 2018	**22 083 265**	**3 425 806**	**3 845 986**	**29 355 057**

Changes in the gross carrying amount of loans to individuals, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2019 are presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	**46 424 574**	**1 553 560**	**4 143 667**	**52 121 801**
Transfer to Stage 1	2 363 976	(2 112 851)	(251 125)	-
Transfer to Stage 2	(8 622 763)	8 762 286	(139 523)	-
Transfer to Stage 3	(109 434)	(3 788 100)	3 897 534	-
New assets received or purchased	77 634 868	-	-	77 634 868
Write-off against allowance	-	-	(2 139 180)	(2 139 180)
Repayment and other changes	(36 100 632)	(855 251)	(335 637)	(37 291 520)
31 December 2019	**81 590 589**	**3 559 644**	**5 175 736**	**90 325 969**

(in thousands of Russian Rubles, unless otherwise indicated)

18. Loans to customers (continued)

Changes in the gross carrying amount of loans to individuals, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2018 are presented below:

	Stage 1	Stage 2	Stage 3	Total
1 January 2018	**31 830 314**	**1 163 370**	**4 423 091**	**37 416 775**
Transfer to Stage 1	1 070 868	(784 343)	(286 525)	-
Transfer to Stage 2	(4 347 345)	4 475 285	(127 940)	-
Transfer to Stage 3	(124 739)	(2 757 667)	2 882 406	-
New assets received or purchased	40 593 106	-	-	40 593 106
Write-off against allowance	-	-	(2 372 824)	(2 372 824)
Repayment and other changes	(22 597 630)	(543 085)	(374 541)	(23 515 256)
31 December 2018	**46 424 574**	**1 553 560**	**4 143 667**	**52 121 801**

The quality of loans to legal entities as at 31 December 2019 is presented below:

	Stage 1	Stage 2	Stage 3	31 December 2019
Loans collectively assessed for impairment				
Not past due	1 182 283	30 786	-	1 213 069
Past due:				
Up to 30 days	14 931	6 645	7 902	29 478
31 to 60 days	-	24 229	6 107	30 336
61 to 90 days	-	-	226	226
91 to 180 days	-	-	13 556	13 556
Over 180 days		-	672 364	672 364
Total loans to legal entities collectively assessed for impairment	**1 197 214**	**61 660**	**700 155**	**1 959 029**
Loans individually assessed for impairment				
Current	12 344 732	1 803 043	-	14 147 775
Requiring monitoring	7 381 387	1 464 701	-	8 846 088
Default	-	-	3 014 302	3 014 302
Total loans to legal entities individually assessed for impairment	**19 726 119**	**3 267 744**	**3 014 302**	**26 008 165**
Less allowance for expected credit losses	(566 093)	(76 541)	(3 199 009)	(3 841 643)
TOTAL	**20 357 240**	**3 252 863**	**515 448**	**24 125 551**

(in thousands of Russian Rubles, unless otherwise indicated)

18. Loans to customers (continued)

The quality of loans to legal entities as at 31 December 2018 is presented below:

	Stage 1	Stage 2	Stage 3	31 December 2018
Loans collectively assessed for impairment				
Not past due	1 183 179	40 459	-	1 223 638
Past due:				
Up to 30 days	-	2 207	5 258	7 465
31 to 60 days	-	2 023	-	2 023
61 to 90 days	-	4 231	-	4 231
91 to 180 days	-	-	14 977	14 977
Over 180 days	-	-	689 174	689 174
Total loans to legal entities collectively assessed for impairment	**1 183 179**	**48 920**	**709 409**	**1 941 508**
Loans individually assessed for impairment				
Current	16 099 336	1 720 730	-	17 820 066
Requiring monitoring	4 800 750	1 656 156	-	6 456 906
Default	-	-	3 136 577	3 136 577
Total loans to legal entities individually assessed for impairment	**20 900 086**	**3 376 886**	**3 136 577**	**27 413 549**
Less allowance for expected credit losses	(316 561)	(595 143)	(3 408 009)	(4 319 713)
TOTAL	**21 766 704**	**2 830 663**	**437 977**	**25 035 344**

(in thousands of Russian Rubles, unless otherwise indicated)

18. Loans to customers (continued)

The quality of loans to individuals as at 31 December 2019 is presented below:

	Stage 1	Stage 2	Stage 3	31 December 2019
Loans collectively assessed for impairment				
Not past due	81 590 589	-	-	81 590 589
Past due:				
Up to 30 days	-	2 237 674	-	2 237 674
31 to 60 days	-	644 105	-	644 105
61 to 90 days	-	540 044	-	540 044
91 to 180 days	-	-	1 368 855	1 368 855
Over 180 days	-	-	3 494 068	3 494 068
Total loans to individuals collectively assessed for impairment	**81 590 589**	**3 421 823**	**4 862 923**	**89 875 335**
Loans individually assessed for impairment				
Requiring monitoring	-	137 821	49 420	187 241
Default	-	-	263 393	263 393
Total loans to individuals individually assessed for impairment	**-**	**137 821**	**312 813**	**450 634**
Less allowance for expected credit losses	(1 925 065)	(1 101 838)	(3 987 012)	(7 013 915)
TOTAL	**79 665 524**	**2 457 806**	**1 188 724**	**83 312 054**

The quality of loans to individuals as at 31 December 2018 is presented below:

	Stage 1	Stage 2	Stage 3	31 December 2018
Loans collectively assessed for impairment				
Not past due	46 424 574	-	-	46 424 574
Past due:				
Up to 30 days	-	858 714	-	858 714
31 to 60 days	-	289 542	-	289 542
61 to 90 days	-	204 328	-	204 328
91 to 180 days	-	-	542 116	542 116
Over 180 days	-	-	3 202 400	3 202 400
Total loans to individuals collectively assessed for impairment	**46 424 574**	**1 352 584**	**3 744 516**	**51 521 674**
Loans individually assessed for impairment				
Requiring monitoring	-	200 976	5 127	206 103
Default	-	-	394 024	394 024
Total loans to individuals individually assessed for impairment	**-**	**200 976**	**399 151**	**600 127**
Less allowance for expected credit losses	(962 288)	(449 109)	(3 174 532)	(4 585 929)
TOTAL	**45 462 286**	**1 104 451**	**969 135**	**47 535 872**

(in thousands of Russian Rubles, unless otherwise indicated)

19. Investments in a joint venture

On 28 December 2018, the Group sold to a related party 40.3% of its units in the Closed mutual real estate investment fund Sistema – Rentnaya Nedvizhimost 1 ("the Fund") having lost control over the fund's activities. During the period from 28 December 2018 to 31 December 2018, the Fund did not generate any income required to be recognized by the Group as part of share of profits of joint venture.

The loss related to the disposal of the fund is presented in the table below:

	2018
Disposed off assets and liabilities:	
Investment property	(979 700)
Due from banks	(64 802)
Other assets	(130 417)
Other liabilities	23 441
Total net assets disposed off	**(1 151 478)**
Group's liabilities to the fund	(3 605)
Cash consideration received	449 720
Fair value of the Group's share in the fund	690 102
Loss on disposal	**(15 261)**

In accordance with the rules of the Fund, decisions of the general meeting are made by 75% of the votes of the total number of votes given to their owners in accordance with the number of investment units owned at the date of the decision to convene a general meeting.

The Group cannot unilaterally manage the significant activities of the Fund, and the adoption of the decision of the general meeting can only be taken jointly with another investor.

As at 31 December 2019 and 2018, the Group classified its interest in the fund as an investment in a joint venture.

Summarized financial information for the joint venture is presented below:

	31 December 2019	**31 December 2018**
Fund's assets		
Investment property	949 800	979 700
Due from banks	62 322	68 407
Other assets	108 915	130 417
Fund's liabilities	(18 905)	(23 442)
Fund's net assets	**1 102 132**	**1 155 082**
Group's share in the Fund	59,7%	59,7%
Carrying amount of the Group's share in the Fund	**658 467**	**690 102**

(in thousands of Russian Rubles, unless otherwise indicated)

19. Investments in a joint venture (continued)

	31 December 2019
Fund's comprehensive income	
Income on property leases	165 790
Write off of investment property	(29 900)
Other income	20 402
Other expenses	(20 137)
Operating expenses	(75 990)
Total comprehensive income	**60 165**
Group's share in the fund	59,7%
Share of profits of joint venture	**35 946**

20. Property, plant and equipment and intangible assets

	Buildings	Capital investments	Furniture and equipment	Construc-tion-in-progress	Total property, plant and equipment	Intangible assets	Total property, plant and equipment and intangible assets
Carrying amount							
31 December 2017	**1 647 604**	**118 119**	**1 262 598**	**-**	**3 028 321**	**2 531 454**	**5 559 775**
Additions	334 749	2 428	187 535	-	**524 712**	892 496	**1 417 208**
Reclassification to property for resale	(10 259)	-	-	-	**(10 259)**	-	**(10 259)**
Disposals	(49 732)	(70 631)	(73 528)	-	**(193 891)**	(125 605)	**(319 496)**
Elimination of accumulated depreciation on revaluation	(38 009)	-	-	-	**(38 009)**	-	**(38 009)**
Revaluation	(729)	-	-	-	**(729)**	-	**(729)**
31 December 2018	**1 883 624**	**49 916**	**1 376 605**	**-**	**3 310 145**	**3 298 345**	**6 608 490**
Additions	26 861	14 178	704 070	122 516	**867 625**	1 466 551	**2 334 176**
Reclassification to property for resale	(1 573)	-	-	-	**(1 573)**	-	**(1 573)**
Disposals	-	(3 404)	(148 793)	-	**(152 197)**	(806 009)	**(958 206)**
Elimination of accumulated depreciation on revaluation	(41 823)	-	-	-	**(41 823)**	-	**(41 823)**
Revaluation	(45 359)	-	-	-	**(45 359)**	-	**(45 359)**
31 December 2019	**1 821 730**	**60 690**	**1 931 882**	**122 516**	**3 936 818**	**3 958 887**	**7 895 705**

(in thousands of Russian Rubles, unless otherwise indicated)

20. Property, plant and equipment and intangible assets (continued)

	Buildings	Capital investments	Furniture and equipment	Construc-tion-in-progress	Total property, plant and equipment	Intangible assets	Total property, plant and equipment and intangible assets
Accumulated depreciation							
31 December 2017	**-**	**94 265**	**843 833**	-	**938 098**	**1 639 969**	**2 578 067**
Charge for the year	38 786	8 157	181 735	-	**228 678**	417 880	**646 558**
Disposals	(777)	(66 581)	(66 136)	-	**(133 494)**	(108 433)	**(241 927)**
Elimination of accumulated depreciation on revaluation	(38 009)	-	-	-	**(38 009)**	-	**(38 009)**
31 December 2018	**-**	**35 841**	**959 432**	**-**	**995 273**	**1 949 416**	**2 944 689**
Charge for the year	41 823	11 275	189 676	-	**242 774**	496 146	**738 920**
Disposals	-	(3 404)	(143 740)	-	**(147 144)**	(805 099)	**(952 244)**
Elimination of accumulated depreciation on revaluation	(41 823)	-	-	-	**(41 823)**	-	**(41 823)**
							-
31 December 2019	**-**	**43 712**	**1 005 368**	**-**	**1 049 080**	**1 640 463**	**2 689 542**
Net book value							
31 December 2018	**1 883 624**	**14 075**	**417 173**	**-**	**2 314 872**	**1 348 929**	**3 663 801**
31 December 2019	**1 821 730**	**16 978**	**926 515**	**122 516**	**2 887 739**	**2 318 423**	**5 206 162**

As at 31 December 2019 and 2018, the buildings owned by the Group were recognized at fair value. The following methods were used to measure the fair value: discounted cash flow method (income approach) and method of sales comparison (comparative approach).

In 2019 and 2018, the Group recognized its own software developments within intangible assets in the amount of RUB 1 006 994 thousand and RUB 610 416 thousand, respectively.

For the estimation of the fair value, the final results using two approaches were weighted depending on applicability, reliability and completeness of information. The fair value of these assets was RUB 1 821 730 thousand and RUB 1 883 624 thousand, respectively. If the buildings were accounted for at historical cost adjusted for inflation less accumulated depreciation and impairment losses, their carrying amount would be RUB 1 880 790 thousand and RUB 1 922 037 thousand as at 31 December 2019 and 2018, respectively.

As at 31 December 2019 and 2018, included in property, plant and equipment was fully depreciated equipment totaling RUB 562 618 thousand and RUB 461 091 thousand, respectively.

As at 31 December 2019 and 2018, the fair value of the buildings owned by the Group corresponded to the third level in the hierarchy of fair value.

(in thousands of Russian Rubles, unless otherwise indicated)

21. Property for resale

Property for resale comprised:

	2019	2018 (restated)
At 1 January	3 360 620	4 090 832
Additions	-	79 992
Property taken in possession under loan agreements	417 296	1 289 501
Transferred from property, plant and equipment	-	10 259
Disposals	(577 040)	(747 828)
Disposals due to loss of control over the fund (Note 19)	-	(979 700)
Change in value of property	(364 362)	(382 436)
At 31 December	**2 836 514**	**3 360 620**

In 2019 and 2018, other income in the consolidated statement of profit or loss comprised lease income arising on property for resale of RUB 191 923 thousand and RUB 319 023 thousand, respectively.

As at 31 December 2019 and 2018, property for resale is measured at the lower of the net realizable value, which is the fair value of the property less costs to sell, or its cost.

The following methods were used for the estimation of the fair value: discounted cash flow method (income approach), method of sales comparison (comparative approach). For estimation of the final value, the results obtained using two approaches were weighted by the following criteria: reliability and completeness of the information and individual characteristics consideration.

The Group has no restrictions as to the sale of the property, or documented obligations to purchase, construct, repair, maintain or improve the property.

22. Leases (the Group as a lessee)

Right-of-use assets comprised:

Right-of-use assets	31 December 2019	1 January 2019
Land and buildings	595 794	431 243
Furniture and equipment	1 164	1 084
Total right-of-use assets	**596 958**	**432 327**

The Group leases several assets, including buildings, land and equipment. The average lease period is five years.

As at 31 December 2019 and 2018, the Group did not have options to purchase equipment for a nominal amount at the end of the lease term.

During 2019, the Group acquired right-of-use assets including new contracts and prolongation of the existing ones in the amount of RUB 489 247 thousand.

In 2019, total cash outflows from leases amounted to RUB 314 017 thousand.

(in thousands of Russian Rubles, unless otherwise indicated)

22. Leases (the Group as a lessee) (continued)

The statement of profit or loss included the following lease-related expenses (the Group as a lessee):

	31 December 2019
Depreciation of right-of-use assets:	
Land and buildings	310 915
Furniture and equipment	81
Total depreciation of right-of-use assets:	**310 996**
Interest expense on lease liabilities	43 620
Expenses related to short-term leases and low-value asset leases	29 239

As at 31 December 2019, the Group had no short-term lease liabilities.

As at 31 December 2019, the Group has commitment in relation to leases, which have not commenced at the reporting date. The fixed cash outflow for such leases amount to RUB 2 551 thousand per annum for the next five years.

Extension and termination options are included in the Group's lease contract. They are used to maximize operational flexibility in terms of managing the assets used in the Group's activities. Most of the options provide the Group, rather than the lessor, an ability to extend or terminate lease agreements. When recognizing an asset, the lease term is calculated including extension options.

Future minimum lease payments and the present value of net minimum lease payments as at 31 December 2019 are presented in the table below:

	31 December 2019
Minimum lease payments:	
Less than 1 year	260 761
1 to 5 years	444 149
Total minimum lease payments	**704 910**
Less the effect of discounting	(77 129)
Present value of net minimum lease payments, including:	
Less than 1 year	250 406
1 to 5 years	377 375
Total present value of net minimum lease payments	**627 781**
Less current portion of lease liabilities	250 406
Long-term lease liabilities	**377 375**

(in thousands of Russian Rubles, unless otherwise indicated)

23. Other assets

Other assets comprised:

	31 December 2019	31 December 2018
Accrued commission income	448 716	704 686
Unsettled transactions with plastic cards	462 877	254 884
Advances to suppliers and contractors	407 100	401 627
Inventories	128 910	159 759
Other non-financial assets	118 367	79 301
Prepaid expenses	94 917	7 405
Taxes, other than income tax	25 159	88 193
Other financial assets	232 871	214 261
Total other assets before allowance	**1 918 917**	**1 910 116**
Less allowance for expected credit losses	(503 122)	(519 849)
Total other assets	**1 415 795**	**1 390 267**

The movements in allowance for expected credit losses on other assets were as follows:

	Other assets
31 December 2017	**846 871**
Allowance	172 979
Write-off against allowance	(500 001)
31 December 2018	**519 849**
Allowance	49 563
Write-off against allowance	(66 290)
31 December 2019	**503 122**

As at 31 December 2019 and 2018, other assets comprised financial assets less allowance of RUB 874 109 thousand and RUB 886 667 thousand, respectively.

24. Due to banks and other financial institutions

Due to banks and other financial institutions comprised:

	31 December 2019	31 December 2018
Loans under repurchase agreements	11 994 498	5 314 703
Correspondent accounts of other banks	260 810	1 166 825
Loans and term deposits from banks and other financial institutions	50 000	1 268 341
Total due to banks and other financial institutions	**12 305 308**	**7 749 869**

As of 31 December 2019 and 2018, securities of RUB 9 784 291 thousand and RUB 2 282 563 thousand, respectively (Note 16), and securities received from the state corporation Deposit Insurance Agency as a subordinated loan in the amount of RUB 3 517 906 thousand and RUB 3 538 731 thousand, respectively (Note 34), were transferred as collateral under repurchase agreements with banks.

(in thousands of Russian Rubles, unless otherwise indicated)

25. Customer accounts

Customer accounts comprised:

	31 December 2019	31 December 2018
Term deposits	98 945 680	67 820 329
Current accounts	30 151 669	48 854 063
Total customer accounts	**129 097 349**	**116 674 392**

As at 31 December 2019 and 2018, customer accounts, individually exceeding 10% of the Group's equity, were received from 4 and 5 customers for a total of RUB 43 259 728 thousand (34% of total customer accounts) and RUB 59 947 075 thousand (51% of total customer accounts), respectively.

	31 December 2019	31 December 2018
Analysis by economic sector:		
Individuals	100 851 792	73 259 128
Transport and communications	6 781 690	20 874 179
Other	5 457 654	3 847 464
Finance	5 308 913	6 841 435
Trading	4 014 870	4 252 104
Real property and construction	2 495 684	3 705 600
Health care	1 629 134	1 816 741
Manufacturing	1 784 038	1 962 600
Oil and gas industry	719 214	17 000
Science and education	54 360	98 141
Total customer accounts	**129 097 349**	**116 674 392**

26. Debt securities issued

Debt securities issued comprised:

	Maturity month/year	Annual interest rate, %	31 December 2019	Maturity month/year	Annual interest rate, %	31 December 2018
Mortgage-backed securities	November 2041	10,5%	870 435	November 2041	10,5%	1 237 957
Promissory notes	April 2019 – April 2023	0,01%-7,26%	1 558 781	July 2017 – March 2020	0,03%-7,78%	479 172
Total debt securities issued			**2 429 216**			**1 717 129**

As at 31 December 2019 and 2018, mortgage-backed securities issued by the Group of RUB 870 435 thousand and RUB 1 237 957 thousand, respectively, were secured by mortgage loans to retail customers in the amount of RUB 812 630 thousand and RUB 1 160 958 thousand, respectively (Note 18), and by the amounts placed with banks of RUB 142 143 thousand and RUB 189 059 thousand, respectively (Note 17).

(in thousands of Russian Rubles, unless otherwise indicated)

27. Derivative financial instruments

The tables below show the fair values and nominal values of derivative financial instruments recorded as assets or liabilities. The nominal value shown on a gross basis represents the value to which the rate or index is applied, and serves as the basis for estimating changes in the value of derivatives. Nominal value refers to the amount for the deals that have not been settled by year-end and is not equal to the exposure to market or credit risk.

As at 31 December 2019, derivative financial instruments comprised:

	RUB-denominated nominal value			Fair value	
	Receivable	**Payable**	**Redemption**	**Asset**	**Liability**
Derivative financial instruments:					
Currency options to buy/sell	212 522	212 522	January - March 2020	831	831
Forward foreign exchange contracts	1 205 189	1 203 981	January - March 2020	25 424	24 405
Currency swaps	52 472	52 469	January 2020	22	21
Total derivative financial instruments				**26 277**	**25 257**

As at 31 December 2018, derivative financial instruments comprised:

	RUB-denominated nominal value			Fair value	
	Receivable	**Payable**	**Redemption**	**Asset**	**Liability**
Derivative financial instruments:					
Options to buy/sell securities	3 556 714	3 759 968	December 2019	182 666	328 268
Forward foreign exchange contracts	2 053 809	2 053 172	March 2019	45 396	44 879
Total derivative financial instruments				**228 062**	**373 147**

The amounts receivable and payable represent the RUB-denominated nominal value under contracts at the exchange rate effective at the specified reporting dates.

(in thousands of Russian Rubles, unless otherwise indicated)

28. Other liabilities

Other liabilities comprised:

	31 December 2019	31 December 2018
Payables for goods and services	2 171 511	1 536 502
Salaries and other compensations payable to employees	1 438 550	1 845 019
Deferred income	629 727	375 856
Taxes payable other than income tax	573 942	636 343
Provisions for guarantees issued and credit commitments (Note 31)	402 608	444 788
Contributions to the State Deposit Insurance Agency	145 797	107 939
Provision for legal claims	20 073	167 630
Other	226 533	207 395
Total other liabilities	**5 608 741**	**5 321 472**

As at 31 December 2019 and 2018, other liabilities comprised other financial liabilities of RUB 4 071 340 thousand and RUB 4 014 440 thousand, respectively.

The movements in provisions for legal claims for the years ended 31 December 2019 and 2018 were as follows:

	Provision for legal claims
31 December 2017	**285 311**
Provision	34 228
Write-off against provision	(151 909)
31 December 2018	**167 630**
Provision	(3 716)
Write-off against provision	(143 841)
31 December 2019	**20 073**

The movements in provisions for guarantees issued and loan commitments for the years ended 31 December 2019 and 2018 are presented in Note 31.

(in thousands of Russian Rubles, unless otherwise indicated)

29. Share capital

The table below shows the change in the number of shares outstanding for the years ended 31 December 2019 and 2018:

	Number of preference shares	Number of ordinary shares
31 December 2017	1 000	20 807 780
Purchase of own shares	(400)	(55 303)
31 December 2018	600	20 752 477
Issue of shares	-	2 519 980
31 December 2019	**600**	**23 272 457**

As at 31 December 2019, the authorized, issued and fully paid share capital comprised 23 327 760 ordinary shares (31 December 2018: 20 807 780 ordinary shares) with par value of RUB 500 each and 1 000 preference shares (31 December 2018: 1 000 preference shares) with par value of RUB 500 each.

All ordinary shares are of the same class and bear one vote.

Holders of preference shares are entitled to receive fixed annual dividends and to participate in the General Meeting of Shareholders of the Bank on such issues as the reorganization, liquidation and amendments to the Charter affecting the rights of such holders. Moreover, if a decision on non-payment or incomplete payment of dividends on such shares is taken, such holders have a voting right similar to ordinary shares until the full payment of dividends.

As at 31 December 2019 and 2018, share premium totaling RUB 9 440 950 thousand and RUB 7 200 940 thousand, respectively, represents an excess of contributions received over the nominal value of shares issued.

In November 2019, the Bank of Russia registered the Report on the additional issue of ordinary shares of PJSC MTS Bank in the amount of 2 519 980 (two million five hundred nineteen thousand nine hundred and eighty) shares with a par value of RUB 500 (five hundred) each. The Group received RUB 3 500 000 thousand as a result of this issuance.

In 2018, PJSC MTS Bank repurchased 55 303 ordinary shares and 400 preference shares. The amount of the repurchase totaled RUB 77 285 thousand.

In March and October 2019, the Group placed 350 and 150, respectively, perpetual bonds with mandatory centralized custodian with par value of RUB 10 000 000 each, with no maturity date. The bonds were placed by closed subscription and can be repaid at the Group’s discretion.

Payment of coupon income may be canceled or delayed in accordance with the terms of issue of the bonds.

(in thousands of Russian Rubles, unless otherwise indicated)

29. Share capital (continued)

The Group recognizes perpetual bonds as an equity instrument, as according to the issuing documents:

- the issuer is entitled to unilaterally deny its obligations to pay coupon income without consent from the holder,
- it is possible to redeem bonds solely by decision of the issuer
- the acquisition of these bonds means the consent of the acquirer to the above terms and conditions.

The Group also received confirmation of the compliance of the subordinated perpetual bond with Regulation 646-P *«On the Methodology for Determining Equity (Capital)by Credit Institutions (Basel III)»* and the consent of the CBR to include the raised funds in the sources of additional capital.

Coupon amount paid on perpetual bonds is recorded similarly to the declared dividends.

30. Transferred financial assets

The Group lends and sells securities under agreements to repurchase (repos) and borrows and purchases securities under agreements to resell (reverse repos).

The securities lent or sold under agreements to repurchase are transferred to a third party in exchange for cash or other financial assets. The Group retains substantially all the risks and rewards in respect of these securities, which include credit risk and market risk, and therefore does not derecognize them. In addition, the Group recognizes a financial liability in respect of cash or other financial assets received.

The Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities (in case of sale), and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Group, which instead recognizes a separate asset for the cash received or other financial assets.

Details of transferred financial assets that are not derecognized in their entirety as at 31 December 2019 and 2018 are disclosed below:

	Investments in securities (Note 16)
As at 31 December 2019	
Carrying amount of assets	9 784 291
Carrying amount of associated liabilities (loans received under repurchase agreements, Note 24)	8 692 375
As at 31 December 2018	
Carrying amount of assets	2 282 563
Carrying amount of associated liabilities (loans received under repurchase agreements, Note 24)	2 001 262

As at 31 December 2019 and 2018, securities received as a subordinated loan from the Deposit Insurance Agency amounting to RUB 3 517 906 thousand and RUB 3 538 731 thousand, respectively, were transferred as collateral for repurchase transactions. The carrying amount of related liabilities amounted to RUB 3 302 123 thousand and RUB 3 313 441 thousand, respectively (Note 24).

(in thousands of Russian Rubles, unless otherwise indicated)

31. Commitments and contingencies

In the normal course of business, the Group becomes a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The maximum credit risk exposure of the Group under contingent financial liabilities and loan commitments is equivalent to the contractual value of these instruments.

The Group applies the same credit policy for financial contingent liabilities as it does for on-balance credit operations.

As at 31 December 2019 and 2018, contingent liabilities comprised:

	31 December 2019	31 December 2018
Credit-related contingent liabilities		
Loan commitments	23 811 063	18 691 785
Guarantees issued	19 846 625	10 810 017
Total credit-related contingent liabilities	**43 657 688**	**29 501 802**
Less allowance for expected credit losses	(402 608)	(444 788)
Total contingent financial liabilities	**43 255 080**	**29 057 014**

The movements in the allowance for loan commitments and guarantees issued for the year ended 31 December 2019 and 2018 are as follows:

	Stage 1	Stage 2	Stage 3	Total
1 January 2018	**304 871**	**85 817**	**270 910**	**661 598**
Transfer to Stage 2	(9 168)	9 168	-	-
Net change in allowance for expected credit losses	(94 582)	(70 048)	(52 180)	(216 810)
31 December 2018	**201 121**	**24 937**	**218 730**	**444 788**
Transfer to Stage 1	706	(706)	-	0
Transfer to Stage 2	(19 415)	19 415	-	-
Net change in allowance for expected credit losses	156 556	(27 174)	(171 562)	(42 180)
31 December 2019	**338 968**	**16 472**	**47 168**	**402 608**

(in thousands of Russian Rubles, unless otherwise indicated)

31. Commitments and contingencies (continued)

Information on the maximum amount of credit risk on guarantees issued and loan commitments is presented below:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loan commitments	18 889 742	4 908 483	12 838	23 811 063
Guarantees issued	18 203 946	1 398 242	244 437	19 846 625
Less allowance for expected credit losses	(338 968)	(16 472)	(47 168)	(402 608)
31 December 2019	**36 754 720**	**6 290 253**	**210 107**	**43 255 080**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loan commitments	18 156 239	525 035	10 511	18 691 785
Guarantees issued	10 030 826	350 797	428 394	10 810 017
Less allowance for expected credit losses	(201 121)	(24 937)	(218 730)	(444 788)
31 December 2018	**27 985 944**	**850 895**	**220 175**	**29 057 014**

The quality of loan commitments and guarantees issued as at 31 December 2019 is presented below:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Collectively assessed for impairment				
Current	19 985 595	-	-	19 985 595
Requiring monitoring	-	27 801	-	27 801
Default	-	-	45 776	45 776
Total loan commitments and guarantees collectively assessed for impairment	19 985 595	27 801	45 776	20 059 172
Individually assessed for impairment				
Current	16 449 098	3 824 675	-	20 273 773
Requiring monitoring	658 995	2 454 249	-	3 113 244
Default	-	-	211 499	211 499
Total loan commitments and guarantees individually assessed for impairment	17 108 093	6 278 924	211 499	23 598 516
Less allowance for expected credit losses	(338 968)	(16 472)	(47 168)	(402 608)
TOTAL	**36 754 720**	**6 290 253**	**210 107**	**43 255 080**

(in thousands of Russian Rubles, unless otherwise indicated)

31. Commitments and contingencies (continued)

The quality of loan commitments and guarantees issued as at 31 December 2018 is presented below:

	Stage 1	Stage 2	Stage 3	Total
Collectively assessed for impairment				
Current	10 403 311	-	-	10 403 311
Requiring monitoring	-	24 633	-	24 633
Default	-	-	10 511	10 511
Total loan commitments and guarantees collectively assessed for impairment	**10 403 311**	**24 633**	**10 511**	**10 438 455**
Individually assessed for impairment				
Current	15 811 732	217 680	-	16 029 412
Requiring monitoring	1 972 022	633 519	-	2 605 541
Default	-	-	428 394	428 394
Total loan commitments and guarantees individually assessed for impairment	**17 783 754**	**851 199**	**428 394**	**19 063 347**
Less allowance for expected credit losses	(201 121)	(24 937)	(218 730)	(444 788)
TOTAL	**27 985 944**	**850 895**	**220 175**	**29 057 014**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2019 and 2018, such unused credit lines amounted to RUB 10 048 835 thousand and RUB 8 980 650 thousand, respectively.

The Group also provides depositary services to its customers. As at 31 December 2019 and 2018, the Group had 4 795 605 234 and 2 666 764 687 customer securities, respectively, in its nominal holder accounts.

Legal proceedings. In December 2018, the Group received a claim for the recovery of RUB 1 057 449 thousand to the borrower declared insolvent (bankrupt). On 23 April 2019, the court rejected the claim. As at the reporting date, the court dismissed the plaintiff's request to transfer the cassation appeal for consideration to the Judicial Panel of the Supreme Court of the Russian Federation: the proceedings have not been completed. The management of the Group assesses the risk of adverse outcome in the lawsuit as "remote".

On 18 November 2019, the Bank received a claim from PJSC FGC UES for the amount of RUB 54 508 thousand under the guarantee No. G-1-3485/17 of 13 February 2017 issued by the Bank to fulfill obligations of the Principal - JSC Soyuz-Seti Engineering and Construction Company - to the Beneficiary - PJSC FGC UES - under the Agreement No. 491241 of 1 November 2011. As at the reporting date, this claim was pending in the Moscow Commercial Court. The case was not resolved. The risk of unfavorable outcome of the court proceedings is assessed as "remote".

(in thousands of Russian Rubles, unless otherwise indicated)

31. Commitments and contingencies (continued)

The movements in provision for legal claims for the years ended 31 December 2019 and 2018 were as follows:

	Provision for legal claims	Total
31 December 2017	**285 311**	**285 311**
Provision	34 228	34 228
Write-off against provision	(151 909)	(151 909)
31 December 2018	**167 630**	**167 630**
Recovery of provision	(3 716)	(3 716)
Write-off against provision	(143 841)	(143 841)
31 December 2019	**20 073**	**20 073**

As at 31 December 2019 and 2018, there are no unprovided claims with probable cash outflows in future or claims, the risk of which was rated as "possible".

Taxation**.** Major part of the Group's business activity is carried out in the Russian Federation. Russian business legislation continues to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recently, the tax authorities have been taking a tougher stance with respect to the interpretation of the laws. Therefore, the tax assessment approaches that have not been challenged in the past might be challenged during further tax audits. As a rule, tax authorities have a right to review statements for three calendar years preceding the reporting year. Under certain circumstances reviews may cover longer periods. Proceeding from its interpretation of the tax legislation, the Group management believes that all taxes were duly assessed. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2019, the Tax Code of the Russian Federation and certain laws were amended to provide for, among other things, an increase in the base VAT rate to 20%. The 20% rate applies to sales of goods, work and services and property rights effective 1 January 2019. As VAT is not charged on banking operations, management does not expect a significant impact on the statements of the Bank, with the exception of a corresponding increase in costs when purchasing goods and paying for services.

As at 31 December 2019 and 2018, the Group did not have contingent income tax liabilities.

31. Commitments and contingencies (continued)

***Operating environment*.** Emerging markets, including Russia, are exposed to economic, political, social, legal and legislative risks that differ from those inherent to more developed markets. Laws and regulations affecting businesses in the Russian Federation may change frequently and are subject to arbitrary interpretations. The future economic direction of the country is heavily influenced by the economic, fiscal and monetary policies adopted by the national government, together with developments in the legal, regulatory, and political environment.

As Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas in the global market. In March 2020, oil prices dropped by more than 40%, which immediately resulted in depreciation of the Russian Ruble against major foreign currencies.

Starting from 2014, the USA and the EU have imposed several packages of sanctions on a number of Russian officials, businessmen and organizations. These events restricted access of Russian businesses to international capital markets.

The impact of changes in economic situation on the Group's future performance and financial position may be significant.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing.
In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group’s business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

(in thousands of Russian Rubles, unless otherwise indicated)

32. Related party transactions

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. The Group had the following transactions outstanding with related parties as at 31 December 2019 and 2018:

	31 December 2019		31 December 2018	
	Related party transactions	**Total category as per the financial statements**	**Related party transactions**	**Total category as per the financial statements**
Investments in securities	**1 541 883**	**28 726 697**	**337 485**	**53 001 366**
- entities with joint control or significant influence over the Group	1 439 672		254 483	
- entities under common control with the Group	-		83 002	
- other related parties	102 211		-	
Due from banks	**-**	**6 012 463**	**110 076**	**4 392 829**
- entities under common control with the Group	-		110 076	
Loans to customers before allowance for expected credit losses	**6 157 299**	**118 293 163**	**2 557 356**	**81 476 858**
- entities under common control with the Group	3 201 478		2 446 507	
- key management personnel of the Group or its parent	51 424		110 849	
- other related parties	2 904 397		-	
Allowance for expected credit losses on loans to customers	**(69 772)**	**(10 855 558)**	**(29 739)**	**(8 905 642)**
- entities under common control with the Group	(41 915)		(27 346)	
- key management personnel of the Group or its parent	(682)		(2 393)	
- other related parties	(27 175)		-	
Investments in a joint venture	**658 467**	**658 467**	**690 102**	**690 102**
- entities under common control with the Group	658 467		690 102	
Derivative financial instruments, net	**(21)**	**1 020**	**(190 481)**	**(145 085)**
- the parent	(21)		-	
- entities under common control with the Group	-		(190 481)	
Other assets before allowance for expected credit losses	**232 828**	**1 918 917**	**366 852**	**1 910 116**
- the parent	105 833		29 455	
- entities with joint control or significant influence over the Group	-		5	
- entities under common control with the Group	126 823		328 798	
- key management personnel of the Group or its parent	1		-	
- other related parties	171		8 594	
Due to banks and other financial institutions	**113 373**	**12 305 308**	**44 110**	**7 749 869**
- entities under common control with the Group	113 373		44 110	

(in thousands of Russian Rubles, unless otherwise indicated)

32. Related party transactions (continued)

	31 December 2019		31 December 2018	
	Related party transactions	**Total category as per the financial statements**	**Related party transactions**	**Total category as per the financial statement s**
Customer accounts	**47 454 170**	**129 097 349**	**59 019 685**	**116 674 392**
- the parent	2 116 797		13 248 275	
- entities with joint control or significant influence over the Group	242 075		6 404 409	
- entities under common control with the Group	11 544 981		7 902 616	
- key management personnel of the Group or its parent	30 948 578		28 929 991	
- other related parties	2 601 739		2 534 394	
Debt securities issued	**1 009 689**	**2 429 216**	**318 755**	**1 717 129**
- entities under common control with the Group	1 009 689		318 755	
Lease liabilities	**97 393**	**627 781**	**-**	**-**
- the parent	18 460		-	
- entities under common control with the Group	78 933		-	
Other liabilities	**1 317 965**	**5 608 741**	**1 673 512**	**5 321 472**
- the parent	424 008		217 975	
- entities with joint control or significant influence over the Group	-		364	
- entities under common control with the Group	393 021		119 213	
- key management personnel of the Group or its parent	497 217		1 335 871	
- other related parties	3 719		89	
Loan commitments and unused credit lines	**1 079 390**	**23 811 063**	**600 700**	**18 691 785**
- entities under common control with the Group	617 335		600 700	
- key management personnel of the Group or its parent	11 779		-	
- other related parties	450 276		-	
Guarantees issued and similar commitments	**790 662**	**19 846 625**	**820 862**	**10 810 017**
- entities under common control with the Group	224 791		779 693	
- other related parties	565 871		41 169	

As at 31 December 2019 and 2018, the parent company is PJSC MTS (through its 100% subsidiary Mobile TeleSystems B.V.). From 1 January to 4 July 2018, the parent company was PJSC AFK Sistema (Note 1).

As at 31 December 2019 and 2018, PJSC MTS was the intermediate parent and PJSC AFK Sistema was the ultimate parent.

As at 31 December 2018, the Group had investments in units of open-end bond funds recognized within securities at fair value through profit or loss of RUB 8 806 425 thousand. The funds are managed and controlled by a related party of the ultimate parent.

(in thousands of Russian Rubles, unless otherwise indicated)

32. Related party transactions (continued)

In 2018, the Group acquired real estate from a related party for use in operating activities. As at 31 December 2018, these properties were recognized at fair value of RUB 325 218 thousand.

The remuneration of directors and other members of key management was as follows:

	2019		2018	
	Related party transactions	**Total category as per the financial statements**	**Related party transactions**	**Total category as per the financial statements**
Key management personnel compensation:	**939 336**	**5 727 818**	**1 629 532**	**5 198 710**
- short-term compensation	509 412		463 297	
- long-term compensation	429 924		1 166 235	

Included in the statement of profit and loss for the years ended 31 December 2019 and 2018 are the following related parties' transactions:

	2019		2018	
	Related party transactions	**Total category as per the financial statements**	**Related party transactions**	**Total category as per the financial statements**
Interest income	**379 168**	**18 632 791**	**440 762**	**15 867 721**
- the parent	-		12 174	
- entities with joint control or significant influence over the Group	68 885		55 250	
- entities under common control with the Group	153 851		368 923	
- key management personnel of the Group or its parent	7 367		4 415	
- other related parties	149 065		-	
Interest expenses	**(3 417 760)**	**(7 038 673)**	**(3 193 066)**	**(6 235 698)**
- the parent	(646 682)		(411 771)	
- entities with joint control or significant influence over the Group	(376 864)		(691 650)	
- entities under common control with the Group	(269 911)		(380 780)	
- key management personnel of the Group or its parent	(1 956 275)		(1 627 062)	
- other related parties	(168 028)		(81 803)	
Recovery of allowance/(allowance) for expected credit losses on interest bearing assets	**(40 653)**	**(4 028 410)**	**23 526**	**(2 227 265)**
- entities under common control with the Group	(23 986)		25 802	
- key management personnel of the Group or its parent	1 177		(2 276)	
- other related parties	(17 844)		-	
Net gain on operations with derivative financial instruments	**294 793**	**352 034**	**(754 145)**	**(455 955)**
- the parent	-		(300 749)	
- entities under common control with the Group	294 793		(453 396)	

(in thousands of Russian Rubles, unless otherwise indicated)

32. Related party transactions (continued)

	2019		2018	
	Related party transactions	**Total category as per the financial statement caption**	**Related party transactions**	**Total category as per the financial statement caption**
Net (loss)/gain on foreign exchange operations	**30 221**	**(572 203)**	**419 688**	**(58 954)**
- the parent	(9 045)		443 436	
- entities with joint control or significant influence over the Group	15 053		(49 408)	
- entities under common control with the Group	22 664		25 162	
- other related parties	1 549		498	
Fee and commission income	**755 091**	**11 008 767**	**616 267**	**6 039 791**
- the parent	372 518		162 222	
- entities with joint control or significant influence over the Group	7 706		109 312	
- entities under common control with the Group	339 742		335 862	
- key management personnel of the Group or its parent	3 567		2 837	
- other related parties	31 558		6 034	
Fee and commission expense	**(2 273 129)**	**(5 402 494)**	**(1 495 852)**	**(4 021 137)**
- the parent	(1 282 695)		(621 048)	
- entities with joint control or significant influence over the Group	-		(462 397)	
- entities under common control with the Group	(988 227)		(411 958)	
- key management personnel of the Group or its parent	(947)		-	
- other related parties	(1 260)		(449)	
Allowance for expected credit losses on other transactions	**(3 384)**	**(3 667)**	**(399)**	**9 603**
- entities under common control with the Group	(2 166)		(588)	
- other related parties	(1 218)		189	
Other income	**31 938**	**353 422**	**90 308**	**1 194 582**
- the parent	4 699		1 906	
- entities with joint control or significant influence over the Group	12		1 974	
- entities under common control with the Group	20 711		29 532	
- key management personnel of the Group or its parent	139		55 058	
- other related parties	6 377		1 838	
Operating expenses (net of staff costs)	**(1 292 911)**	**(5 593 786)**	**(1 032 686)**	**(4 359 707)**
- the parent	(1 051 912)		(495 335)	
- entities with joint control or significant influence over the Group	-		(379 560)	
- entities under common control with the Group	(239 528)		(111 757)	
- other related parties	(1 471)		(46 034)	

(in thousands of Russian Rubles, unless otherwise indicated)

33. Fair value of financial instruments

Fair value is defined as 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 following tables provide an analysis of financial assets and financial liabilities that are measured on a recurring basis at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December 2019 and 2018.

	Level 1	**Level 2**	**Level 3**	**31 December 2019**
Financial assets				
Debt securities at fair value through profit and loss	13 273 423	-	-	**13 273 423**
Derivative financial instruments	-	26 277	-	**26 277**
Financial liabilities				
Derivative financial instruments	-	25 257	-	**25 257**

	Level 1	**Level 2**	**Level 3**	**31 December 2018**
Financial assets				
Debt securities at fair value through profit and loss	13 680 312	-	-	**13 680 312**
Equity securities at fair value through profit and loss	-	8 806 425	-	**8 806 425**
Derivative financial instruments	-	228 062	-	**228 062**
Financial liabilities				
Derivative financial instruments	-	373 147	-	**373 147**

The description of valuation techniques and the description of the inputs used in the fair value measurement for financial instruments grouped into Level 2 at 31 December 2019 and 2018 are as follows:

	31 December 2019 Fair value			
	Assets	**Liabilities**	**Assessment methodology**	**Key inputs**
Derivative financial instruments	26 277	25 257	Black-Scholes option pricing model	Effective interest rates on asset
Total recurring fair value measurements at level 2	26 277	25 257		

(in thousands of Russian Rubles, unless otherwise indicated)

33. Fair value of financial instruments (continued)

	31 December 2018 Fair value			
	Assets	**Liabilities**	**Assessment methodology**	**Key inputs**
Units of investment funds	8 806 425	-	Net fund asset value	Market quotes for instruments comprising fund assets
Derivative financial instruments	228 062	373 147	Black-Scholes option pricing model	Effective interest rates on asset
Total recurring fair value measurements at level 2	9 034 487	373 147		

The fair values of financial assets and financial liabilities are determined as follows:

- Fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Unquoted equity securities classified as measured at fair value through other comprehensive income are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- For financial assets and liabilities that have a short-term maturity (less than 3 months), it is assumed that the carrying amounts approximate their fair value. This assumption also applies to demand deposits.
- Loans to customers have both variable and fixed interest rates. Fair value of the floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued just before the reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity.

  If under the Group assessment interest rates for the loans issued before the reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is assessed. The assessment is based on estimated expected future cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.
- Liabilities carried at amortized cost. Fair value is based on quoted 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 remaining maturity. Fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument.
- Fair value of derivative instruments are based on Black-Scholes option pricing model, other valuation methods and performed using the management's best estimates and applicable interest rates.

(in thousands of Russian Rubles, unless otherwise indicated)

33. Fair value of financial instruments (continued)

Except as detailed in the following table, the management consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated statement of financial position and not measured at fair value on a recurring basis approximate their fair value.

	31 December 2019		31 December 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Loans to customers	107 437 605	110 697 548	72 571 216	74 973 306
Securities at amortized cost	15 453 274	15 936 152	30 514 629	30 367 718
Financial liabilities				
Customer accounts	129 097 349	129 552 903	116 674 392	116 635 779
Debt securities issued	2 429 216	2 434 438	1 717 129	1 725 151

The following tables provide the analysis of fair values of financial instruments, which differ from their carrying amounts as at 31 December 2019 and 2018. There were no transfers between Levels during 2019 and 2018.

	Level 1	**Level 2**	**Level 3**	**31 December 2019**
Financial assets				
Loans to customers	-	-	110 697 548	**110 697 548**
Securities at amortized cost	15 936 152	-	-	**15 936 152**
Financial liabilities				
Customer accounts	-	-	129 552 903	**129 552 903**
Debt securities issued	12 355	-	2 422 083	**2 434 438**

	Level 1	**Level 2**	**Level 3**	**31 December 2018**
Financial assets				
Loans to customers	-	-	74 973 306	**74 973 306**
Securities at amortized cost	30 367 718	-	-	**30 367 718**
Financial liabilities				
Customer accounts	-	-	116 635 779	**116 635 779**
Debt securities issued	382 435	-	1 342 716	**1 725 151**

34. Capital management

The Group manages its capital to cover risks associated with the Group’s business. The Group's capital adequacy is monitored using the principles and approaches established by the CBR requirements.

The main objective of capital management is to monitor the compliance with external requirements for the Group’s capital as well as to maintain reliable credit ratings and capital ratios to ensure the Group’s operations and maximize the shareholder value.

Capital adequacy in accordance with the CBR requirements. The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets computed using amounts in statutory financial statements prepared in accordance with Russian banking legislation and the CBR regulations.

(in thousands of Russian Rubles, unless otherwise indicated)

34. Capital management (continued)

In accordance with the CBR Directive No. 646-P *On Methods of Calculation of Equity (Capital) by Credit Institution ("Basel III")* the Group's capital (equity) as at 31 December 2019 and 2018 was as follows:

	31 December 2019	31 December 2018
Base capital	18 440 806	14 628 910
Core capital	23 440 806	14 628 910
Additional capital	8 910 916	7 262 979
Total equity (capital)	**32 351 722**	**21 891 889**

Base and core capitals comprise share capital, share premium, reserves and retained earnings, including current year profit.

Additional capital includes subordinated debt, current year profit not included in the core capital and revaluation reserves.

In November 2015, the Bank received subordinated debt of RUB 7 246 000 thousand in the form of Federal Loan Bonds (OFZ) from the state corporation Deposit Insurance Agency (DIA). In accordance with the contract, the Bank should return the securities to the creditor at the end of the contract period. The Bank pays interest on the subordinated debt in the amount of coupon income on OFZ plus fixed interest rate. In accordance with the contract in the reporting period, the Bank should have complied with certain covenants with respect to capital, loan portfolio, employee benefits. The contract also includes certain restrictions on sale or pledge of the securities by the Bank. The transaction represents a securities lending transaction. The Group does not recognize the received securities and subordinated obligation to return them to the creditor in the consolidated statement of financial position of the Group. The obligation to return the securities received from DIA is subordinated with respect to other liabilities of the Group. The subordinated debt meets the CBR criteria for inclusion of the loan in additional capital. Moreover, the instrument is convertible and may be included in base capital. Its conversion to base capital may be full or partial and carried out at market value of securities. Terms under which the instrument is converted are as follows:

- the value of the base capital adequacy ratio (R1.1) calculated in accordance with the CBR Directive No. 180-I of 28 June 2017 *On Mandatory Bank Ratios* fell below the level defined by the Regulation for the exchange of subordinated loans, which at the date of the agreement is 2%, for the period established by the Regulation, or
- approval by the CBR Committee on Banking Supervision of a plan for participation of the Lender in activities to prevent the Borrower's bankruptcy, including by means of the Lender's financial assistance under the Federal Law on Insolvency (Bankruptcy).

The CBR requires that banks comply with the minimum capital adequacy ratios of 8% calculated based on statutory financial statements. During the years ended 31 December 2019 and 2018, the Group met the capital adequacy requirements established by the CBR. As at 31 December 2019 and 2018, the Group's capital adequacy ratio in accordance with the CBR requirements was 13.7% and 11.9% respectively.

35. Risk management policies

Management of risk is fundamental to banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations: credit risk, liquidity risk, market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework aimed to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks. The disclosed amounts as at 31 December 2018 were adjusted according to the disclosure principles as at 31 December 2019 to ensure comparability of the data.

Credit risk*.* The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group controls the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower, group of borrowers and industry sector, including banks and brokers are described in the Credit Policies, which are approved by the Management Board, and are reviewed, on a regular basis. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group monitors its loan portfolio on a regular basis. Apart from ensuring that the borrower fulfills its obligations under each loan, the Group regularly reviews all of the available information on the borrower's activities. In particular, the Group obtains and analyses financial reports on a quarterly basis, regularly monitors the value of the underlying collateral for each loan. In relation to its loan portfolio, the Group also monitors the level of non-performing loans and the concentration of the loan portfolio by borrower, group of borrowers or industry.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Group has established a department that performs valuation and monitoring of collateral. When evaluating collateral, the Group adjusts the market value of the assets and the potential costs of sale.

Significant increase in credit risk. As explained in Note 3 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss provision based on lifetime rather than 12-month ECL.

***Internal ratings and credit risk categories*.** The Group uses a credit rating system to assess the level of credit risk for corporate borrowers assessed on an individual basis. A credit rating is assigned based on the analysis of quantitative (debt ratio, profitability, liquidity and business activity) and qualitative (business experience, industry, region, size, credit history, cooperation experience with the Bank, etc.) borrowers' indicators. The rating scale includes 21 credit ratings ("CR"), which are further grouped for the purposes of credit risk management into the following categories of loan quality:

- Current loans – CR from 1 to 11 (correspond to the risk appetite of the Group);
- Loans requiring monitoring – CR from 12 to 20;
- Default loans – CP 21 (a problem asset with a 100% level of probability of default).

Loans to individuals assessed by the Group on an individual basis are grouped for the purposes of credit risk management into the following loan quality categories:

- Current loans – not overdue loans and loans overdue for less than 30 days with a low level of risk;
- Loans requiring monitoring – non-overdue loans issued in foreign currency; non-overdue restructured loans (settlement agreements); loans overdue from 30 to 90 days, and non-overdue loans of average credit quality;
- Default loans – loans that are overdue for more than 90 days, or that were defaulted.

35. Risk management policies (continued)

***Use of forecast information*.** While determining the probability of default (PD) and the size of expected credit losses, the Bank uses forecast information taking into account macroeconomic forecasts.

Loans to individuals and small businesses. While determining the expected credit losses on loans to individuals and loans to small and medium businesses, the Bank uses migration matrices for each product group. Overdue days (up to 30 days) and nonoverdue contracts are the basis for the migration matrices.

To predict the likelihood of the loan transfers from the non-overdue to the 1-30 days overdue interval (FER), the bank also uses a scoring model that takes into account the impact of macroeconomic indicators (GDP, inflation, currency exchange, etc.). The scoring model predicts the future value of FER using actual data of macroeconomic indicators and FER for the previous periods, between which dependencies are built based on econometric analysis. The scoring model is a statistical model built on the basis of the linear regression, using transformed macroeconomic indicators (GDP, inflation, exchange rates, etc.) The FER obtained based on migration matrices for each product group is adjusted by 10% modulus deviation, taking into account the received FER based on the scoring model.

Loans to corporate borrowers. The bank uses the PD values calculated by the model developed by an external consultant to calculate the probability of default of the corporate companies. The baseline values established by the Rosstat, Bank of Russia, Oxford Economics scenarios are used as forecast macroeconomic indicators.

Base scenario. The base scenario is based on the value of macroeconomic indicators presented in the base scenario of the Central Bank. If a range of values was presented as an estimate of the base scenario for this indicator, the arithmetic average of the two ends of this range was used for the calculation.

Negative scenario. Negative scenario is based on the value of macroeconomic indicators presented in the base scenario of the Central Bank forecast taking into account the worst variant. That is, if a range of values was presented as an estimate of the base scenario for particular indicator, then the most conservative one was used to calculate each of the indicators.

Alternative scenario. Alternative scenario is based on the value of macroeconomic indicators presented in the base scenario of the Central Bank forecast. If a range of values was presented as an estimate of the alternative scenario for particular indicator, the arithmetic average of the two ends of this range was used for the calculation.

Foreign scenario. The foreign scenario is based on the value of macroeconomic indicators presented in the scenario of Oxford Economics macroeconomic forecast.

In accordance with the requirements of IFRS 9, the Bank calculates a weighted forecast of the probability of default, taking into account various scenarios of the PD “PIT” forecast with the following weights (the distribution of weights is updated by the Bank on the annual basis):

- Weight for the base forecast PD: 30%;
- Weight for the foreign (base) forecast PD: 30%;
- Weight for the negative scenario PD: 20%;
- Weight for the alternative scenario PD: 20%.

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

The model of the external consultant uses the Forecast of real GDP growth indicator as a macro-parameter, which takes into account the level of GDP and inflation. The values of this parameter for the next 3 years are presented below:

		Real GDP growth forecast quarterly			
Year	**Quarter**	**Negative**	**Base**	**Alternative**	**Foreign**
2020	1	1,93%	2,25%	2,25%	2,35%
2020	2	1,29%	1,61%	1,61%	2,01%
2020	3	1,33%	1,64%	1,64%	1,52%
2020	4	1,49%	1,56%	1,56%	1,41%
2021	1	1,50%	2,00%	2,00%	1,50%
2021	2	1,50%	2,00%	2,00%	1,49%
2021	3	1,50%	2,00%	2,00%	1,46%
2021	4	1,50%	2,00%	2,00%	1,40%
2022	1	2,00%	2,50%	2,50%	1,34%
2022	2	2,00%	2,50%	2,50%	1,31%
2022	3	2,00%	2,50%	2,50%	1,31%
2022	4	2,00%	2,50%	2,50%	1,30%

This forecast was valid as at 31 December 2019 and is subject to a high degree of uncertainty due to changes in the Group's operating environment, therefore, actual results may differ from the predicted ones.

***Maximum credit risk exposure*.** The Group's maximum credit risk exposure may vary significantly depending on the individual risks inherent in specific assets and overall market risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other off-balance sheet contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	Stage 1	**Stage 2**	**Stage 3**	**31 December 2019**	**Collateral pledged**
Balances with the Central Bank	20 078 217	-	-	20 078 217	-
Due from banks	6 010 955	-	1 508	6 012 463	257 588
Securities at amortized cost	15 453 274			15 453 274	-
Loans to customers	100 022 764	5 710 669	1 704 172	107 437 605	24 606 179
Other financial assets	-	874 109	-	874 109	-
Guarantees issued and similar commitments	18 148 643	1 398 213	209 228	19 756 084	97 798
Loan commitments and unused credit lines	18 606 077	4 892 040	879	23 498 996	**-**

	Stage 1	**Stage 2**	**Stage 3**	**31 December 2018**	**Collateral pledged**
Balances with the Central Bank	5 853 167	-	-	5 853 167	-
Due from banks	4 392 829	-	-	4 392 829	367 218
Securities at amortized cost	30 514 629	-	-	30 514 629	-
Loans to customers	67 228 990	3 935 114	1 407 112	72 571 216	29 073 630
Other financial assets	-	886 667	-	886 667	-
Guarantees issued and similar commitments	10 025 958	350 797	209 664	10 586 419	374 971
Loan commitments and unused credit lines	17 959 986	500 098	10 511	18 470 595	-

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

Collateral for due from banks (Note 17), and collateral for Loans to customers is stated at minimum of fair value of collateral and carrying amount of loans (Note 18).

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers, this risk exposure is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Geographical concentration. The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity.

The geographical concentration of assets and liabilities is set out below as at 31 December 2019 and 2018:

	Russia	Non-OECD countries	OECD countries	31 December 2019
FINANCIAL ASSETS				
Cash and balances with the Central Bank	23 365 171	-	-	23 365 171
Investments in securities	28 585 650	-	141 047	28 726 697
Due from banks	3 182 425	14 854	2 815 184	6 012 463
Loans to customers	107 350 281	79 718	7 606	107 437 605
Derivative financial instruments	26 277	-	-	26 277
Other financial assets	874 109	-	-	874 109
TOTAL FINANCIAL ASSETS	**163 383 913**	**94 572**	**2 963 837**	**166 442 322**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	12 185 788	-	119 520	12 305 308
Customer accounts	127 804 700	817 196	475 453	129 097 349
Debt securities issued	2 429 216	-	-	2 429 216
Lease liabilities	627 781	-	-	627 781
Obligations on securities return	271 645	-	-	271 645
Derivative financial instruments	25 257	-	-	25 257
Other financial liabilities	4 071 340	-	-	4 071 340
TOTAL FINANCIAL LIABILITIES	**147 415 727**	**817 196**	**594 973**	**148 827 896**
COMMITMENTS AND CONTINGENCIES				
Loan commitments	23 806 730	4 030	303	23 811 063
Guarantees issued	19 846 625	-	-	19 846 625
TOTAL CONTINGENT FINANCIAL LIABILITIES	**43 653 355**	**4 030**	**303**	**43 657 688**

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

	Russia	Non-OECD countries	OECD countries	31 December 2018
FINANCIAL ASSETS				
Cash and balances with the Central Bank	8 685 806	-	-	8 685 806
Investments in securities	51 689 782	-	1 311 584	53 001 366
Due from banks	1 748 064	95 584	2 549 181	4 392 829
Loans to customers	72 533 919	37 297	-	72 571 216
Derivative financial instruments	228 062	-	-	228 062
Other financial assets	886 667	-	-	886 667
TOTAL FINANCIAL ASSETS	**135 772 300**	**132 881**	**3 860 765**	**139 765 946**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	7 705 744	6	44 119	7 749 869
Customer accounts	115 713 951	784 243	176 198	116 674 392
Debt securities issued	1 717 129	-	-	1 717 129
Derivative financial instruments	373 147	-	-	373 147
Obligations on securities return	393 541	-	-	393 541
Other financial liabilities	4 014 440	-	-	4 014 440
TOTAL FINANCIAL LIABILITIES	**129 917 952**	**784 249**	**220 317**	**130 922 518**
COMMITMENTS AND CONTINGENCIES				
Loan commitments	18 686 494	4 951	340	18 691 785
Guarantees issued	10 810 017			10 810 017
TOTAL CONTINGENT FINANCIAL LIABILITIES	**29 496 511**	**4 951**	**340**	**29 501 802**

Liquidity risk. Liquidity risk is the risk of the Bank's inability to finance its activities, including to ensure the growth of its assets and fulfill obligations as they become due without incurring losses in amounts unacceptable for financial stability.

The ALMC controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process.

Analysis of cash flow forecasts is the key tool used by the Group to monitor liquidity risk. Cash flow forecasts contain a detailed breakdown by maturity of all assets and liabilities based on agreements and commitments entered into by the Group. In order to better manage liquidity, the Group regularly requests from its major corporate customers a schedule of upcoming changes in their deposit and loan balances.

The Group aims to match the terms of loans and deposits. A daily analysis of mismatch between assets and liabilities is performed to monitor liquidity. A maximum gap is set and monitored for a liquidity deficit. In order to manage liquidity, the Group calculates the expected liquidity surplus/shortage for different periods of time, both on the basis of contractual terms of assets and liabilities and cash flow forecasts in the context of ordinary business activity. This approach assumes that customer behavior is consistent with the trends prevailing in the previous period, including the absence of extraordinary withdrawals of deposits and significant credit losses.

35. Risk management policies (continued)

Stress testing is also carried out regularly based on the three hypothetical scenarios. The use of these scenarios provides the opportunity to analyse the impact of a combination of negative factors on the Group's liquidity position including the assessment of the survival period of the Group. The resulting assessment of the survival period is then compared to the minimum limits set by the internal regulations.

To finance the liquidity gap, if such a need arises, the Bank may also raise funds through the CBR refinancing instruments (loans secured by assets available for collateral on loans of the CBR), repurchase agreements. Accounting for these refinancing instruments affects the methodology for classifying lombard securities within temporary buckets as well as evaluating stable funding sources for refinancing under OFZ loans received from the Deposit Insurance Agency and lombard securities at amortized cost.

The following tables based on the information provided to the management of the Group reflect the structure of assets and liabilities in accordance with the contractual maturity, with the exception of trading securities at fair value through profit or loss (classified as up to 1 month) and cash placed in the Central Bank of the Russian Federation as obligatory reserve deposits. Obligatory reserve deposits are allocated by age pro rate to customer accounts.

Deposits of individuals are disclosed in the liquidity analysis by contractual maturity. In accordance with the Russian legislation, these deposits can be withdrawn upon request within up to one month. However, based on the analysis of past events and the Group's experience, these deposits are usually not withdrawn, but extended. In addition, according to the Group's forecasts based on different behavior of deposit holders, the withdrawal scenario for all deposits over the horizon of up to one month is considered extremely stressful and is not used for liquidity management purposes and, therefore, for purposes of disclosing information in the financial statements.

Loans to customers disclosed under «Maturity undefined/overdue» include overdue amounts less expected credit losses for Stage 2 loans, excluding the amounts for which due date has not come yet according to the payment schedule, and total outstanding amounts less expected credit losses for Stage 3 loans.

At the same time, the Group considers stable sources of financing as:

- OFZ loans received from the Deposit Insurance Agency, reflected on off-balance accounts, but recorded in the report as stable sources of financing with a maturity of up to 1 month (15% discount from the current market price was also applied to them);
- Investments into debt securities measured at fair value. Investments included in the CBR Lombard List, are adjusted for the 15% discount and charged for up to 1 month as stable sources of funding;
- Investments in debt securities measured at amortized cost: for securities included in the CBR Lombard List the investments adjusted for a discount of 15% are allocated for a period of up to one month and are recognized in the amount of stable sources of funding. These securities are classified as held to maturity. The Group does not plan to sell these securities within the current business model, but they can be sold to meet liquidity needs under the stress scenario;
- Term deposits of individuals: part of the amounts of planned withdrawal of deposits is reflected as stable sources of financing, as the Bank expects that they will be prolonged or replaced. Share is determined in accordance with a conservative estimate based on scenario modeling, and does not contradict historical statistics in crisis;
- Stable balances on customer accounts. Conservative estimate of customer accounts' stability was used to group customer balances into periods up to 1 year. The estimate is based on historical statistics of account behavior, as well as scenario modeling.

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Maturity undefined/ overdue	31 December 2019
FINANCIAL ASSETS							
Investments in securities	13 278 251	9 657	6 059 445	8 937 414	441 930	-	28 726 697
Due from banks	1 838 036	-	-	-	-	-	1 838 036
Loans to customers	4 624 942	12 333 459	33 368 276	49 120 585	6 186 577	1 803 766	107 437 605
Total interest bearing financial assets	**19 741 229**	**12 343 116**	**39 427 721**	**58 057 999**	**6 628 507**	**1 803 766**	**138 002 338**
Cash and balances with the Central Bank	22 529 392	128 576	697 840	9 363	-	-	23 365 171
Due from banks	4 174 427	-	-	-	-	-	4 174 427
Derivative financial instruments	22	26 255	-	-	-	-	26 277
Other financial assets	739 631	88 138	24 996	-	-	21 344	874 109
Total financial assets	**47 184 701**	**12 586 085**	**40 150 557**	**58 067 362**	**6 628 507**	**1 825 110**	**166 442 322**
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	12 044 498	-	-	-	-	-	12 044 498
Customer accounts	16 093 894	12 745 925	69 177 669	928 191	-	-	98 945 679
Debt securities issued	445 306	701 117	70 724	353 907	-	-	1 571 054
Operating lease liabilities	243	15 470	234 693	377 375	-	-	627 781
Total interest-bearing financial liabilities	**28 583 941**	**13 462 512**	**69 483 086**	**1 659 473**	**-**	**-**	**113 189 012**
Derivative financial instruments	21	25 236	-	-	-	-	25 257
Obligations on securities return	271 645	-	-	-	-	-	271 645
Due to banks and other financial institutions	260 810	-	-	-	-	-	260 810
Customer accounts	30 151 670	-	-	-	-	-	30 151 670
Other financial liabilities	1 987 726	549 842	1 533 772	-	-	-	4 071 340
Debt securities issued	-	8 582	63 991	322 871	462 718	-	858 162
Total financial liabilities	**61 255 813**	**14 046 172**	**71 080 849**	**1 982 344**	**462 718**	**-**	**148 827 896**
Liquidity gap	**(14 071 112)**	**(1 460 087)**	**(30 930 292)**	**56 085 018**	**6 165 789**		
Stable sources of funding	**40 625 049**	**641 119**	**30 854 995**	**(14 269 597)**	**(57 851 566)**		
Net liquidity gap	**26 553 937**	**(818 968)**	**(75 297)**	**41 815 421**	**(51 685 777)**		
Cumulative liquidity gap	**26 553 937**	**25 734 969**	**25 659 672**	**67 475 093**	**15 789 316**		
Cumulative interest sensitivity gap	**(8 842 712)**	**(9 962 108)**	**(40 017 473)**	**16 381 053**	**23 009 560**		
Cumulative interest sensitivity gap as a percentage of total financial assets	**-5,31%**	**-5,99%**	**-24,04%**	**9,84%**	**13,82%**		

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Maturity undefined/ overdue	31 December 2018
FINANCIAL ASSETS							
Investments in securities	13 791 358	4 233 173	10 838 318	14 032 254	1 299 838	-	44 194 941
Due from banks	476 745	-	-	-	-	-	476 745
Loans to customers	5 099 958	9 027 818	25 301 266	25 693 994	5 867 763	1 580 417	72 571 216
Total interest bearing financial assets	**19 368 061**	**13 260 991**	**36 139 584**	**39 726 248**	**7 167 601**	**1 580 417**	**117 242 902**
Cash and balances with the Central Bank	8 227 394	60 547	384 494	13 371	-	-	8 685 806
Investments in securities	-	-	-	-	-	8 806 425	8 806 425
Due from banks	3 916 084	-	-	-	-	-	3 916 084
Derivative financial instruments	-	45 396	182 666	-	-	-	228 062
Other financial assets	522 268	334 612	25 000	336	-	4 451	886 667
Total financial assets	**32 033 807**	**13 701 546**	**36 731 744**	**39 739 955**	**7 167 601**	**10 391 293**	**139 765 946**
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	6 574 702	7 701	-	-	-	-	6 582 403
Customer accounts	13 011 582	7 239 116	45 971 002	1 598 629	-	-	67 820 329
Debt securities issued	11 956	345 182	211 087	290 742	-	-	858 967
Total interest-bearing financial liabilities	**19 598 240**	**7 591 999**	**46 182 089**	**1 889 371**	**-**	**-**	**75 261 699**
Derivative financial instruments	-	44 879	328 268	-	-	-	373 147
Obligations on securities return	393 541	-	-	-	-	-	393 541
Due to banks and other financial institutions	1 167 466	-	-	-	-	-	1 167 466
Customer accounts	48 854 063	-	-	-	-	-	48 854 063
Other financial liabilities	1621926	541 231	1 851 283	-	-	-	4014440
Debt securities issued	-	-	-	-	858 162	-	858 162
Total financial liabilities	**71 635 236**	**8 178 109**	**48 361 640**	**1 889 371**	**858 162**	**-**	**130 922 518**
Liquidity gap	**(39 601 429)**	**5 523 437**	**(11 629 896)**	**37 850 584**	**6 309 439**		
Stable sources of funding	**40 688 918**	**(13 182 106)**	**22 666 893**	**(8 128 378)**	**(42 045 327)**		
Adjusted liquidity gap	**1 087 489**	**(7 658 669)**	**11 036 997**	**29 722 206**	**(35 735 888)**		
Cumulative liquidity gap	**1 087 489**	**(6 571 180)**	**4 465 817**	**34 188 023**	**(1 547 865)**		
Cumulative interest sensitivity gap	**(230 179)**	**5 438 813**	**(4 603 692)**	**33 233 185**	**40 400 786**		
Cumulative interest sensitivity gap as a percentage of total financial assets	**-0,16%**	**3,89%**	**-3,29%**	**23,78%**	**28,91%**		

Management believes that in spite of a substantial portion of customer 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 stable source of funding for the Group. Customer accounts on demand are split into the groups by type of client and allocated by expected maturities based on last year historical information.

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

Significant part of the Group's customer accounts are due to related parties. Management believes that these accounts (including term deposits) will remain within the Group and support the Group's liquidity position.

Securities at amortized cost and/or at fair value through ptofit or loss are included in the analysis of the liquidity based on expected contractual maturities. Most of these categories securities are included in the Lombard list of the Central Bank of the Russian Federation and, if necessary, can be used to obtain financing in the form of repurchase agreements from the Central Bank of the Russian Federation.

The Group's medium-term liquidity needs are managed through interbank and customer deposits (new borrowings and renewal of existing deposits), repurchase agreements and in the form of collateralized loans.

Further analysis of the liquidity and interest rate risks is presented in the following tables. The amounts in the tables below are not the same as the amounts in the consolidated statement of financial position, as the tables include future aggregate undiscounted cash flows.

	Weighted average interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2019
Due to banks and other financial institutions	6%	12 063 681	-	-	-	-	12 063 681
Customer accounts	6%	16 337 160	13 272 631	71 588 432	957 338	-	102 155 561
Debt securities issued	9%	458 367	706 953	71 820	353 906	-	1 591 046
Operating lease liabilities	7%	25 476	39 984	195 301	444 149	-	704 910
Total interest-bearing financial liabilities		**28 884 684**	**14 019 568**	**71 855 553**	**1 755 393**	**-**	**116 515 198**
Obligations on securities return		271 645	-	-	-	-	271 645
Due to banks and other financial institutions		260 810	-	-	-	-	260 810
Customer accounts		30 151 670	-	-	-	-	30 151 670
Other financial liabilities		1 987 726	549 842	1 533 772	-	-	4 071 340
Debt securities issued		-	8 582	63 991	322 871	462 718	858 162
Total financial liabilities		**61 556 535**	**14 577 992**	**73 453 316**	**2 078 264**	**462 718**	**152 128 825**

	Weighted average interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2018
Due to banks and other financial institutions	8%	6 577 065	7 754	-	-	-	6 584 819
Customer accounts	6%	7 861 100	7 951 020	47 490 225	1 643 601	-	64 945 946
Debt securities issued	9%	11 956	357 106	239 679	331 862	-	940 603
Total interest-bearing financial liabilities		**14 450 121**	**8 315 880**	**47 729 904**	**1 975 463**	**-**	**72 471 368**
Derivative financial instruments		-	44 879	328 268	-	-	373 147
Obligations on securities return		393 541	-	-	-	-	393 541
Due to banks and other financial institutions		1 167 466	-	-	-	-	1 167 466
Customer accounts		48 854 063	-	-	-	-	48 854 063
Other financial liabilities		1 621 925	541 231	1 851 284	-	-	4 014 440
Debt securities issued		-	-	-	-	858 162	858 162
Total financial liabilities		**66 487 116**	**8 901 990**	**49 909 456**	**1 975 463**	**858 162**	**128 132 187**

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

A maturity analysis for financial guarantees issued, loan commitments and unused credit lines is presented in the following tables. These contingent liabilities are presented in accordance with the contractual maturities, however, they may be provided to counterparties earlier at their request. According to the analysis of past events and the Group's experience, contingent liabilities are not settled within one month, therefore they are allocated on a contractual basis. In addition, the Group regularly monitors its counterparties (including their financial position and results of operations), and if negative indicators are detected, the unused credit limits can be blocked. The Group does not include the analysis below for liquidity management purposes. If contingent liabilities would be included in the liquidity analysis above, the liquidity gap would increase by RUB 43 657 688 thousand and RUB 29 501 803 thousand, respectively, as at 31 December 2019 and 2018.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2019
Financial guarantees issued	3 485 299	1 153 964	12 311 494	2 892 401	3 467	19 846 625
Loan commitments	789 202	2 706 743	10 370 644	9 944 474	-	23 811 063
Total contingent liabilities	**4 274 501**	**3 860 707**	**22 682 138**	**12 836 875**	**3 467**	**43 657 688**

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2018
Financial guarantees issued	438 865	292 021	2 564 383	7 510 775	3 973	10 810 017
Loan commitments	934 589	1 869 179	5 607 536	10 280 481	-	18 691 785
Total contingent liabilities	**1 373 454**	**2 161 200**	**8 171 919**	**17 791 256**	**3 973**	**29 501 802**

The above amounts for issued financial guarantees represent the contractual value of these guarantees, excluding estimated credit losses.

Market risk. Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no material changes as to the way the Group manages these risks or the risks it is exposed to. At the same time, the Group somewhat extended the range of measurement techniques which are used by the Risk Management Department to assess these types of risks, and the composition and contents of management reports presented to the Group's management bodies.

The Limit Committee of MTS Bank sets stop-loss limits on securities portfolios and foreign currency operations, and limits on open foreign currency positions. The open foreign currency position limits are fully in compliance with the requirements of the Central Bank of the Russian Federation. Compliance with the market risk limits of PJSC MTS Bank is monitored on a daily basis.

***Interest rate sensitivity*.** Interest rate sensitivity analysis was performed with two different methods. For the analysis of trading securities (except for valued at amortized cost) and derivative financial instruments the Basis point value method was used (hereinafter, "BPV100"), which reflects changes in fair value of current security position in response to changes in interest rates by 100 basis points.

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

For other financial instruments sensitive to changes in interest rates, the interest risk of the bankbook was calculated.

For this purpose, the risk-based income method (Earnings at risk, hereinafter referred to as "EaR100") was used, showing the sensitivity of the annual net interest income in case of a parallel shift in interest rates by 100 basis points assuming a static balance. The banking book interest rate risk includes:

- The risk resulting from the mismatch of assets and liabilities maturities (interest rate repricing) sensitive to interest rate changes;
- Basic risk resulting from a mismatch in the degree of interest rate sensitivity of assets and liabilities with similar maturity (repricing period);
- Risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

The following table presents a sensitivity analysis of interest rate risk. The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel.

	31 December 2019	31 December 2019	31 December 2018	31 December 2018
Change in interest rates, bps, BPV100	100	(100)	100	(100)
Change in fair value of securities	(217 940)	217 940	(232 105)	232 105
Change in interest rates of banking book, bps, EaR100	100	(100)	100	(100)
Change in annual net interest income of banking book	(333 962)	333 962	(72 794)	72 794

Currency risk. Currency risk is the risk of losses due to adverse change of foreign exchange and/or precious metals rates on the Bank's open positions in foreign currencies and/or precious metals. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group considers the open currency position as the main indicator of exposure to currency risk. The Bank relies on the methodology for calculating the open currency position specified in the CBR Regulation No. 178-I. The Asset and Liability Management Committee (ALMC) manages currency risk based on the appetite for currency risk established by the Board of Directors as part of ICAAP to minimize losses from significant fluctuations in the exchange rate of national and foreign currencies. The Finance Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the CBR and the risk appetite.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel.

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

Information on financial assets and liabilities of the Group, excluding assets and liabilities on derivative financial instruments and spot transactions with currencies as at 31 December 2019 and 2018 is as follows:

	RUB	USD	EUR	Other currencies	31 December 2019
Cash and balances with the Central Bank	23 244 254	71 259	45 802	3 856	23 365 171
Investments in securities	22 714 851	5 819 135	192 711	-	28 726 697
Due from banks	1 589 308	2 021 481	2 320 085	81 589	6 012 463
Loans to customers	106 880 735	521 689	443	34 738	107 437 605
Other financial assets	840 550	13 962	4 322	-	858 834
Total non-derivative financial assets	**155 269 698**	**8 447 526**	**2 563 363**	**120 183**	**166 400 770**
Due to banks and other financial institutions	12 241 766	6 722	56 820	-	12 305 308
Customer accounts	116 674 423	9 920 853	2 389 084	112 989	129 097 349
Debt securities issued	2 352 876	-	76 340	-	2 429 216
Obligations on securities return	271 645				271 645
Other financial liabilities	4 030 674	17 468	6 576	-	4 054 718
Operating lease liabilities	627 781	-	-	-	627 781
Total non-derivative financial liabilities	**136 199 165**	**9 945 043**	**2 528 820**	**112 989**	**148 786 017**
Financial assets less financial liabilities	**19 070 533**	**(1 497 517)**	**34 543**	**7 194**	

As at 31 December 2019, the amount of assets and liabilities on spot transactions excluded from the table above amounted to RUB 15 275 thousand and RUB 16 622 thousand, respectively.

The detailed position by currency for spot transactions as at 31 December 2019 is presented in the table below:

	RUB	USD	EUR	Other currencies	31 December 2019
Accounts receivable on spot deals	3 155 540	4 849 407	13 061	6 645	8 024 653
Accounts payable on spot deals	(4 865 003)	(3 095 285)	(58 801)	(6 910)	(8 025 999)
Net position for spot deals	**(1 709 463)**	**1 754 122**	**(45 740)**	**(265)**	**(1 346)**

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

As at 31 December 2018, the Group's breakdown of non-derivative financial assets and liabilities by currencies is presented in the table below:

	RUB	USD	EUR	Other currencies	31 December 2018
Cash and balances with the Central Bank	8 476 144	138 226	67 589	3 847	8 685 806
Investments in securities	49 623 403	2 997 313	380 650	-	53 001 366
Due from banks	1 984 343	1 951 848	382 976	73 662	4 392 829
Loans to customers	70 842 061	1 728 792	363	-	72 571 216
Other financial assets	872 217	4 840	5 913	-	882 970
Total non-derivative financial assets	**131 798 168**	**6 821 019**	**837 491**	**77 509**	**139 534 187**
Due to banks and other financial institutions	7 702 055	25 787	22 027	-	7 749 869
Customer accounts	105 029 762	9 807 798	1 767 986	68 846	116 674 392
Debt securities issued	1 715 392	1 737	-	-	1 717 129
Obligations on securities return	393 541				393 541
Other financial liabilities	3 969 821	10 252	25 208	159	4 005 440
Total non-derivative financial liabilities	**118 810 571**	**9 845 574**	**1 815 221**	**69 005**	**130 540 371**
Financial assets less financial liabilities	**12 987 597**	**(3 024 555)**	**(977 730)**	**8 504**	

As at 31 December 2018, the amount of assets and liabilities on spot transactions excluded from the table above amounted to RUB 3 697 thousand and RUB 9 000 thousand, respectively.

The detailed position by currency for spot transactions as at 31 December 2018 is presented in the table below:

	RUB	USD	EUR	Other currencies	31 December 2018
Accounts receivable on spot deals	3 654 143	4 223 812	4 529 249	20	12 407 224
Accounts payable on spot deals	(7 808 548)	(1 028 256)	(3 575 723)	-	(12 412 527)
Net position for spot deals	**(4 154 405)**	**3 195 556**	**953 526**	**20**	**(5 303)**

Derivative financial instruments. Transactions using derivative financial instruments ("derivative instruments") include swaps and forward contracts linked to interest rates and currencies. Derivative instruments are defined as contracts or agreements, the value of which is calculated based on the cost of assets stipulated within the contract or agreement that do not require any initial net investment or require investment in small amount and with respect to which the calculation is made as at the future date.

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

The following table presents an analysis of currency risk by types of derivative financial instruments as at 31 December 2019:

	RUB	USD	EUR	Other currencies	31 December 2019
Accounts receivable on derivative contracts	751 047	335 839	357 103	26 194	1 470 183
Accounts payable on derivative contracts	(749 836)	(335 839)	(357 103)	(26 194)	(1 468 972)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**1 211**	**-**	**-**	**-**	**1 211**

The following table presents further analysis of currency risk by types of derivative financial instruments as at 31 December 2018:

	RUB	USD	EUR	Other currencies	31 December 2018
Accounts receivable on derivative contracts	4 568 464	1 042 059	-	-	5 610 523
Accounts payable on derivative contracts	(4 771 081)	(1 042 059)	-	-	(5 813 140)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**(202 617)**	**-**	**-**	**-**	**(202 617)**

In accordance with IFRS 7, foreign currency risk is computed for each functional currency separately. The functional currency of the banking Group is Russian Ruble.

As at 31 December 2019, the Group’s foreign currency long position (functional currency – Russian Ruble) was RUB 256 605 thousand for US dollars. As at 31 December 2019, the Group’s foreign currency short position was RUB 14 203 thousand for Euro.

The Group did not make any changes in its currency risk management policy after the reporting date.

As at 31 December 2018, the Group’s foreign currency long position (functional currency – Russian Ruble) was RUB 171 518 thousand for US dollars. As at 31 December 2018, the Group’s foreign currency short position was RUB 24 204 thousand for Euro.

Currency risk sensitivity. The following table details the Group’s sensitivity to increase and decrease in the USD and EUR against the RUB. This sensitivity rate was used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign currency exchange rates as at 31 December 2019 and 2018. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for the specified change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

(in thousands of Russian Rubles, unless otherwise indicated)

35. Risk management policies (continued)

Impact on profit before tax and equity based on asset values as at 31 December 2019 and 2018 is as follows:

	31 December 2019		31 December 2018	
	RUB/ USD 30,00%	**RUB/ USD -30,00%**	**RUB/ USD 30,00%**	**RUB/ USD -30,00%**
Impact on profit/(loss) before income tax	76 982	(76 982)	69 281	(69 281)
Impact on equity	61 585	(61 585)	55 425	(55 425)
	RUB/EUR 30,00%	**RUB/EUR -30,00%**	**RUB/EUR 30,00%**	**RUB/EUR -30,00%**
Impact on profit/(loss) before income tax	(3 359)	3 359	(7 261)	7 261
Impact on equity	(2 687)	2 687	(5 809)	5 809

***Limitations of sensitivity analysis*.** The sensitivity tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on liabilities, but may have impact on assets that are held at fair value in the consolidated statement of financial position. In these circumstances, the different accounting measurement bases for liabilities and assets may lead to volatility in Group's equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty. The assumption that all interest rates change in an identical manner is another limitation.

Price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

The Group's policy was aimed at minimizing the price risk that arises from stock market instruments.

36. Events after the reporting date

On 9 January 2020, the Bank of Russia registered an additional issue of 3 599 972 ordinary shares of the Bank with par value of RUB 500 each. The placement price was RUB 1 388.90 per share. The report on the results of the issue of shares was registered on 19 March 2020. The Bank’s share capital and equity increased by RUB 1 800 thousand and RUB 5 000 000 thousand, respectively. Additional shares were acquired by Mobile TeleSystems B.V., a 100% subsidiary of PJSC MTS. As a result, the ownership interest of MTS in the Bank’s share capital increased to 99.781% (including the ownership interest of MGTS in the amount of 0.185%).

In accordance with instructions of the President of the Russian Federation of 25 March 2020, the Central Bank of Russia decided to implement a set of measures to support the most vulnerable industries and individual borrowers who experienced a decrease in income as a result of the pandemic (including the entitlement of individuals and individual entrepreneurs to apply for loan repayment holidays for a six-month period), as well as a number of temporary regulatory exemptions for financial institutions in order to maintain their lending capacity. As at the date of the issue of these consolidated financial statements, the Group is in the process of evaluating the effect of the proposed set of measures.