

Home Credit and Finance Bank

**Consolidated Financial Statements
for the year ended 31 December 2019**

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Independent Auditors' Report

To the Participants and the Council of OOO "Home Credit and Finance Bank"

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OOO "Home Credit and Finance Bank" (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 (IFRS).

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audited entity: OOO "Home Credit and Finance Bank"

Registration No. in the Unified State Register of Legal Entities
1027700280937.

Moscow, Russia

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.



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.

Expected credit losses ('ECL') for loans to individuals

Please refer to the Notes 3 (g) (vi), 13 and 25 (d) in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Loans to individuals represent 76% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used. Due to the significance of loans to individuals and the related estimation uncertainty, this is considered a key audit matter.	We analyzed the key aspects of the Group's methodology and policies related to ECL estimate in terms of compliance with the requirements of IFRS 9, with the involvement of our own specialists in financial risks management. We tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into stages. We agreed input data to supporting documents on a sample basis. We assessed predictive capability of the Group's methodology by analysing models validation results. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

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

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



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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with 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 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 auditors' 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 of findings from procedures performed in accordance with the requirements of Federal Law No 395-1, dated 2 December 1990, *On Banks and Banking Activity*

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No 395-1, dated 2 December 1990 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2020 established by the Bank of Russia; and
- whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment, and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios, as at 1 January 2020, were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's 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 the International Financial Reporting Standards.

- Based on our procedures with respect to whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia, we found that:
 - as at 31 December 2019, the Bank's internal audit function was subordinated to, and reported to, the Council, and the risk management function was not

subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;

- the Bank's internal documentation, effective on 31 December 2019, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;
- as at 31 December 2019, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2019, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2019, the Council and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2019, the Council and Executive Management of the Bank periodically discussed the reports prepared by the risk management and internal audit functions, and considered the proposed corrective actions.

Procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:



Shevarenkov E. V.

JSC "KPMG"

Moscow, Russia

18 March 2020

Home Credit and Finance Bank
Consolidated Statement of Profit or Loss
for the year ended 31 December 2019

		2019	2018
	Note	MRUB	MRUB
Interest income calculated using effective interest rate	4	56,632	53,816
Interest expense	4	<u>(17,339)</u>	<u>(17,836)</u>
Net interest income		39,293	35,980
Fee and commission income	5	13,134	12,727
Fee and commission expense	6	<u>(5,773)</u>	<u>(4,335)</u>
Net fee and commission income		7,361	8,392
Other operating loss, net	7	<u>(485)</u>	<u>(1,227)</u>
Operating income		46,169	43,145
Charge of impairment losses	8	(3,486)	(4,222)
General administrative expenses	9	<u>(22,887)</u>	<u>(21,629)</u>
Operating expenses		<u>(26,373)</u>	<u>(25,851)</u>
Profit before tax		19,796	17,294
Income tax expense	10	<u>(4,024)</u>	<u>(3,485)</u>
Profit for the year		<u>15,772</u>	<u>13,809</u>

The consolidated financial statements as set out on pages 8 to 82 were approved by the Board of Management on 18 March 2019.

Chairman of the Board of Management

Y. Andresov



Chief Financial Officer

I. Kolikova

The consolidated statement of profit or loss is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Home Credit and Finance Bank
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	2019 MRUB	2018 MRUB
Profit for the year, recognised in consolidated statement of profit or loss	<u><u>15,772</u></u>	<u><u>13,809</u></u>
Other comprehensive income/(loss) that is or may be reclassified subsequently to profit or loss		
Revaluation reserve for investment securities:		
- net change in fair value, net of tax	(94)	(806)
- net change in fair value transferred to profit or loss, net of tax	20	727
- changes of expected credit loss allowance, net of tax	67	46
Effect of foreign currency translation	<u>(1,315)</u>	<u>319</u>
Other comprehensive (loss)/income for the year, net of tax	<u><u>(1,322)</u></u>	<u><u>286</u></u>
Total comprehensive income for the year	<u><u>14,450</u></u>	<u><u>14,095</u></u>

Chairman of the Board of Management

Y. Andresov



Chief Financial Officer

I. Kolikova

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Home Credit and Finance Bank
Consolidated Statement of Financial Position
as at 31 December 2019

ASSETS	Note	2019 MRUB	2018 MRUB
Cash and cash equivalents	11	33,662	28,965
Placements with banks and other financial institutions	12	7,533	5,193
Loans to customers	13	262,411	245,354
Positive fair value of derivative instruments	26	32	144
Investment securities	14	24,662	35,910
<i>incl. pledged under repo agreements</i>		3,159	2,622
Assets classified as held for sale		145	212
Property, equipment and intangible assets	15	9,217	7,459
Investment in associate		311	228
Current income tax receivable		599	5
Deferred tax asset	22	3,434	2,750
Other assets	16	1,841	1,570
Total assets		343,847	327,790
LIABILITIES AND EQUITY			
Liabilities			
Debt securities issued	17	11,536	9,127
Subordinated debt	18	-	11,150
Due to banks and other financial institutions	20	20,732	15,561
Current accounts and deposits from customers	21	217,542	222,090
Negative fair value of derivative instruments	26	456	54
Current income tax liability		109	238
Other liabilities	23	8,070	6,484
Total liabilities		258,445	264,704
Equity			
Charter capital		4,406	4,406
Other capital contributions		10,631	10,631
Perpetual debt issued	24	12,718	-
Revaluation reserve for investment securities		8	15
Translation reserve		(2,296)	(981)
Retained earnings		59,935	49,015
Total equity		85,402	63,086
Total liabilities and equity		343,847	327,790

Chairman of the Board of Management

Y. Andresov



Chief Financial Officer

I. Kolikova

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Home Credit and Finance Bank
Consolidated Statement of Changes in Equity
for the year ended 31 December 2019

Attributable to equity holders of the Group						
MRUB	Charter capital	Other capital contributions	Revaluation reserve for investment securities	Translation reserve	Retained earnings	Total
Balance at 1 January 2018	4,406	10,631	48	(1,300)	37,622	51,407
Profit for the year	-	-	-	-	13,809	13,809
Revaluation reserve for financial securities:						
- net change in fair value, net of tax	-	-	(806)	-	-	(806)
- net change in fair value transferred to profit or loss, net of tax	-	-	727	-	-	727
- changes of expected credit loss allowance, net of tax	-	-	46	-	-	46
Effect of foreign currency translation	-	-	-	319	-	319
Total comprehensive income/(loss) for the year	-	-	(33)	319	13,809	14,095
Dividends declared and paid	-	-	-	-	(2,416)	(2,416)
Balance at 31 December 2018	4,406	10,631	15	(981)	49,015	63,086

Attributable to equity holders of the Group							
MRUB	Charter capital	Other capital contributions	Perpetual debt issued	Revaluation reserve for investment securities	Translation reserve	Retained earnings	Total
Balance at 1 January 2019	4,406	10,631	-	15	(981)	49,015	63,086
Profit for the year	-	-	-	-	-	15,772	15,772
Revaluation reserve for investment							
- net change in fair value, net of tax	-	-	-	(94)	-	-	(94)
- net change in fair value transferred to profit or loss, net of tax	-	-	-	20	-	-	20
- changes of expected credit loss allowance, net of tax	-	-	-	67	-	-	67
Effect of foreign currency translation	-	-	-	-	(1,315)	-	(1,315)
Total comprehensive income/(loss) for the year	-	-	-	(7)	(1,315)	15,772	14,450
Perpetual debt issued (Note 24)	-	-	12,718	-	-	-	12,718
Perpetual debt issued expenses	-	-	-	-	-	(176)	(176)
Dividends declared and paid	-	-	-	-	-	(4,676)	(4,676)
Balance at 31 December 2019	4,406	10,631	12,718	8	(2,296)	59,935	85,402

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Home Credit and Finance Bank
Consolidated Statement of Cash Flows
for the year ended 31 December 2019

	Note	2019 MRUB	2018 MRUB
Cash flow from operating activities			
Interest received		57,707	56,105
Interest paid		(14,101)	(17,524)
Fees and commissions received		12,986	12,768
Fees and commissions paid		(6,066)	(4,558)
Net (payments)/receipts from foreign exchange transactions		(818)	336
Other operating income received		665	88
Administrative and other operating expenses paid		(20,735)	(19,432)
Income tax paid		(5,374)	(2,150)
Cash flows from operating activities before changes in operating assets and liabilities		24,264	25,633
Changes in operating assets and liabilities			
Net increase in placements with banks and other		(3,109)	(1,714)
Net increase in loans to customers		(27,118)	(43,346)
Net decrease in investment securities		11,031	12,461
Net (increase)/decrease in other assets		(218)	102
Net (decrease)/increase in current accounts and deposits from customers		(4,231)	27,791
Net increase/(decrease) in due to banks and other financial institutions		6,504	(2,364)
Net increase in other liabilities		209	16
Net cash from operating activities		7,332	18,579
Cash flows used in investing activities			
Dividends from associate		261	125
Proceeds from sale of property and equipment		12	16
Acquisition of property, equipment and intangible assets		(1,917)	(2,067)
Net cash used in investing activities		(1,644)	(1,926)
Cash flows from/(used in) financing activities			
Proceeds from the issue of debt securities		5,776	5,106
Repayments of debt securities issued		(2,479)	-
Proceeds from the issue of perpetual debts		12,542	-
Repayments of subordinated debt		(10,097)	(14,210)
Lease obligation paid		(607)	-
Dividends paid		(4,676)	(2,416)
Net cash from/(used in) financing activities		459	(11,520)
Net increase in cash and cash equivalents		6,147	5,133
Effect of exchange rate changes on cash and cash equivalents		(1,450)	791
Effect of changes in expected credit losses allowance on cash and cash equivalents		-	1
Cash and cash equivalents at the beginning of the year	11	28,965	23,040
Cash and cash equivalents at the end of the year	11	33,662	28,965

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1. Description of the Group

OOO "Home Credit and Finance Bank" (the "Bank") was established in the Russian Federation as a Limited Liability Company and was granted its banking licence in 1990. In 2002 the Bank was acquired by Home Credit Group. On 15 March 2012 the Bank received General Banking Licence #316 from the Central Bank of Russia (the "CBR"). The Bank together with its subsidiaries is further referred to as the Group.

Registered office

8/1 Pravda st
Moscow 125040
Russian Federation

Participants	Country of incorporation	Ownership interest (%)	
		2019	2018
Home Credit N.V.*	The Netherlands	99.99	99.99
Home Credit International a.s.	Czech Republic	0.01	0.01

* In July 2019 the participant Home Credit B.V. changed the organizational structure and became a public limited liability company Home Credit N.V.

The ultimate controlling owner is Petr Kellner, who exercises control over the Group through PPF Group N.V. registered in the Netherlands.

Consolidated subsidiaries	Country of incorporation	Ownership interest (%)	
		2019	2018
Financial Innovations (LLC)	Russian Federation	100.00	100.00
Bank Home Credit (SB JSC)	Kazakhstan	100.00	100.00

Eurasia Capital S.A., Eurasia Structured Finance No.3 B.V. and Eurasia Structured Finance No.4 B.V. are special purpose entities established to facilitate the Group's issues of debt securities and subordinated debt.

Associate	Country of incorporation	Ownership interest (%)	
		2019	2018
Equifax Credit Services (LLC)	Russian Federation	25.00	25.00

Council

Jiri Smejck Chairman
Irina Kolikova Deputy Chairman
Galina Vaisband Member
Yuly Tai Member

Board of Management

Yuriy Andresov Chairman
Artem Aleshkin Deputy Chairman
Aleksandr Antonenko Deputy Chairman
Martin Schaffer Deputy Chairman
Olga Egorova Member

Principal activities

The activities of the Group are regulated by the CBR and the activities of the Subsidiary Bank Joint-Stock Company "Home Credit and Finance Bank" (Bank Home Credit (SB JSC)) are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK"). The principal activity of the Group is the provision of the full range of banking products and services to individual customers across the Russian Federation and the Republic of Kazakhstan such as lending, deposit taking, saving and current accounts service and maintenance, payments, debit cards issuance and maintenance, Internet-banking, payroll and other banking services.

The loans are offered to existing and new customers across the Russian Federation and the Republic of Kazakhstan via a national wide distribution network comprising variable channels: own banking offices, points of sale at retailers, Kazakh Post branches and other third parties.

1. Description of the Group (continued)

As at 31 December 2019 the Bank's distribution network comprised the head office in Moscow and 217 standard banking offices, 3,631 loan offices, 74 regional centres, 2 representative offices and about 113 thousand points of sale in the Russian Federation. As at 31 December 2019 the ATM network comprised 697 ATMs and payment terminals across the Russian Federation.

As at 31 December 2019 the distribution network in Kazakhstan comprised 48 standard banking offices, 10,585 loan offices and points of sale, 258 Kazakhstan post offices and 603 ATMs and payment terminals across the country.

2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2019 comprise the Bank and its subsidiaries.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), including International Accounting Standards (IASs), promulgated by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost or amortised historical cost basis except that financial instruments at fair value through profit or loss and financial assets at FVOCI are measured at fair value. Non-financial assets and liabilities are valued at historic cost are restated for the effects of inflation as described in Note 3(e).

(c) Presentation and functional currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"). Management determined functional currency of the Bank and all of its subsidiaries, except Bank Home Credit (SB JSC), to be the RUB as it reflects the economic substance of the majority of underlying events and circumstances of the Group. The functional currency of Bank Home Credit (SB JSC) is Kazakhstan Tenge ("KZT"). The RUB is the Group's presentation currency for the purposes of these consolidated financial statements. Financial information presented in RUB is rounded to the nearest million unless otherwise stated.

(d) Business environment

The Group's operations are primarily located in the Russian Federation and the Republic of Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and the Republic of Kazakhstan, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation and the Republic of Kazakhstan.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

2. Basis of preparation (continued)

In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a depreciation of the Russian Rouble. These developments are further increasing the level of uncertainty in the Russian business environment.

The consolidated financial statements reflect management's assessment of the impact business environment of the Russian Federation and the Republic of Kazakhstan on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(e) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates. In particular, information about significant areas of estimation, uncertainty and critical judgments made by management in preparing these consolidated financial statements is described in the following:

- Loan impairment - Notes 3(g)(vi) and 13;
- Estimates of fair values of financial instruments - Note 25(h);
- Fee and commission income - Note 3(r).

3. Significant accounting policies

If not stated otherwise, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by all Group entities.

(a) Changes in accounting policies and presentation since 1 January 2019

The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

IFRS 16 Leases (adopted from 1 January 2019)

In January 2016 IASB issued a new Standard on leases. The standard requires companies to bring most leases on-balance sheet, recognising new assets and liabilities. IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset (the 'lease asset') at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new Standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying IAS 17. IFRS 16 includes two exemptions from recognising assets and liabilities for (a) short-term leases (i.e. leases of 12 months or less) and (b) leases of low-value items (such as personal computers).

The Group has adopted IFRS 16 as issued by the IASB in January 2016 with a date of transition of 1 January 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 16 in previous periods.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. For more details refer to Note 3(k).

On transition to IFRS 16, the Group elected to apply practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

3. Significant accounting policies (continued)

As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet. The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. “Property, plant and equipment” stated in these consolidated financial statements comprise owned and leased assets that do not meet the definition of investment property.

The carrying amount of right-of-use assets are as below:

MRUB	Note	Right-of-use assets	
		Property	Total
Balance at 1 January 2019		2,203	2,203
Balance at 31 December 2019	15	1,697	1,697

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group presents lease liabilities in "other liabilities" in the consolidated statement of financial position.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 1 January 2019. Right-of-use assets are the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impacts on transition

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities. The impact on transition is summarised below:

MRUB	1 January 2019 MRUB
Right-of-use assets presented in property, plant and equipment	2,203
Lease liabilities	(2,203)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 11.1%.

3. Significant accounting policies (continued)

	1 January 2019
MRUB	MRUB
Operating lease commitment as at 31 December 2018	3,495
Discounted using the incremental borrowing rate at 1 January 2019	(659)
-Recognition exemption for leases of low-value assets	(15)
-Recognition exemption for leases with less than 12 months of lease term at transition	(1,016)
-Extension options reasonably certain to be exercised	398
Lease liabilities recognised at 1 January 2019	2,203

Impact for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RUB 2,203 million of right-of-use assets and RUB 2,203 million of lease liabilities as at 1 January 2019. Also in relation to those leases under IFRS 16, the Group recognised depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognised RUB 607 million of depreciation charges and RUB 222 million of interest costs from these leases.

(b) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases.

3. Significant accounting policies (continued)

When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iv) Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Acquisitions and disposals of non-controlling interests

The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

(c) Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Group.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Group.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

(e) Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of equity items as at 31 December 2002 became carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

3. Significant accounting policies (continued)

(f) Cash and cash equivalents

The Group considers cash, nostro accounts, amounts receivable under reverse repurchase agreements, and term placements with the CBR and the NBRK, banks and other financial institutions due within one month to be cash and cash equivalents. The minimum reserve deposits with the CBR and the NBRK are not considered to be cash equivalents due to restrictions on its withdrawability.

(g) Financial assets and liabilities

(i) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. For regular purchases and sales of financial assets, the Group's policy is to recognize them using settlement date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as if the Group used trade date accounting.

(ii) Classification and measurement

Financial assets

IFRS 9 contains classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics (SPPI criterion).

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

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

A financial asset is classified into one of these categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Group made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that was considered included:

3. Significant accounting policies (continued)

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

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI criterion)

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

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

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

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The Group should reclassify financial assets if the Group changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. Accordingly, a change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group has acquired, disposed of or terminated a business line. Financial liabilities are not reclassified subsequent to their initial recognition.

3. Significant accounting policies (continued)

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iii) Fair value measurement

The Group measures fair values using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements. For more details refer to Note 25(h).

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include a comparison with similar instruments for which market observable prices exist, the net present value and discounted cash flow models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of debt securities available for sale is based on their quoted market price. Fair value of derivative contracts that are not exchange traded is estimated using an arbitrage pricing model, the key parameters of which are the relevant foreign exchange rates and interbank interest rates prevailing at the reporting date.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(iv) Amortized cost measurement principles

The amortized cost of a financial asset or liability is the amount in which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, net of any relevant impairment.

(v) Gains and losses on subsequent measurement

Gains and losses on financial instruments classified as at fair value through profit or loss are recognized in profit or loss. Net gains or net losses on items at fair value through profit or loss exclude interest or dividend income.

3. Significant accounting policies (continued)

Gains and losses on financial instruments classified at fair value through other comprehensive income are recognized in other comprehensive income (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vi) **Identification and measurement of impairment**

IFRS 9 introduces the "expected credit loss" (ECL) model. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so it is no longer necessary for a trigger event to have occurred before credit losses are recognised. Consequently, more timely information is required to be provided about expected credit losses.

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- loans and receivables due from banks and other financial institutions;
- loans to customers;
- trade receivables and accrued income;
- cash and cash equivalents;
- debt instruments at FVOCI; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

In accordance with IFRS 9, the Group recognises loss allowances at an amount equal to lifetime ECLs for a financial instrument, if the credit risk on that financial instrument has increased significantly since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Measurement of ECLs

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

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive from this commitment; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

3. Significant accounting policies (continued)

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are – in general – the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

For retail portfolio PD and EAD is usually estimated together using statistical models (stochastic Markov chain based model of simple Roll Rate model) based on internally compiled data. Where it is available, market data may also be used to derive the PD for large corporate counterparties where there is not enough internally available data for statistical modelling.

LGD is estimated based on the history of recovery rates of claims against defaulted counterparties. It is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD and models will consider the structure, collateral, seniority of the claim, and recovery costs of any collateral that is integral to the financial asset.

For retail overdraft and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group measures ECLs over a period when the Group's ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- date of remaining term to maturity;

The groupings is subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

MRUB	External benchmarks used	
	PD	
Exposure as at 31 December 2019		
Placements with banks and other financial institutions	7,533	Moody's default study
Investment securities	24,662	Moody's default study
Other assets	1,841	Moody's default study

Forward-looking information

Under IFRS 9, the Group incorporates forward-looking information (hereafter "FLI") based on both external and internal sources into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and – where possible – also as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities.

3. Significant accounting policies (continued)

The Group uses – based on data availability and credibility of sources – an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key external drivers may include variables such as interest rates, GDP growth rates.

As at 31 December 2019 the Group has estimated the overall impact of FLI macro model incorporation into ECL calculation process and the calculated result was reflected in the Consolidated financial Statements.

Definition of default

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

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

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

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status; and
- based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

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

Write-off

Loans and debt securities are generally written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in ‘impairment losses on financial instruments’ in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Credit risk grades and client’s score are primary inputs into the determination of the probability of default (PD) development for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Group’s internal credit risk grades

The Group uses internal credit risk grades for debt instruments and loans provided. The Group’s internal credit risk grades relate to external long-term rating used by Moody’s rating agency.

3. Significant accounting policies (continued)

Determining whether credit risk has increased significantly

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

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

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

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the PD that was estimated on initial recognition of the exposure.

The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if the remaining PD is determined to have increased – since initial recognition – more than is defined for the respective risk grade.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was firstly used could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

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

Modified financial assets

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

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

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

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

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

3. Significant accounting policies (continued)

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

(vii) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized separately as asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(viii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(ix) Securitization

For securitized financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognized in the consolidated statement of financial position.

When the Group has transferred financial assets to another entity, but has retained substantially all of the risks and rewards relating to the transferred assets, the transferred assets are recognized in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognized from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognized if the Group has not retained control over the assets.

(x) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts due to banks, other financial institutions and holding companies or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognized in the consolidated statement of profit or loss over the terms of the agreement.

Securities purchased under agreements to resell are recorded as due from banks and other financial institutions or from customers as appropriate. The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest income.

3. Significant accounting policies (continued)

(xi) *Derivative financial instruments*

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk arising from financing activities. However, not all instruments qualify for hedge accounting in accordance with IFRS 9. For derivative instruments where hedge accounting is not applied, any gain or loss on derivatives is recognized immediately in the consolidated statement of comprehensive income as net gains/losses on financial assets and liabilities.

(xii) *Hedge accounting*

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

When initially applying IFRS 9, the Group chose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9.

(h) *Investment securities at amortized cost*

The debt securities issued in the statement of financial position includes debt securities measured at amortized costs; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(i) *Perpetual debt issued*

Perpetual non-redeemable debt instruments issued by the Group which carry no mandatory interest payments are classified as equity.

(j) *Intangible assets and goodwill*

(i) *Goodwill and negative goodwill*

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the Group's interest in the fair value of the net identifiable assets and liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit and loss. Goodwill is stated at cost less accumulated impairment losses.

In respect of associates, the carrying amount of any goodwill is included in the carrying amount of the investment in the associate.

(ii) *Other intangible assets*

Intangible assets acquired by the Group are stated at cost less accumulated amortization and accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognized in the consolidated statement of profit or loss as an expense as incurred.

(iii) *Amortization*

Amortisation is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful lives of intangible assets. Goodwill is not amortised; other intangible assets are amortised from the date the asset is available for use. The estimated useful lives are as follows:

Software 2 - 10 years
Licenses 2 - 10 years
Other 2 - 10 years

3. Significant accounting policies (continued)

(k) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation (refer below) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

The Group has applied IFRS 16 using the modified retrospective approach and therefore the historical financial information for the year ended 31 December 2018 has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 3(a).

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

The Group presents right-of-use assets that do not meet the definition of investment property in “property, plant and equipment”, the same line item as it presents underlying assets of the same nature that it owns.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

3. Significant accounting policies (continued)

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group presents lease liabilities in “Other liabilities” in the Consolidated Statement of Financial Position. For details see Note 23.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lease that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease terms, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment and its cost can be measured reliably. All other expenditure is recognized in the statement of comprehensive income as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful lives of the individual assets. Property and equipment are depreciated from the date the asset is available for use. The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a significant technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time a technical improvement is recognized.

The estimated useful lives of significant items of property and equipment are as follows:

IT equipment	4 years
Vehicles	5 years
Furniture	5 years
Leasehold improvements	5 years
Buildings	10-50 years

(l) Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

The recoverable amount of other non-financial assets is the greater of their fair value less costs to sell and 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses in respect of non-financial assets are recognized in the consolidated statement of profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount.

3. Significant accounting policies (continued)

Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed. On disposal of a subsidiary, the amount of goodwill that is attributable to the subsidiary is included in the determination of the profit or loss on disposal.

(m) Provisions

A provision is recognized in the statement of financial position if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is significant, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(n) Other payables

Accounts payable arise when the Group has a contractual obligation to deliver cash or another financial asset. Accounts payable are measured at amortized cost, which is normally equal to their nominal or repayment value.

(o) Financial guarantees

A financial guarantee is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are included within other liabilities.

(p) Equity

According to the Charter of the Bank a participant of a Limited Liability Company has the right to withdraw from the company unilaterally. In such event the Bank has a liability to pay the participant its pro rata share of the Bank's net assets calculated in accordance with the Russian Accounting Standards.

This puttable financial instrument includes the obligation of the Bank to redeem participant's interest, however, management believes that exception conditions according to IAS 32 *Financial Instruments: Presentation* apply, including the total expected cash flows attributable to the instrument over its life are based substantially on change in recognized net assets calculated in accordance with IFRS, due to the fact that they are not significantly different from the Bank's net assets calculated in accordance with the Russian Accounting Standards.

As the result the Group presents charter capital, other capital contributions, revaluation reserve for financial assets available for sale, cash flow hedge reserve, retained earnings and translation reserve as equity.

(q) Interest income and expense

Effective interest rate

Interest income and expense are recognised in the consolidated statement of profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not Expected Credit Loss (hereafter "ECL").

For purchased or originated credit-impaired financial assets, a credit adjustment effective interest rate is calculated using estimated future cash flows including ECL.

3. Significant accounting policies (continued)

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The “amortised cost” of a financial asset or liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The “gross carrying amount of a financial asset” is the amortised cost of a financial asset before adjustment for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustments begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(r) Fee and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

A contract with a customer that results in a recognised financial instrument in the Group’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission income and expense relate mainly to transaction and service fees, which are recognized as the services are rendered or received.

The Group acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Group’s contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Group does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognized in profit or loss when the Group provides the agency service to the insurance company.

(s) Penalty fees

Penalty income is recognized in the consolidated statement of profit or loss when penalty is charged to a customer, taking into account its collectability.

3. Significant accounting policies (continued)

(t) Operating lease payments

Policy applicable from 1 January 2019

For impact and change of accounting policy due to adoption of new standard IFRS 16, Leases, refer to Note 3(a).

Policy applicable before 1 January 2019

Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease. Granted lease incentives are recognized as an integral part of the total lease expense.

(u) Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The governments of the countries the Group operates in are responsible for providing pensions and retirement benefits to the Group's employees. A regular contribution linked to employees' salaries is made by the Group to the governments to fund the national pension plans. Payments under these pension schemes are charged as expenses as they fall due.

(v) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow 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.

3. Significant accounting policies (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(w) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(x) Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Group's financial statements

A number of new standards, amendments to standards and interpretations were not yet effective as of 31 December 2019 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group is in the process of analysing the likely impact on its consolidated financial statements.

Amendments to References to Conceptual Framework (effective from 1 January 2020)

The IASB decided to revise the Conceptual Framework because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. The Group does not expect these amendments to have a significant impact on its Consolidated Financial Statements.

Amendments to IAS 1 and IAS 8: Definition of Material (effective from 1 January 2020)

The amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors, and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

These amendments are not expected to have a significant impact on the Consolidated Financial Statements of the Group.

4. Interest income calculated using effective interest rate and interest expense

	2019 MRUB	2018 MRUB
Interest income calculated using effective interest rate		
Loans to individuals	53,743	50,423
Investment securities	1,317	2,241
Placements with banks and other financial institutions	947	417
Amounts receivable under reverse repurchase agreements	529	491
Loans to corporations	72	244
Investment securities at amortized cost	24	-
	<u>56,632</u>	<u>53,816</u>
Interest expense		
Current accounts and deposits from customers	14,429	14,785
Debt securities issued	1,122	556
Due to banks and other financial institutions	957	793
Subordinated debt	341	1,426
Amounts payable under repurchase agreements	268	276
Lease liabilities	222	-
	<u>17,339</u>	<u>17,836</u>

5. Fee and commission income

	2019 MRUB	2018 MRUB
Insurance agent commissions	5,938	6,786
Cash operations	2,284	1,638
Customer payments processing and account maintenance	1,909	1,621
Contractual penalties from customers	1,795	1,392
Fees from retailers	982	1,049
Pension agent commissions	5	40
Other	221	201
	<u>13,134</u>	<u>12,727</u>

The fee and commission income from contracts with customers in the scope of IFRS 15 is measured based on the consideration specified in a contract with a customer. The Group recognises revenue related to transactions at the point in time when the transaction takes place.

The Group provides insurance agent services to retail customers (insurance policies) under the framework agreement concluded between the Group and insurance company. The Group acts as an insurance agent and offers customers insurance policies on behalf of the insurance company. The Group is paid an agency fee proportionate to premiums subscribed. There are two types of contracts with retail customers: (1) purchase of an insurance policy along with a loan, payment for the policy is made using cash obtained under a loan agreement and (2) purchase an insurance policy on its own. Insurance policy purchase is voluntary. Revenue related to transactions is recognised at the point in time when the transaction takes place.

6. Fee and commission expense

	2019 MRUB	2018 MRUB
Customer payments processing and account maintenance	1,659	811
Cash transactions	1,499	1,226
Payments to the Deposit Insurance Agency	1,153	1,336
Credit bureau	725	429
State duties	258	187
Other	479	346
	<u>5,773</u>	<u>4,335</u>

7. Other operating loss, net

	Note	2019 MRUB	2018 MRUB
Gain from sale of loans	13	525	-
Share of the profit of associate		344	245
Net gain on early redemption of subordinated debt		-	21
Net realised loss on disposal of investment securities		(30)	(849)
Loss from foreign exchange revaluation of financial assets and liabilities		(100)	(1,179)
Net (loss)/income on spot transactions and currency derivatives		(1,369)	487
Other		145	48
		<u>(485)</u>	<u>(1,227)</u>

In 2019 loss from foreign exchange revaluation of financial assets and liabilities was affected by the fact that perpetual bonds are accounted for in equity. Therefore, no gain/loss from forex exchange revaluation was recognised in other operating loss.

8. Charge of/(reversal for) impairment losses

	Note	2019 MRUB	2018 MRUB
Cash loans	13	2,452	1,555
POS loans	13	909	2,024
Credit card loans	13	318	29
Other assets	16	22	45
Credit losses from loan commitments	23	5	-
Cash and cash equivalents		-	(1)
Placements with banks and other financial	12	-	(5)
Property, equipment and intangible assets	15	-	(69)
Loans to corporations	13	(27)	718
Investment securities	14	(77)	56
Mortgage loans	13	(116)	(130)
		<u>3,486</u>	<u>4,222</u>

9. General administrative expenses

	Note	2019 MRUB	2018 MRUB
Personnel related expenses		11,110	10,524
Payroll related taxes		2,404	2,212
Depreciation and amortisation	15	2,366	1,725
Advertising and marketing		1,533	1,249
Professional services		1,165	968
Telecommunication and postage		1,079	981
Repairs and maintenance		1,022	858
Information technology		883	1,111
Occupancy		434	1,097
Travel expenses		226	205
Taxes other than income tax		198	300
Other		467	399
		<u>22,887</u>	<u>21,629</u>

10. Income tax expense

	2019	2018
MRUB		
Current tax	(4,721)	(2,862)
Deferred tax	<u>697</u>	<u>(623)</u>
	<u>(4,024)</u>	<u>(3,485)</u>
 Reconciliation of effective tax rate		
	2019	2018
MRUB		
Profit before tax	<u>19,796</u>	<u>17,294</u>
Income tax expense using the applicable tax rate 20%	(3,959)	(3,459)
Non-deductible costs	(134)	(125)
Income taxed at lower tax rates	<u>69</u>	<u>99</u>
	<u>(4,024)</u>	<u>(3,485)</u>

The tax effects relating to components of other comprehensive income comprise:

	2019			2018		
MRUB	Amount before tax	Tax benefit	Amount net of tax	Amount before tax	Tax benefit	Amount net of tax
Net change in fair value of investment	<u>(9)</u>	2	<u>(7)</u>	<u>(41)</u>	8	<u>(33)</u>
	<u>(9)</u>	2	<u>(7)</u>	<u>(41)</u>	8	<u>(33)</u>

11. Cash and cash equivalents

	2019	2018
	MRUB	MRUB
	Stage 1	Stage 1
Nostro accounts with the CBR	5,774	5,500
Amounts receivable under reverse repurchase agreements	11,331	5,104
<i>Rated Baa2</i>	3,330	3,400
<i>Rated Ba3</i>	8,001	1,704
Cash	5,195	4,431
Placements with banks and other financial institutions		
due within one month	2,651	3,256
<i>Rated A3 to A1</i>	874	938
<i>Rated Baa</i>	565	792
<i>Rated from Ba3 to Ba1</i>	1,204	1,524
<i>Rated below Caa3 to B1</i>	8	2
Nostro accounts with the NBRK	2,766	2,542
<i>Rated Ba3</i>	2,766	2,542
Placements with the NBRK	5,945	8,132
<i>Rated Ba3</i>	5,945	8,132
	33,662	28,965

The tables above set out information about the credit quality of cash and cash equivalents using Moody's ratings or analogues of similar international agencies, including countries ratings of Moody's agency.

As at 31 December 2019 fair value of securities pledged under repurchase agreements equals to MRUB 12,057 (2018: MRUB 6,020).

Placements with banks and other financial institutions shown above comprise nostro accounts.

No cash and cash equivalents are credit-impaired or past due.

12. Placements with banks and other financial institutions

	2019	2018
	MRUB	MRUB
	Stage 1	Stage 1
Placements with MasterCard, VISA and MIR	2,590	2,205
Amounts receivable under reverse repurchase agreements	2,506	-
Minimum reserve deposit with the CBR	1,656	1,513
Minimum reserve deposit with the NBRK	472	960
Term deposits with banks and other financial institutions due		
after one month	310	516
Expected credit losses allowance	(1)	(1)
	7,533	5,193

As at 31 December 2019 fair value of securities pledged under repurchase agreements equals to MRUB 2,572 (2018: MRUB none).

The minimum reserve deposit with the CBR is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR whose withdrawability is restricted.

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a percentage of particular Bank Home Credit's (SB JSC) liabilities. Bank Home Credit (SB JSC) is required to comply with these requirements by maintaining average cash in local currency and nostro accounts with the NBRK equal or in excess of the average minimum requirements.

Placements with MasterCard, VISA and MIR are security deposits whose withdrawability is restricted.

12. Placements with banks and other financial institutions (continued)

As at 31 December 2019 term deposits with bank and other financial institutions due after one month are represented by other financial institutes (as at 31 December 2018 term deposits with bank and other financial institutions due after one month are represented by OECD non-banking financial institutes).

Movements of expected credit loss allowance are as follows:

MRUB	Note	2019	2018
Balance as at 1 January		1	6
Net recovery	8	-	(5)
Balance at 31 December		1	1

No placements with banks and other financial institutions are credit-impaired or past due.

The following table sets out information about the credit quality of placements with banks and other financial institutions using Moody's ratings or analogues of similar international agencies, including countries ratings of Moody's agency as at 31 December 2019 and as at 31 December 2018:

	2019 MRUB	2018 MRUB Stage 1
Placements with banks and other financial institutions		
Rated A3 to A1	442	2,201
Rated Baa2	2,506	-
Rated from Ba3 to Ba1	4,586	2,924
Rated from Caa2 to B1	-	69
Total gross	7,534	5,194
Expected credit losses	(1)	(1)
Carrying amount	7,533	5,193

13. Loans to customers

	2019 MRUB	2018 MRUB
Cash loans	161,168	157,085
POS loans	81,672	75,305
Credit card loans	28,128	20,127
Loans to corporations	1,124	4,367
Mortgage loans	1,113	1,516
Impairment allowance	(10,794)	(13,046)
	262,411	245,354

The Group provides point-of-sale loans ("POS loans") for any purpose including household goods, services and other purposes. Cash loans and credit cards are issued for general purposes.

13. Loans to customers (continued)

The significant changes in the gross carrying amount of the loans to customers for the year ended 31 December 2019 are explained below:

MRUB	2019			Total
	Stage 1	Stage 2	Stage 3	
Loans to customers – gross carrying amount				
Balance at 1 January	220,857	27,840	9,703	258,400
Transfer to Stage 1	2,999	(2,999)	-	-
Transfer to Stage 2	(29,118)	29,150	(32)	-
Transfer to Stage 3	(7,492)	(4,178)	11,670	-
New financial assets originated	178,268	-	-	178,268
Financial assets that have been sold	(4,785)	(256)	-	(5,041)
Financial assets that have been repaid	(126,297)	(13,819)	(7,148)	(147,264)
Write-offs	-	-	(5,813)	(5,813)
Unwinding of discount on present value of expected credit losses	-	-	260	260
Effect of foreign currency translation	(4,793)	(583)	(229)	(5,605)
Balance at 31 December	229,639	35,155	8,411	273,205

The significant changes in the gross carrying amount of the loans to customers for the year ended 31 December 2018 are explained below:

MRUB	2018			Total
	Stage 1	Stage 2	Stage 3	
Loans to customers – gross carrying amount				
Balance at 1 January	186,850	22,220	9,697	218,767
Transfer to Stage 1	1,789	(1,789)	-	-
Transfer to Stage 2	(22,344)	22,351	(7)	-
Transfer to Stage 3	(6,665)	(3,625)	10,290	-
New financial assets originated	174,262	-	-	174,262
Financial assets that have been repaid	(114,211)	(11,410)	(6,798)	(132,419)
Write-offs	-	-	(3,817)	(3,817)
Unwinding of discount on present value of expected credit losses	-	-	269	269
Effect of foreign currency translation	1,176	93	69	1,338
Balance at 31 December	220,857	27,840	9,703	258,400

Financial assets that have been repaid and write-offs include loans recovered which previously were written off.

13. Loans to customers (continued)

The following table sets out information about the credit quality of loans to customers measured at amortised cost for the year ended 31 December 2019:

MRUB	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
Cash loans				
Not overdue	132,294	19,417	-	151,711
Overdue less than 30 days	906	2,248	-	3,154
Overdue 31-90 days	-	2,121	-	2,121
Overdue 91-360 days	-	-	3,419	3,419
Overdue more than 360 days	-	-	763	763
Total gross portfolio	133,200	23,786	4,182	161,168
Expected credit losses	(2,090)	(1,955)	(1,836)	(5,881)
Carrying amount	131,110	21,831	2,346	155,287

MRUB	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
POS loans				
Not overdue	74,410	3,232	-	77,642
Overdue less than 30 days	727	619	-	1,346
Overdue 31-90 days	-	789	-	789
Overdue 91-360 days	-	-	1,507	1,507
Overdue more than 360 days	-	-	388	388
Total gross portfolio	75,137	4,640	1,895	81,672
Expected credit losses	(1,066)	(470)	(899)	(2,435)
Carrying amount	74,071	4,170	996	79,237

MRUB	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
Credit card loans				
Not overdue	20,165	5,722	-	25,887
Overdue less than 30 days	184	515	-	699
Overdue 31-90 days	-	482	-	482
Overdue 91-360 days	-	-	912	912
Overdue more than 360 days	-	-	148	148
Total gross portfolio	20,349	6,719	1,060	28,128
Expected credit losses	(300)	(412)	(516)	(1,228)
Carrying amount	20,049	6,307	544	26,900

MRUB	31 December 2019	
	Stage 3	Total
Loans to corporations		
Overdue 91-360 days	1,124	1,124
Total gross portfolio	1,124	1,124
Expected credit losses	(1,124)	(1,124)
Carrying amount	-	-

13. Loans to customers (continued)

MRUB	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
Mortgage loans				
Not overdue	950	-	-	950
Overdue less than 30 days	3	-	-	3
Overdue 31-90 days	-	10	-	10
Overdue 91-360 days	-	-	42	42
Overdue more than 360 days	-	-	108	108
Total gross portfolio	953	10	150	1,113
Expected credit losses	(23)	(3)	(100)	(126)
Carrying amount	930	7	50	987

The following table sets out information about the credit quality of loans to customers measured at amortised cost as at 31 December 2018:

MRUB	31 December 2018			Total
	Stage 1	Stage 2	Stage 3	
Cash loans				
Not overdue	129,753	17,930	-	147,683
Overdue less than 30 days	800	2,374	-	3,174
Overdue 31-90 days	-	1,765	-	1,765
Overdue 91-360 days	-	-	4,463	4,463
Total gross portfolio	130,553	22,069	4,463	157,085
Expected credit losses	(1,876)	(1,641)	(3,333)	(6,850)
Carrying amount	128,677	20,428	1,130	150,235

MRUB	31 December 2018			Total
	Stage 1	Stage 2	Stage 3	
POS loans				
Not overdue	66,462	3,657	-	70,119
Overdue less than 30 days	734	790	-	1,524
Overdue 31-90 days	-	903	-	903
Overdue 91-360 days	-	-	2,759	2,759
Total gross portfolio	67,196	5,350	2,759	75,305
Expected credit losses	(1,004)	(574)	(2,107)	(3,685)
Carrying amount	66,192	4,776	652	71,620

MRUB	31 December 2018			Total
	Stage 1	Stage 2	Stage 3	
Credit card loans				
Not overdue	17,972	47	-	18,019
Overdue less than 30 days	637	6	-	643
Overdue 31-90 days	-	351	-	351
Overdue 91-360 days	-	-	1,114	1,114
Total gross portfolio	18,609	404	1,114	20,127
Expected credit losses	(115)	(202)	(857)	(1,174)
Carrying amount	18,494	202	257	18,953

13. Loans to customers (continued)

MRUB	31 December 2018			Total
	Stage 1	Stage 2	Stage 3	
Mortgage loans				
Not overdue	1,232	-	-	1,232
Overdue less than 30 days	24	-	-	24
Overdue 31-90 days	-	17	-	17
Overdue 91-360 days	-	-	119	119
Overdue more than 360 days	-	-	124	124
Total gross portfolio	1,256	17	243	1,516
Expected credit losses	(32)	(6)	(150)	(188)
Carrying amount	1,224	11	93	1,328

MRUB	31 December 2018		Total
	Stage 1	Stage 3	
Loans to corporations			
Not overdue	3,243	-	3,243
Overdue 91-360 days	-	1,124	1,124
Total gross portfolio	3,243	1,124	4,367
Expected credit losses	(25)	(1,124)	(1,149)
Carrying amount	3,218	-	3,218

The following table provides the average size of loans granted and the average contractual term by type of loans:

	2019		2018	
	Size TRUB	Term Months	Size TRUB	Term Months
Cash loans	218.4	48	206.1	53
POS loans	43.5	18	42.2	19

	2019			2018		
	Min. monthly payment* %	Average credit limit TRUB	Term Months	Min. monthly payment* %	Average credit limit TRUB	Term Months
Credit cards	5%	50	60	5%	59	60

* Minimum monthly payment as a percentage of the outstanding principal balance on the respective credit card plus other charges.

31 December 2019 the average loan-to-value ratio for mortgage loans was 47% (31 December 2018: 50%).

13. Loans to customers (continued)

Analysis of collateral

The following table provides the analysis of the loans to customers by type of collateral as at 31 December:

	2019		2018	
	Portfolio MRUB	% of loan portfolio	Portfolio MRUB	% of loan portfolio
Real estate	1,113	-	4,760	2
No collateral	272,092	100	253,640	98
Total	273,205		258,400	

The amounts shown in the table above represent the gross amount of the loans, and do not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying housing real estate. Credit card loans, cash loans and POS loans are not secured.

As at 31 December 2018 loans to corporations included secured loans with the total carrying amount of MRUB 3,144 pledged with mortgages of MRUB 5,600. Loan-to-value ratio was 41%. As at 31 December 2019: none.

Overdue mortgage loans with a gross value of MRUB 163 (31 December 2018: MRUB 284) are secured by collateral with a fair value of MRUB 364 (31 December 2018: MRUB 576). For the remaining overdue loans to customers with a gross value of MRUB 16,852 (31 December 2018: MRUB 17,670) there is no collateral.

Collateral does not have a significant effect on the amount of loan expected credit losses.

As at 31 December 2019 repossessed collateral for mortgage loans amounted to MRUB 145 (31 December 2018: MRUB 212).

	2019		2018	
	NPLs MRUB	Provision coverage %	NPLs MRUB	Provision coverage %
Cash loans	4,182	141	4,463	153
POS loans	1,895	128	2,759	134
Credit card loans	1,060	116	1,114	105
Mortgage loans	150	84	243	77
Loans to corporations	1,124	100	1,124	102
Total	8,411	128	9,703	134

Non-performing loans are defined by the Group as loans and receivables overdue for more than 90 days. Due to change in the estimate of future cash flows from written off loans upwards, the Group revised its approach to writing off overdue loans and extended overdue period when the loans are written off from the balance of the Group. Loans are generally written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety. For more details refer to Note 3(g). Since 1 January 2018 NPL includes loans in stage 3.

During the year ended 31 December 2019 the Group sold performing cash loans with the gross value of MRUB 5,041 for MRUB 5,566. The gain of MRUB 525 is recognised in other operating income, net (during the year ended 31 December 2018 - none (Note 7)).

13. Loans to customers (continued)

The Group estimated the impairment on loans to customers in accordance with the accounting policy as described in Note 3(g)(vi). The key assumptions used in estimating impairment losses are as follows:

- future loan migration and collection experience will be consistent with recent experience;
- unsecured loans which borrowers are unable to repay in full can be partially recovered through collection of 9-15% of the loans' outstanding principal balances in RUB and of 22-23% in KZT ;
- mortgage loans which borrowers are unable to repay in full can be partially recovered through the sale of collateral for 44% of the loans' outstanding principal balances.

At the end of 2014 the Group launched loan restructuring aimed at managing customer relationships and maximising collection opportunities. For impairment assessment purposes, such renegotiated loans are kept in the same category of assets as at the date of restructuring unless within a defined period of time borrowers fail to comply with the renegotiated terms or instead prove their performance under new conditions in which case they are treated as non-delinquent. If a loan hasn't been in compliance, then it is transferred to the bucket it would have been in as if no restructuring was made. As at 31 December 2019 renegotiated loans to retail customers amounted to MRUB 2,850 (31 December 2018: MRUB 3,582).

Changes in collection estimates could affect the impairment losses recognised. For example, to the extent that estimated future cash flows of loans differ by plus/minus one percent, the loan impairment allowance as at 31 December 2019 would be MRUB 2,624 lower/higher (31 December 2018: MRUB 2,454).

Analysis of movements in impairment allowance

Movements in the loan impairment allowance of loans to customers for the year ended 31 December 2019 were as follows:

MRUB	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	3,052	2,423	7,571	13,046
Transfers:				
Transfer to Stage 1	206	(206)	-	-
Transfer to Stage 2	(512)	538	(26)	-
Transfer to Stage 3	(125)	(416)	541	-
Net remeasurement of loss allowance	(1,668)	536	2,070	938
New financial assets originated	2,598	-	-	2,598
Loans recovered which previously were written off	-	-	6,559	6,559
Write-offs	-	-	(12,372)	(12,372)
Unwinding of discount on present value of expected credit losses	-	-	260	260
Effect of foreign currency translation	(72)	(35)	(128)	(235)
Balance at 31 December	3,479	2,840	4,475	10,794

13. Loans to customers (continued)

Movements in the loan impairment allowance of loans to customers for the year ended 31 December 2018 were as follows:

MRUB	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	2,929	2,737	6,676	12,342
Transfers:				
Transfer to Stage 1	129	(129)	-	-
Transfer to Stage 2	(321)	326	(5)	-
Transfer to Stage 3	(91)	(342)	433	-
Net remeasurement of loss allowance	(2,062)	(178)	3,988	1,748
New financial assets originated	2,448	-	-	2,448
Loans recovered which previously were written off	-	-	5,543	5,543
Write-offs	-	-	(9,360)	(9,360)
Unwinding of discount on present value of expected credit losses	-	-	269	269
Effect of foreign currency translation	20	9	27	56
Balance at 31 December	3,052	2,423	7,571	13,046

14. Investment securities

	2019	2018
	MRUB	MRUB
Securities measured at fair value through other comprehensive income - debt instruments	24,332	35,910
Securities measured at amortized cost	330	-
	24,662	35,910

Debt securities measured at fair value through other comprehensive income

The debt securities at fair value through other comprehensive income as at 31 December 2019 and 31 December 2018 are presented below:

	Note	2019	2018
		MRUB	MRUB
Quoted debt securities			
Unpledged		21,173	33,288
Government and government-owned institutions		19,955	30,359
Other		1,218	2,929
Pledged as collateral under sale and repurchase agreements	20	3,159	2,622
Government and government-owned institutions		3,159	2,622
		24,332	35,910

14. Investment securities (continued)

The following table shows reconciliation from the opening to the closing balances of the expected credit loss allowance as at 31 December 2019:

MRUB	2019		
	Stage 1	Stage 2	Total
Investment securities			
Balance at 1 January	11	76	87
Net remeasurement of loss allowance	1	-	1
Financial assets that have been derecognised	(2)	(76)	(78)
Balance at 31 December	10	-	10

The following table shows reconciliation from the opening to the closing balances of the expected credit loss allowance as at 31 December 2018:

MRUB	2018		
	Stage 1	Stage 2	Total
Investment securities			
Balance at 1 January	31	-	31
Transfers:			
Transfer from Stage 1 to Stage 2	(76)	76	-
Net remeasurement of loss allowance	(85)	-	(85)
New financial assets purchased	177	-	177
Financial assets that have been derecognised	(36)	-	(36)
Balance at 31 December	11	76	87

The following table sets out information about the credit quality of investment securities using Moody's ratings or analogues of similar international agencies, including countries ratings of Moody's agency as at 31 December 2019 and as at 31 December 2018:

MRUB	2019		2018		
	Stage 1	Total	Stage 1	Stage 2	Total
Investment securities					
Rated Aaa	2,151	2,151	1,708	-	1,708
Rated Baa	420	420	1,129	-	1,129
Rated from Ba3 to Ba1	21,761	21,761	32,750	-	32,750
Rated below Caa3 to B1	-	-	-	323	323
	24,332	24,332	35,587	323	35,910
Expected credit losses	(10)	(10)	(11)	(76)	(87)
Carrying amount	24,322	24,322	35,576	247	35,823
Carrying amount – fair value	24,332	24,332	35,587	323	35,910

14. Investment securities (continued)

Securities measured at amortized cost

The debt securities at amortized cost as at 31 December 2019 and 31 December 2018 are presented below:

	Interest rate	Final maturity	2019 MRUB	2018 MRUB
Corporate bonds	8,5%	April 2021	330	-
			330	-

The following table sets out information about the credit quality of investment securities using Moody's ratings or analogues of similar international agencies, including countries ratings of Moody's agency as at 31 December 2019 and as at 31 December 2018:

MRUB	2019		2018	
	Stage 2	Total	Stage 1	Total
Investment securities				
Rated Baa	330	330	-	-
Carrying amount	330	330	-	-

ECL allowances for investment securities at amortised cost are calculated on an individual basis.

15. Property, equipment and intangible assets

Movements in property, equipment and intangible assets for the year ended 31 December 2019 are as follows:

MRUB	Land and buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Right-of-use assets	Intangible assets	Total
Cost								
Balance at 1 January	4,825	200	735	848	4,659	2,203	8,722	22,192
Additions	-	46	80	2	587	187	1,374	2,276
Disposals	-	(21)	(71)	(44)	(677)	(115)	(221)	(1,149)
Effect of foreign currency translation	(8)	(6)	(34)	(28)	(61)	(29)	(172)	(338)
Balance at 31 December	4,817	219	710	778	4,508	2,246	9,703	22,981
Accumulated depreciation and amortisation								
Balance at 1 January	1,623	111	467	395	3,940	-	5,994	12,530
Depreciation and amortisation charge	97	23	69	105	323	607	1,142	2,366
Disposals	-	(20)	(71)	(44)	(675)	(54)	(114)	(978)
Effect of foreign currency translation	(1)	(3)	(15)	(15)	(25)	(4)	(91)	(154)
Balance at 31 December	1,719	111	450	441	3,563	549	6,931	13,764
Net book value at 1 January	3,202	89	268	453	719	2,203	2,728	9,662
Net book value at 31 December	3,098	108	260	337	945	1,697	2,772	9,217

15. Property, equipment and intangible assets (continued)

Initial application of IFRS 16 Leases resulted in recognition of right-of-use assets in the amount of MRUB 2,203. For more details see Note 3(a).

Movements in property, equipment and intangible assets for the year ended 31 December 2018 are as follows:

MRUB	Land and buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Intangible assets	Total
Cost							
Balance at 1 January	4,819	188	688	745	4,533	7,741	18,714
Additions	3	29	106	166	543	1,198	2,045
Effect of foreign currency translation	-	(19)	(67)	(71)	(433)	(278)	(868)
Disposals	3	2	8	8	16	61	98
Balance at 31 December	4,825	200	735	848	4,659	8,722	19,989
Accumulated depreciation and amortisation							
Balance at 1 January	1,527	100	458	337	4,073	5,059	11,554
Depreciation and amortisation charge	96	23	70	123	270	1,143	1,725
Effect of foreign currency translation	-	(13)	(65)	(69)	(413)	(238)	(798)
Disposals	-	1	4	4	10	30	49
Balance at 31 December	1,623	111	467	395	3,940	5,994	12,530
Net book value at 1 January	3,292	88	230	408	460	2,682	7,160
Net book value at 31 December	3,202	89	268	453	719	2,728	7,459

Movements in the impairment allowance are as follows:

	2018
	MRUB
Balance at 1 January	69
Net charge	(69)
Balance at 31 December	-

16. Other assets

	2019	2018
	MRUB	MRUB
Settlements with suppliers	1,394	1,060
Taxes other than income tax	234	285
Prepaid expenses	65	61
Accrued income	22	11
Other	138	165
Expected credit losses allowance	(12)	(12)
	<u>1,841</u>	<u>1,570</u>

As at 31 December 2019 the expected credit losses allowance for other assets is measured at an amount equal to 12-month ECL (31 December 2018: 12-month ECL).

Movements in the impairment allowance are as follows:

	2019	2018
Note	MRUB	MRUB
Balance as at 1 January	12	8
Net charge	8	45
Write-off	(22)	(41)
	<u>12</u>	<u>12</u>
Balance at 31 December	12	12

17. Debt securities issued

	Maturity	Coupon rate	2019 MRUB	2018 MRUB
Unsecured KZT bond issue 2 of MKZT 6,769	February 2019	Fixed, 9.50%	-	1,265
Unsequeured KZT bond issue 4 of MKZT 8,000	October 2019	Fixed, 12.50%	-	1,475
Unsecured KZT bond issue 3 of MKZT 10,000	May 2020	Fixed, 15.00%	1,644	1,829
Unsecured KZT bond issue 6 of MKZT 15,696	December 2021	Fixed, 13.00%	3,340	2,813
Unsecured KZT bond issue 5 of MKZT 9,600	December 2022	Fixed, 13.00%	1,576	1,745
Unsecured RUB bond BO-06 issue of MRUB 5,000	September 2024/ September 2022*	Fixed, 8.65%	4,976	-
			11,536	9,127

* Early redemption option date / Repayment date

All issued unsecured bonds are with a fixed coupon rate and valid until the final maturity.

18. Subordinated debt

	Maturity	Coupon rate	2018 MRUB
Loan participation notes issue of MUSD 200	April 2021/ April 2019*	Fixed, 10.50%	11,150
			11,150

*Repayment date/Early redemption option date

In October 2013 the Group issued the MUSD 200 of Basel III compliant tier 2 seven and a half year loan participation notes at the fixed rate of 10.50% through Eurasia Capital S.A. The proceeds from the issue were used to grant a subordinated loan to the Bank. The terms of the loan agreement include a call option executable on 17 April 2019 ("the reset date"). After the reset date the interest rate is determined as two year US treasuries rate + 903 b.p. In November 2013 the issue was registered with the CBR. As at 31 December 2018 the Group bought back the loan participation notes with a par value of MUSD 43 with result recognised in other operating income, net. In April 2019 the Group fully repaid loan participation notes issue at par with the prior consent of the CBR. The amount of early redemption was MUSD 200.

19. Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities			
	Subordinated borrowings	Debt securities issued	Lease liabilities	Total
Balance at 1 January 2019	11,150	9,127	2,203	22,480
Changes from financing cash flows				
Proceeds from debt securities issued	-	5,776	-	5,776
Repayment of debt securities issued	-	(2,479)	-	(2,479)
Repayment of subordinated borrowings	(10,097)	-	-	(10,097)
Lease liabilities repaid	-	-	(607)	(607)
Total changes from financing cash flows	(10,097)	3,297	(607)	(7,407)
The effect of changes in foreign exchange rates	(864)	(479)	10	(1,333)
Other changes				
Lease liabilities	-	-	181	181
Interest expense accrued	341	1,122	222	1,685
Interest expense paid	(530)	(1,531)	(231)	(2,292)
Balance at 31 December 2019	-	11,536	1,778	13,314

19. Reconciliation of movements of liabilities to cash flows arising from financing activities (continued)

	Liabilities		
	Subordinated borrowings	Debt securities issued	Total
Balance at 1 January 2018	22,847	3,838	26,685
Changes from financing cash flows			
Proceeds from debt securities issued	-	5,106	5,106
Repayment of subordinated borrowings	(14,210)	-	(14,210)
Total changes from financing cash flows	(14,210)	5,106	(9,104)
The effect of changes in foreign exchange rates	2,796	259	3,055
Other changes			
Capitalised borrowing costs	21	-	21
Interest expense accrued	1,405	556	1,961
Interest expense paid	(1,709)	(632)	(2,341)
Balance at 31 December 2018	11,150	9,127	20,277

20. Due to banks and other financial institutions

	2019 MRUB	2018 MRUB
Unsecured loans	17,387	12,181
Secured loans	3,132	2,470
Other balances	213	910
	20,732	15,561

As at 31 December 2019 the Group pledged and transferred investment securities with a carrying amount of MRUB 3,159 (Note 14) as collateral for secured loans that had recourse only to the transferred assets. These financial assets might be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty had an obligation to return the securities when the contract matures. The Group determined that it retained substantially all the risks and rewards related to these securities and therefore did not derecognise them. The fair value of the transferred investment securities and related secured loans was equal to MRUB 3,159 (31 December 2018: MRUB 2,622).

21. Current accounts and deposits from customers

	2019 MRUB	2018 MRUB
Retail		
Term deposits	144,752	150,977
Current accounts and demand deposits	57,487	58,338
Certificates of deposit	3,217	1,386
	205,456	210,701
Corporate		
Term deposits	11,925	10,909
Current accounts and demand deposits	161	480
	12,086	11,389
	217,542	222,090

21. Current accounts and deposits from customers (continued)

During the year ended 31 December 2019 the Group issued to individuals unsecured 1-2-years bank certificates of deposit nominated in KZT with a total value of MRUB 3,217, which bear a fixed rate of 14-16% per annum paid at maturity (31 December 2018: 1-year bank certificates of deposit with a total nominal value of MRUB 1,386, which bear a fixed rate of 15-16% per annum paid at maturity).

22. Deferred tax asset and liability

The Group's applicable tax rate for deferred tax is 20% (2018: 20%). Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset as at 31 December 2019 and as at 31 December 2018. The deductible temporary differences do not expire under the current tax legislation.

MRUB	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Cash and cash equivalents	-	-	(6)	-	(6)	-
Loans to customers	2,854	2,138	-	-	2,854	2,138
Investment securities	-	1	(3)	-	(3)	1
Property, equipment and intangible assets	-	-	(562)	(533)	(562)	(533)
Other assets	236	294	(7)	(18)	229	276
Subordinated debt	28	6	-	-	28	6
Due to banks and other financial institutions	11	13	-	-	11	13
Current accounts and deposits from customers	-	8	(1)	-	(1)	8
Negative fair value of derivative instruments	85	-	-	(18)	85	(18)
Other liabilities	799	859	-	-	799	859
Net deferred tax asset					3,434	2,750

Movements in temporary differences during the years ended 31 December 2019 are presented as follows:

MRUB	1 January 2019	Recognised in other		Translation reserve	31 December 2019
		Recognised in profit or loss	comprehensive income		
Cash and cash equivalents	-	(6)	-	-	(6)
Loans to customers	2,138	716	-	-	2,854
Investment securities	1	(6)	2	-	(3)
Property, equipment and intangible assets	(533)	(36)	-	7	(562)
Other assets	276	(48)	-	1	229
Subordinated debt	6	22	-	-	28
Due to banks and other financial institutions	13	(1)	-	(1)	11
Current accounts and deposits from customers	8	(9)	-	-	(1)
Negative fair value of derivative instruments	(18)	106	-	(3)	85
Other liabilities	859	(41)	-	(19)	799
	2,750	697	2	(15)	3,434

22. Deferred tax asset and liability (continued)

Movements in temporary differences during the years ended 31 December 2018 are presented as follows:

MRUB	31 December 2017	Impact of adopting IFRS 9 as at 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	Transla- tion reserve	31 December 2018
Loans to customers	2,305	322	(493)	-	4	2,138
Investment securities	66	6	(79)	8	-	1
Property, equipment and intangible assets	(460)	-	(70)	-	(3)	(533)
Other assets	283	-	(5)	-	(2)	276
Subordinated debt	12	-	(6)	-	-	6
Due to banks and other	13	-	(1)	-	1	13
Current accounts and deposits from customers	(1)	-	9	-	-	8
Negative fair value of derivative instruments	4	-	(22)	-	-	(18)
Other liabilities	924	-	(70)	-	5	859
	3,146	328	(737)	8	5	2,750

23. Other liabilities

	2019 MRUB	2018 MRUB
Settlements with suppliers	3,063	2,867
Lease liabilities	1,778	-
Accrued employee compensation	1,441	1,813
Provision for return of insurance agent commission	764	856
Other taxes payable	331	414
Accrued payments to the Deposits Insurance Agency	283	286
Provision for litigations	17	19
Provision for restructuring	7	7
Provisions for credit losses from loan commitments	6	1
Other	380	221
	8,070	6,484

Movements in the provision for return of insurance agent commission were as follows:

	2019 MRUB	2018 MRUB
Balance at 1 January	856	756
Charge	2,813	2,734
Recovery	(2,905)	(2,634)
Balance at 31 December	764	856

23. Other liabilities (continued)

Movements in the provision for litigations were as follows:

	2019	2018
	MRUB	MRUB
Balance at 1 January	19	20
Net charge	2	9
Amounts used	(4)	(10)
Balance at 31 December	17	19

Movements in the provision for restructuring are as follows:

	2019	2018
	MRUB	MRUB
Balance at 1 January	7	38
Net recovery	-	(31)
Balance at 31 December	7	7

Movements in provisions for credit losses from loan commitments are as follows:

	2019	2018
	MRUB	MRUB
Balance at 1 January	1	1
Net charge	5	-
Balance at 31 December	6	1

As at 31 December 2019 the expected credit losses allowance for credit losses from loan commitments are measured at an amount equal to stage 12-month ECL.

24. Perpetual debt issued

On 7 November 2019 the Group issued perpetual subordinated loan participation notes with a nominal value of MUS\$ 200. The notes are non-callable for the first 5 years and 3 months. The notes bear a fixed interest rate of 8.8% p.a. payable quarterly until 7 February 2025.

As the Group has discretion in relation to coupon and principal repayment, the Group classified subordinated perpetual bonds as an equity instrument in the consolidated statement of financial position. The bonds are Basel-III compliant and included into the Group's Additional Tier 1 capital after approval from the CBR (Note 30).

The notes are translated to their RUB equivalent at exchange rate on the date of recognition and consequently the gain/loss from forex exchange revaluation is not recognised. The costs of issue are also recorded in retained earnings when incurred. When coupon is paid or declared it is recognised within the retained earnings.

25. Risk management, corporate governance and internal control

(a) Corporate governance framework

The Bank is established as a limited liability company in accordance with Russian law. The supreme governing body of the Bank is the general participants' meeting that is called for annual or extraordinary meetings. The general participants' meeting makes strategic decisions on the Bank's operations.

The general participants' meeting elects the Council. The Council is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the general participants' meeting and that are approved by the Council. The Composition of the Council is presented in Note 1.

General activities of the Bank are managed by the sole executive body of the Bank (Chief Executive Officer), and collective executive body of the Bank (Board of Management). The Council elects the Board of Management. The executive bodies of the Bank are responsible for implementation of decisions of the general participants' meeting and the Council of the Bank. Executive bodies of the Bank report to the Council of the Bank and to the general participants' meeting. The composition of the Board of Management is presented in Note 1.

(b) Internal control policies and procedures

The Council and the Board of Management have responsibility for the development, implementation and maintaining of internal controls in the Group that are appropriate for the scale and nature of operations.

The purpose of internal controls system is to ensure:

- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations including anti-money laundering.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank's internal controls and periodically introduces additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards and
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Group put in place a system of automated controls.

25. Risk management, corporate governance and internal control (continued)

The internal control system of the Bank comprises:

- the Council
- the Chief Executive officer and the Board of Management
- the Chief Accountant
- the risk management function
- the security function, including IT-security
- the human resource function
- the internal audit function
- the internal control (compliance) service
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
 - heads of branches and heads of business-units
 - business processes managers
 - division responsible for compliance with anti-money laundering requirements
 - professional securities market participant controller – an executive office and a division responsible for compliance with the requirements for securities market participants
 - the legal officer – an employee and a division responsible for compliance with the legal and regulatory requirements
 - other employees/divisions with control responsibilities.

The main responsibilities of internal audit function include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organisation (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping the credit organisation's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of internal control service and risk management service.

Internal control service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of internal control (compliance) service include the following:

- identification of compliance risks and regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation of design of measures to decrease regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients' complaints
- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organized organisations, associations and financial market participants.

25. Risk management, corporate governance and internal control (continued)

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The Internal Audit function is independent from management and reports directly to the Council. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Council and senior management of the Group.

Russian legislation, including the Federal Law dated 2 December 1990 No 395-1 *On banks and banking activity*, Direction of the CBR dated 1 April 2014 No 3223-U *On requirement to head of risk management service, head of internal control service, head of internal audit service of the credit organisation* establish the professional qualifications, business reputation and other requirements for members of the Council, Board of Management, Heads of internal audit service, internal control service and risk management service and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

Legislation of Kazakhstan, including the Law dated 31 August 1995 No 2444 *On banks and banking activity in the Republic of Kazakhstan*, establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, Management Board, and other key management personnel. All members of the Bank Home Credit (SB JSC)'s governing and management bodies comply with these requirements.

Management believes that the Group complies with the CBR and the NBRK requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

(c) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Group has developed a system of reporting on significant risks and capital.

As at 31 December 2019, the Bank's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Group's significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The Board of Management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. The Head of the Risk Department (Chief Risk Officer) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Board of Management. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

The Council and management bodies of the Bank have responsibility for controlling the Group's compliance with risk limits and capital adequacy ratios as established by the Group's internal documentation. With the view of controlling effectiveness of the Group's risk management procedures and their consistent application the Council and management bodies of the Bank periodically receive reports prepared by the internal audit function and the Risk department, discuss the contents of these reports and consider proposed corrective actions.

25. Risk management, corporate governance and internal control

(continued)

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

The Group has exposure to the following risks from its use of financial instruments:

- credit
- market
- liquidity
- operational.

The Board of Management has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Credit Committee and the Asset and Liability Committee ("ALCO"), which are responsible for developing and monitoring risk management policies in their specified areas. Both committees report regularly to the Board of Management on their activities.

In compliance with the Group's internal documentation the Risk Department and internal audit function frequently prepare reports, which cover the Group's significant risks management. The reports include observations as to assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.

The Group calculates mandatory ratios on a daily basis in accordance with the requirement of the CBR. As at 31 December 2019 and 31 December 2018 the mandatory ratios were in compliance with limits set by the CBR.

(d) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers, which is the Group's principal business. As the Group's loan portfolio consists of a large amount of loans with relatively low outstanding amounts, the loan portfolio does not comprise any significant individual items.

The Group has developed policies and procedures for the management of credit exposures, including credit scoring of customers, guidelines to limit portfolio concentration and the establishment of a credit department which actively monitors the Group's credit risk.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or a group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds.

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds.

25. Risk management, corporate governance and internal control **(continued)**

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Direction of the CBR dated 03 December 2015 No 509-P *Calculation of own funds, mandatory ratios and open currency position limits for banking groups* and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2019 and 31 December 2018.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Group's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement transactions.

The Group's sale and repurchase and reverse sale and repurchase transactions are covered by Global Master Repurchase Agreements and similar agreements with terms similar to those of International Derivative Swaps and Dealers Association Master Netting Agreements.

The above International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the Global Master Repurchase Agreements. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

25. Risk management, corporate governance and internal control (continued)

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019:

MRUB	Gross amount of recognised financial asset/liability	Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position	Net amount of financial asset/liability presented in the consolidated statement of financial position	Related amount not offset in the consolidated statement of financial position	Cash collateral received	Net amount
Derivative instruments	32	-	32	(32)	-	-
Reverse sale and repurchase agreements	13,837	-	13,837	(13,837)	-	-
Total financial assets	13,869	-	13,869	(13,869)	-	-
Derivative instruments	456	-	456	(456)	-	-
Sale and repurchase agreements	3,132	-	3,132	(3,132)	-	-
Total financial liabilities	3,588	-	3,588	(3,588)	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

MRUB	Gross amount of recognised financial asset/liability	Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position	Net amount of financial asset/liability presented in the consolidated statement of financial position	Related amount not offset in the consolidated statement of financial position	Cash collateral received	Net amount
Derivative instruments	144	-	144	(144)	-	-
Reverse sale and repurchase agreements	5,104	-	5,104	(5,104)	-	-
Total financial assets	5,248	-	5,248	(5,248)	-	-
Derivative instruments	54	-	54	(54)	-	-
Sale and repurchase agreements	2,470	-	2,470	(2,470)	-	-
Total financial liabilities	2,524	-	2,524	(2,524)	-	-

25. Risk management, corporate governance and internal control

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- derivative assets and liabilities – fair value
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2019.

MRUB	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
		Positive fair value of derivative instruments			
Derivative instruments	32		32	-	26
Reverse sale and repurchase agreements	11,331	Cash and cash equivalents	33,662	22,331	11
Reverse sale and repurchase agreements	2,506	Placements with banks and other financial institutions	7,533	5,027	12
		Negative fair value of derivative instruments			
Derivative instruments	456		456	-	26
Sale and repurchase agreements	3,132	Due to banks and other financial institutions	20,732	17,600	20

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2018.

MRUB	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
		Positive fair value of derivative instruments			
Derivative instruments	144		144	-	26
Reverse sale and repurchase agreements	5,104	Cash and cash equivalents	28,965	23,861	11
		Negative fair value of derivative instruments			
Derivative instruments	54		54	-	26
Sale and repurchase agreements	2,470	Due to banks and other financial institutions	15,561	13,091	20

(e) Market risk

Market risk is the risk that changes in interest rates or foreign exchange rates will affect the Group’s income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

25. Risk management, corporate governance and internal control

The majority of the Group's exposure to market risk arises in connection with the funding of operations with liabilities denominated in foreign currencies, and to the extent the interest rate repricing structure of interest bearing assets differs from that of liabilities.

Overall authority for market risk is vested in ALCO. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Market Risk Management Division.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk component of market risk, by monitoring the interest rate gap is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

(i) Exposure to equity price risk

Equity price risk is the risk that the value of equity instruments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Equity price risk arises when the Group takes a long or short position in a financial instrument.

The Group's exposure to equity price risk is insignificant as its securities portfolio comprises an insignificant part of total assets. As at 31 December 2019 and 31 December 2018 the Group did not have open positions in equity securities.

(ii) Exposure to interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

25. Risk management, corporate governance and internal control (continued)

Effective interest rates and repricing analysis

The following table indicates effective interest rates for interest-earning financial assets and interest-bearing financial liabilities at the reporting date and the periods in which they reprice.

MRUB	2019							2018						
	Effective interest rate	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total	Effective interest rate	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
Interest-earning financial assets														
<i>RUB interest-earning financial assets</i>														
Cash and cash equivalents	6.7%	4,740	-	-	-	-	4,740	8.1%	3,049	-	-	-	-	3,049
Loans to customers														
Loans to corporations	-	-	-	-	-	-	-	8.5%	-	99	-	-	-	99
Loans to individuals	20.4%	48,312	83,864	46,331	28,626	1,132	208,265	22.4%	45,012	76,665	42,057	28,177	1,592	193,503
Investment securities	6.3%	20,963	5	325	-	-	21,293	7.8%	31,926	203	-	400	-	32,529
<i>USD interest-earning financial assets</i>														
Cash and cash equivalents	1.9%	6,591	-	-	-	-	6,591	3.4%	2,055	-	-	-	-	2,055
Placements with banks and other financial institutions	5.0%	2,506	284	-	-	-	2,790	7.4%	69	-	-	-	-	69
Loans to customers														
Loans to corporations	-	-	-	-	-	-	-	6.0%	132	78	2,909	-	-	3,119
Loans to individuals	11.5%	12	26	20	26	67	151	11.5%	20	44	35	44	115	258
Investment securities	1.7%	-	2,152	-	-	-	2,152	1.9%	8	1,708	-	315	-	2,031
<i>KZT interest-earning financial assets</i>														
Cash and cash equivalents	8.3%	5,945	-	-	-	-	5,945	8.3%	8,132	-	-	-	-	8,132
Loans to customers														
Loans to individuals	30.5%	10,931	25,706	11,962	5,396	-	53,995	36.9%	9,507	21,950	11,748	5,170	-	48,375
Investment securities	10.2%	33	420	-	764	-	1,217	10.6%	-	-	476	874	-	1,350
<i>EUR interest-earning financial assets</i>														
Placements with banks and other financial institutions	-	-	-	-	-	-	-	0.0%	447	-	-	-	-	447

25. Risk management, corporate governance and internal control (continued)

Effective interest rates and repricing analysis

	2019							2018						
	Effective interest rate	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total	Effective interest rate	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
MRUB														
Interest-bearing financial liabilities														
<i>RUB interest-bearing financial liabilities</i>														
Debt securities issued	8.7%	13	-	-	4,963	-	4,976	-	-	-	-	-	-	-
Due to banks and other financial institutions	6.8%	3,120	3,148	-	-	-	6,268	6.9%	1,904	1,381	-	-	-	3,285
Current accounts and deposits from customers	6.9%	25,948	68,284	49,455	12,761	10,120	166,568	7.1%	58,003	76,566	24,175	11,352	9,082	179,178
Other liabilities	10.4%	129	341	329	400	23	1,222	-	-	-	-	-	-	-
<i>USD interest-bearing financial liabilities</i>														
Subordinated debt	-	-	-	-	-	-	-	10.9%	-	11,150	-	-	-	11,150
Due to banks and other financial institutions	6.8%	1,366	578	6,175	-	-	8,119	7.3%	703	4,926	-	-	-	5,629
Current accounts and deposits from customers	3.7%	1,308	6,543	2,151	125	100	10,227	1.8%	799	5,384	372	320	256	7,131
<i>EUR interest-bearing financial liabilities</i>														
Due to banks and other financial institutions	3.3%	766	706	-	-	-	1,472	3.8%	835	1,591	-	-	-	2,426
Current accounts and deposits from customers	0.7%	365	1,650	69	63	50	2,197	0.4%	204	1,185	103	147	118	1,757
<i>KZT interest-bearing financial liabilities</i>														
Debt securities issued	13.5%	3	1,669	3,323	1,565	-	6,560	12.8%	1,266	1,488	-	6,373	-	9,127
Due to banks and other financial institutions	13.3%	813	2,879	968	-	-	4,660	12.9%	-	3,311	-	-	-	3,311
Current accounts and deposits from customers	11.3%	2,329	14,884	4,997	85	-	22,295	10.7%	4,771	12,301	2,930	-	-	20,002
Other liabilities	12.7%	40	87	78	142	209	556	-	-	-	-	-	-	-
Net position as at 31 December														
in RUB		44,805	12,096	(3,128)	10,502	(9,011)	55,264		20,080	(980)	17,882	17,225	(7,490)	46,717
in USD		6,435	(4,659)	(8,306)	(99)	(33)	(6,662)		782	(19,630)	2,572	39	(141)	(16,378)
in EUR		(1,131)	(2,356)	(69)	(63)	(50)	(3,669)		(592)	(2,776)	(103)	(147)	(118)	(3,736)
in KZT		13,724	6,607	2,596	4,368	(209)	27,086		11,602	4,850	9,294	(329)	-	25,417
Perpetual debt issued	8.8%	-	-	-	-	12,718	12,718	-	-	-	-	-	-	-

25. Risk management, corporate governance and internal control (continued)

Effective interest rates sensitivity analysis

An analysis of sensitivity of net profit and equity to changes in market interest rates based on a simplified scenario of a 1% symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2019 and 31 December 2018 are presented as follows:

	2019 Total effect on net profit/ equity MRUB	2018 Total effect on net profit/ equity MRUB
RUB		
+ 1% rate increase	264	107
- 1% rate decrease	(264)	(107)
USD		
+ 1% rate increase	36	(18)
- 1% rate decrease	(36)	18
KZT		
+ 1% rate increase	105	108
- 1% rate decrease	(105)	(108)

An analysis of sensitivity of equity as a result of changes in the fair value of investment securities due to changes in the interest rates based on positions existing as at 31 December 2019 and 31 December 2018 and a simplified scenario of a 1% symmetrical fall or rise in all yield curves is as follows:

	2019 Total effect on equity MRUB	2018 Total effect on equity MRUB
+ 1% rate increase	(59)	(116)
- 1% rate decrease	59	116

25. Risk management, corporate governance and internal control (continued)

(iii) Foreign currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency.

Foreign exchange rate risk mainly arises due to the funding of the Group operations with liabilities denominated in foreign currencies. Derivative financial instruments are used by the Group to hedge the mismatches in the foreign currency structure of assets and liabilities. Assets and liabilities by currency as at 31 December are as follows:

MRUB	2019					2018				
	USD	EUR	RUB	Other currencies	Total	USD	EUR	RUB	Other currencies	Total
Assets										
Cash and cash equivalents	8,195	2,604	16,151	6,712	33,662	4,123	1,243	14,591	9,008	28,965
Placements with banks and other financial institutions	3,734	1,586	1,665	548	7,533	2,833	475	1,517	368	5,193
Loans to customers	151	-	208,265	53,995	262,411	3,376	-	193,603	48,375	245,354
Positive fair value of derivative instruments	9	-	-	23	32	60	-	-	84	144
Investment securities	2,152	-	21,293	1,217	24,662	2,031	-	32,529	1,350	35,910
Property, equipment and intangible assets	-	-	7,299	1,918	9,217	-	-	5,897	1,562	7,459
Assets classified as held for sale	-	-	145	-	145	-	-	212	-	212
Investment in associate	-	-	311	-	311	-	-	228	-	228
Current income tax receivable	-	-	599	-	599	-	-	-	5	5
Deferred tax asset	-	-	3,237	197	3,434	-	-	2,677	73	2,750
Other assets	16	3	1,012	810	1,841	15	6	850	699	1,570
Total assets	14,257	4,193	259,977	65,420	343,847	12,438	1,724	252,104	61,524	327,790
Liabilities										
Debt securities issued	-	-	4,976	6,560	11,536	-	-	-	9,127	9,127
Subordinated debt	-	-	-	-	-	11,150	-	-	-	11,150
Due to banks and other financial institutions	8,123	1,484	6,427	4,698	20,732	5,629	2,451	3,451	4,030	15,561
Current accounts and deposits from customers	10,693	2,510	178,537	25,802	217,542	7,227	1,801	190,300	22,762	222,090
Negative fair value of derivative instruments	58	-	16	382	456	8	-	-	46	54
Current income tax liability	-	-	-	109	109	-	-	238	-	238
Other liabilities	2	313	5,719	2,036	8,070	46	324	4,212	1,902	6,484
Total liabilities	18,876	4,307	195,675	39,587	258,445	24,060	4,576	198,201	37,867	264,704
Effect of foreign currency derivatives	17,036	(644)	(4,518)	(12,618)	(744)	11,605	1,980	(1,786)	(14,151)	(2,352)
Net position as at 31 December	12,417	(758)	59,784	13,215	84,658	(17)	(872)	52,117	9,506	60,734
Perpetual debt issued*	(12,718)	-	-	-	(12,718)	-	-	-	-	-

* See comments in Note 7

25. Risk management, corporate governance and internal control (continued)

Foreign currency risk sensitivity analysis

An analysis of sensitivity of net profit and equity to change in the currency exchange rates based on positions existing as at 31 December 2019 and 31 December 2018 and a simplified scenario of a 10% change in USD, EUR and KZT to Russian Rouble exchange rates is as follows:

	2019	2018
	Total effect	Total effect
	on net profit/	on net profit/
	equity	equity
	MRUB	MRUB
Effect of 10% RUB depreciation against USD	993	(1)
Effect of 10% RUB appreciation against USD	(993)	1
Effect of 10% RUB depreciation against EUR	(61)	(70)
Effect of 10% RUB appreciation against EUR	61	70
Effect of 10% RUB depreciation against KZT	55	679
Effect of 10% RUB appreciation against KZT	(55)	(679)

(f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Financial Markets department collects information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. A portfolio of short-term liquid assets is maintained to ensure sufficient liquidity. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering different market conditions. Liquidity position projections are subject to regular review and approval by ALCO.

The following table shows assets and liabilities as at 31 December 2019 and 31 December 2018 by remaining contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the condensed consolidated statement of financial position because the statement of financial position amount is based on discounted cash flows. Investments securities that qualify as collateral for borrowing from the Central Bank of the Russian Federation are shown in the category "Less than 1 month" as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs, if necessary. In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Based on the past experience management believes term deposits and current accounts from individuals to be a stable source of funding, thus classifying them in accordance with contractual maturities and expected prolongations for term deposits or expected demand for current accounts.

25. Risk management, corporate governance and internal control (continued)

MRUB	2019							2018						
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
Assets														
Cash and cash equivalents	33,676	-	-	-	-	-	33,676	28,977	-	-	-	-	-	28,977
Placements with banks and other financial institutions	-	2,511	1,074	-	-	3,953	7,538	-	-	516	-	-	4,677	5,193
Loans to customers	27,569	44,994	132,873	113,326	1,551	-	320,313	24,913	42,501	123,241	112,610	2,194	-	305,459
Positive fair value of derivative instruments	-	-	12	20	-	-	32	21	-	123	-	-	-	144
Investment securities	21,002	-	2,689	1,352	-	-	25,043	31,932	20	2,079	2,640	-	-	36,671
Assets classified as held for sale	-	-	145	-	-	-	145	-	-	212	-	-	-	212
Property, equipment and intangible assets	-	-	-	-	-	9,217	9,217	-	-	-	-	-	7,459	7,459
Investment in associate	-	-	-	-	-	311	311	-	-	-	-	-	228	228
Current income tax receivable	-	-	-	599	-	-	599	5	-	-	-	-	-	5
Deferred tax asset	-	-	-	-	-	3,434	3,434	-	-	-	-	-	2,750	2,750
Other assets	893	582	151	200	15	-	1,841	1,101	190	139	140	-	-	1,570
Total assets	83,140	48,087	136,944	115,497	1,566	16,915	402,149	86,949	42,711	126,310	115,390	2,194	15,114	388,668
Liabilities														
Debt securities issued	-	108	2,707	11,525	-	-	14,340	-	1,279	2,454	7,936	-	-	11,669
Subordinated debt	-	-	-	-	-	-	-	-	-	11,492	-	-	-	11,492
Due to banks and other financial institutions	5,135	1,265	8,093	7,677	-	-	22,170	3,530	980	11,648	-	-	-	16,158
Current accounts and deposits from customers	24,535	19,310	96,020	75,217	11,158	-	226,240	45,419	32,997	99,455	40,588	9,473	-	227,932
- Current accounts and deposits from individuals	24,026	18,854	89,534	69,210	11,158	-	212,782	43,743	31,758	90,692	40,229	9,473	-	215,895
- Current accounts and deposits from corporations	509	456	6,486	6,007	-	-	13,458	1,676	1,239	8,763	359	-	-	12,037
Negative fair value of derivative instruments	16	-	261	179	-	-	456	20	-	34	-	-	-	54
Current income tax liability	109	-	-	-	-	-	109	238	-	-	-	-	-	238
Other liabilities	3,640	1,331	1,816	1,491	451	-	8,729	3,317	1,282	1,654	231	-	-	6,484
Total liabilities	33,435	22,014	108,897	96,089	11,609	-	272,044	52,524	36,538	126,737	48,755	9,473	-	274,027
Net balance position	49,705	26,073	28,047	19,408	(10,043)	16,915	130,105	34,425	6,173	(427)	66,635	(7,279)	15,114	114,641
Irrevocable credit related commitments *	4,031	-	-	-	-	-	4,031	6,199	-	-	-	-	-	6,199
Undrawn credit lines	-	-	-	-	-	-	-	-	210	-	-	-	-	210
Net off-balance position	4,031	-	-	-	-	-	4,031	6,199	210	-	-	-	-	6,409
Cumulative net position	45,674	71,747	99,794	119,202	109,159	126,074	28,226	34,189	33,762	100,397	93,118	108,232		

* Other credit related commitments are disclosed in Note 27

25. Risk management, corporate governance and internal control (continued)

Undiscounted cash flow from term deposits and current accounts from individuals based on contractual maturities was as follows:

	2019	2018
	MRUB	MRUB
Less than 1 month	71,827	87,891
From 1 to 3 months	18,798	31,539
From 3 to 12 months	81,882	84,225
From 1 to 5 years	40,275	12,240
	<u>212,782</u>	<u>215,895</u>

(g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

(h) Fair value of financial instruments

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

25. Risk management, corporate governance and internal control (continued)

The following assumptions are used by management to estimate the fair values of financial instruments that are traded in active markets:

- The estimation of the fair value of investment securities was made by using market quotes in the range of 103.1% from notional amount for investment securities issued in RUB;
- The estimation of the fair value of debt securities issued was made by using market quotes in the range of 102.6% from notional amount for debt securities issued in RUB and 96.8-101.2% from notional amount for debt securities issued in KZT;

The following assumptions are used by management to estimate the fair values of other financial instruments:

- The estimation of the fair value of POS, cash and credit card loans was made by using discounting future cash flows at discount rates of 16.0-19.6% in RUB and 21.4%-36.6% in KZT. The estimation of the fair value of mortgage loans was made by using discounting future cash flows at discount rates of 10.0-10.5%;
- The estimation of the fair value of due to banks and other financial institutions was made by using discounting future cash flows at discount rates of 1.2% in EUR, 2.5-7.9% in USD, 6.1-6.4% in RUB and 8.5% in KZT;
- The estimation of the fair value of current accounts and deposits from customers was made by using discounting future cash flows at discount rates of 6.0% in RUB, 1.0-1.4% in USD and EUR and 7.3-9.4% in KZT;
- The Group uses valuation models for determining the fair value of financial instruments at fair value through profit or loss based on FX spot rates as set by the CBR, benchmark interest rates and other inputs.

The Group measures fair values for financial instruments recorded in the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group has a control framework with respect to the measurement of fair values. This framework includes the Risk Department, which is independent of front office management and reports to the Chief Risk Officer, and which has overall responsibility for the independent verification of the results of trading and investment operations and all significant fair value measurements.

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving both quarterly calibration and the back testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

25. Risk management, corporate governance and internal control (continued)

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Risk Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Board of Management.

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement was categorised as at 31 December 2019:

MRUB	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Assets					
Investment securities	330	-	340	-	340
Loans to customers	262,411	-	-	263,124	263,124
Liabilities					
Debt securities issued	11,536	5,107	6,491	-	11,598
Due to banks and other financial institutions	20,732	-	21,023	-	21,023
Current accounts and deposits from customers	217,542	-	222,044	-	222,044

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement was categorised as at 31 December 2018:

31 December 2018:

MRUB	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Loans to customers	245,354	-	-	256,298	256,298
Liabilities					
Debt securities issued	9,127	-	9,161	-	9,161
Subordinated debt	11,150	11,257	-	-	11,257
Due to banks and other financial institutions	15,561	-	16,065	-	16,065
Current accounts and deposits from customers	222,090	-	222,742	-	222,742

The estimates of fair values of financial assets other than loans to customers and financial liabilities other than debt securities issued, subordinated debt, due to banks and other financial institutions and current accounts and deposits from customers as at 31 December 2019 and 31 December 2018 are not materially different from their carrying values.

25. Risk management, corporate governance and internal control (continued)

The table below analyses financial instruments measured at fair value as at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement was categorised:

MRUB	Level 1	Level 2	Total
Assets			
Positive fair value of derivative instruments	-	32	32
Investment securities	23,115	1,217	24,332
Liabilities			
Negative fair value of derivative instruments	-	456	456

The table below analyses financial instruments measured at fair value as at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement was categorised:

MRUB	Level 1	Level 2	Total
Assets			
Positive fair value of derivative instruments	-	144	144
Investment securities	33,604	2,306	35,910
Liabilities			
Negative fair value of derivative instruments	-	54	54

26. Derivative financial instruments

As at 31 December 2019 the following derivative contracts were outstanding:

Contract type	Maturity	Sell/Buy	Notional amount (in RUB equivalent) MRUB	Fair value MRUB
Trading derivative instruments				
Foreign currency swap contracts	less than 1 month	RUB/EUR	1	-
	less than 1 month	RUB/USD	4,501	(16)
	6 to 12 months	KZT/USD	1,857	12
	6 to 12 months	EUR/USD	2,749	(21)
	6 to 12 months	KZT/EUR	2,774	(132)
	6 to 12 months	KZT/USD	1,857	(107)
	1-2years	GBP/USD	2,406	(35)
	1-2years	GBP/USD	1,621	9
	1-2years	KZT/GBP	4,057	(120)
	1-2years	KZT/USD	1,238	11
	2-3years	GBP/KZT	804	(23)
	2-3years	GBP/USD	806	(2)
Total derivative instruments				(424)

26. Derivative financial instruments (continued)

As at 31 December 2018 the following derivative contracts were outstanding:

Contract type	Maturity	Sell/Buy	Notional amount (in RUB equivalent) MRUB	Fair value MRUB
Trading derivative instruments				
Foreign currency swap contracts	less than 1 month	EUR/RUB	5	-
	less than 1 month	KZT/USD	14	20
	less than 1 month	RUB/EUR	1,480	-
	less than 1 month	RUB/USD	320	-
	less than 1 month	USD/KZT	7	(21)
	less than 1 month	USD/RUB	9	-
	1 to 3 months	GBP/USD	1,336	10
	1 to 3 months	KZT/GBP	1,324	8
	3 to 6 months	KZT/EUR	1,192	23
	6 to 12 months	EUR/USD	2,463	17
	6 to 12 months	EUR/USD	814	(1)
	6 to 12 months	GBP/USD	1,811	19
	6 to 12 months	KZT/EUR	3,178	(17)
	6 to 12 months	KZT/GBP	1,766	(7)
	6 to 12 months	KZT/USD	3,474	47
	6 to 12 months	KZT/USD	1,389	(8)
Total derivative instruments				90

27. Commitments

Credit related commitments

The Group has outstanding commitments to extend credit. These commitments take the form of approved credit limits related to customers' credit card accounts, approved overdraft facilities, guarantees and approved consumer loans.

	2019 MRUB	2018 MRUB
Credit card commitments	63,225	32,937
POS and cash loan commitments	4,030	6,199
Undrawn credit lines	-	210
	67,255	39,346

The total outstanding contractual commitments to extend credit indicated above represent future cash requirements. Credit related commitments to individual clients are mainly classified into category "less than one month" in terms of maturity, however some of these commitments may expire or terminate without being funded.

28. Contingencies

Taxation contingencies

The taxation systems in the Russian Federation and the Republic of Kazakhstan are relatively new and are characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities.

28. Contingencies (continued)

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three and five subsequent calendar years accordingly; however, under certain circumstances a tax year may remain open longer. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation and the Republic of Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian and Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Bank is currently under routine tax inspection for the tax periods covering the years 2014-2016. The tax authorities are challenging certain financing transactions undertaken by the Bank in those years. The Bank is in the process of discussing the challenges with the tax authorities. The Bank believes that these transactions were fully in compliance with Russian legal and tax legislation. The tax authorities have not yet provided their final position on this matter. As such, the final amount of such tax risk that ultimately may be claimed by the tax authorities is uncertain at this point in time. The effect, however, if claimed, would be substantial, but based on Management's assessment the imposition of additional tax will not have a significant impact on the current business operations and financial stability of the Bank.

29. Related party transactions

(a) Transactions with the parent

Amounts included in the consolidated statement of profit or loss in relation to transactions with the parent are as follows:

	2019	2018
	MRUB	MRUB
Interest expense	-	(2)
Fee and commission income	(16)	-
Other operating loss, net	-	(96)
	<u>(16)</u>	<u>(98)</u>

Amounts included in the consolidated statement of financial position in relation to transactions with the parent are as follows:

	2018
	MRUB
Other liabilities	(96)
	<u>(96)</u>

29. Related party transactions (continued)

(b) Transactions with entities controlled by the ultimate controlling entity

Amounts included in the consolidated statement of profit or loss in relation to transactions with entities controlled by the ultimate controlling entity are as follows:

	2019	2018
	MRUB	MRUB
Interest income	119	-
Interest expense	(609)	(994)
Fee and commission income	1,615	1,488
Fee and commission expense	(2)	-
Other operating (loss)/income, net	(765)	56
General administrative expenses	(1,579)	(1,776)
	<u>(1,221)</u>	<u>(1,226)</u>

Amounts included in the consolidated statement of financial position in relation to transactions with entities controlled by the ultimate controlling entity are as follows:

	2019	2018
	MRUB	MRUB
Cash and cash equivalents	383	60
-In EUR	383	60
Placements with banks and other financial institutions	26	447
-In EUR	26	447
Loans to customers	66	-
-In RUB	66	-
Positive fair value of derivative instruments	32	123
-In EUR	-	123
-In USD	9	-
-In CZK	23	-
Property, equipment and intangible assets	949	942
-In RUB	356	379
-In KZT	593	563
Other assets	249	9
-In RUB	229	9
-In CZK	20	-
Debt securities issued	(814)	-
-In CZK	(814)	-
Subordinated debt	-	(4,027)
-In USD	-	(4,027)
Due to banks and other financial institutions	(4,270)	(7,467)
-In RUB	(3,860)	(1,947)
-In USD	(4)	(4,330)
-In EUR	(368)	(1,190)
-In KZT	(38)	-
Current accounts and deposits from customers	(956)	(7)
-In RUB	(25)	(7)
-In USD	(931)	-
Negative fair value of derivative instruments	(154)	(34)
-In USD/GBP/EUR	(154)	(34)
Other liabilities	(560)	(757)
-In RUB	(2)	(470)
-In EUR	(558)	(287)
Perpetual debt issued	(127)	-
-In USD	(127)	-

29. Related party transactions (continued)

As at 31 December 2019 placements with banks and other financial institutions shown above included a term deposits in the amount of MRUB 26 at an effective interest rate of 0.0% with the maturity of three months to one year (31 December 2018: none).

As at 31 December 2019 loans to customers shown above included loan origination agent fees paid totalling MRUB 197 which formed an integral part of loans to customers and were to be amortised within 11-12 months. As at 31 December 2018 there were no any transaction with entities controlled by the ultimate controlling entity related to loans to customers.

The effective interest rate on debt securities issued shown above was 13.0% and the maturity was one to two years as at 31 December 2019. As at 31 December 2018 there were no any transaction with entities controlled by the ultimate controlling entity related to debt securities issued.

As at 31 December 2018 subordinated debt amounted to MRUB 4,027 at an effective interest rate of 10.2% with the maturity from three months to one year. As at 31 December 2019 - none.

As at 31 December 2019 due to banks and other financial institutions amounted to MRUB 4,271 at an effective interest rate of 6.5% with the maturity less than one month and from one month to one years (31 December 2018: 7,467 at an effective interest rate of 6.8% with the maturity less than one month and from one month to one years).

As at 31 December 2019 current accounts and deposits from customers included term deposits of MRUB 956 at an effective interest rate of 6.8% with the maturity from three months to one year (31 December 2018: other balances of MRUB 7 with the maturity less than one month).

(c) Transactions with members of key management

Amounts included in the consolidated statement of profit or loss in relation to transactions with members of key management (members of the Council and the Board of Management) of MRUB 649 (2018: MRUB 784) represent compensation for the year and severance pay.

30. Capital management

The Group's lead regulator, the CBR, sets and monitors capital requirements for both the Bank and the Group as a whole. Bank Home Credit (SB JSC) is regulated and monitored in Kazakhstan by the NBRK.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. The Group calculates the amount of capital and capital adequacy ratios for prudential purposes in accordance with the Provision of the CBR dated 4 July 2018 No 646-P On methodology of calculation of own funds (capital) of the credit organisations (Basel III). As at 31 December 2019, this minimum levels of core capital, primary capital and total capital to risk weighted assets were 4.5%, 6.0% and 8.0% respectively (31 December 2018: 4.5%, 6.0% and 8.0% respectively).

Since 1 January 2016 the Group should comply with capital buffers: capital conservation buffer and countercycle buffer.

The Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR that supervise the Bank with information on mandatory ratios in accordance with set form. The Accounting department controls on a daily basis compliance with capital adequacy ratios.

30. Capital management (continued)

The calculation of capital adequacy of the Group based on requirements set by the CBR as at 31 December 2019 and 31 December 2018 was as follows:

	2019	2018
	MRUB	MRUB
Risk-weighted assets (N20.0)	510,701	436,409
Risk-weighted assets (N20.1, N20.2)	511,227	437,975
Core capital	67,899	44,841
Primary capital	55,518	44,841
Additional capital	620	11,971
Total capital	68,519	56,812
Core capital adequacy ratio N20.1	10.9%	10.2%
Primary capital adequacy ratio N20.2	13.3%	10.2%
Total capital adequacy ratio N20.0	13.4%	13.0%

The Group also calculates its capital adequacy in compliance with the Basel Accord issued in 1988 and amended in 1998 ("Accord") set out by the Bank of International Settlements ("BIS"). Tier I capital is represented by equity. Tier II capital is represented by subordinated debt up to 50% of tier I. In accordance with the Accord the minimum levels of Tier I capital and total capital to risk weighted assets are 4.0% and 8.0% respectively.

The calculation of capital adequacy based on requirements set by BIS as at 31 December 2019 and 31 December 2018 was as follows:

	2019	2018
	MRUB	MRUB
Risk weighted assets	329,108	288,117
Tier I capital	85,402	63,086
Tier II capital	-	5,024
Total capital	85,402	68,110
Tier I ratio	25.9%	21.9%
Capital Adequacy Ratio	25.9%	23.6%

As at 31 December 2019 and 31 December 2018 the Group was fully in compliance with the capital regulations described above.

31. Segment analysis

The Board of Management is the chief operating decision maker. The Board of Management reviews internal reporting on a regular basis to assess the performance of individual segments and to allocate resources accordingly.

The Board of Management monitors performance mainly from a product perspective and geographical perspective.

Operational information is represented by major reportable segments being POS loans, cash loans and credit card loans. Other segments comprising mortgage loans, car loans, loans to corporations and treasury operations are less significant and thus are not reported separately by the Group.

The Group operates in the Russian Federation and the Republic of Kazakhstan. In presenting geographical information the allocation of revenue is based on the geographical location of customers and assets.

31. Segment analysis (continued)

Revenues of reportable segments consist of interest and fee income including inter-segment revenues resulting from allocation of financing raised by the treasury function to major segments. Performance of individual segments is assessed by the Board of Management based on segment profit or loss.

Total segment assets mainly consist of the loan portfolio and interest earning financial assets accumulated as a result of treasury operations. A presentation of segment revenues, segment profit and assets is provided below.

(a) Operational segments

MRUB	POS loans	Credit card loans	Cash loans	Other segment	Unallo- cated	Total
Year ended						
31 December 2019						
Interest income calculated using effective interest rate	12,198	4,997	36,990	2,447	-	56,632
Interest expense	(1,981)	(611)	(14,330)	(417)	-	(17,339)
Net interest income	10,217	4,386	22,660	2,030	-	39,293
Fee and commission income	3,077	2,999	5,434	1,383	241	13,134
Fee and commission expense	(438)	(1,903)	(1,498)	(713)	(1,221)	(5,773)
Net fee and commission income	2,639	1,096	3,936	670	(980)	7,361
Other operating (loss)/ income, net	(277)	(54)	(510)	(42)	398	(485)
Operating income	12,579	5,428	26,086	2,658	(582)	46,169
Impairment losses	(909)	(318)	(2,452)	138	55	(3,486)
General administrative expenses	-	-	-	-	(22,887)	(22,887)
Operating expenses	(909)	(318)	(2,452)	138	(22,832)	(26,373)
Profit before tax	11,670	5,110	23,634	2,796	(23,414)	19,796
Income tax expense	-	-	-	-	(4,024)	(4,024)
Profit for the year	11,670	5,110	23,634	2,796	(27,438)	15,772
Segment assets						
MRUB	POS loans	Credit card loans	Cash loans	Other segments		Total
Carrying amount at 31 December 2019	79,237	26,900	155,287	41,821		303,245

31. Segment analysis (continued)

MRUB	POS loans	Credit card loans	Cash loans	Other segment	Unallo- cated	Total
Year ended						
31 December 2018						
Interest income calculated using effective interest rate	12,542	4,149	33,574	3,551	-	53,816
Interest expense	(2,926)	(1,309)	(11,860)	(1,741)	-	(17,836)
Net interest income	9,616	2,840	21,714	1,810	-	35,980
Fee and commission income	2,595	2,248	5,880	1,687	317	12,727
Fee and commission expense	(457)	(1,163)	(1,134)	(852)	(729)	(4,335)
Net fee and commission income	2,138	1,085	4,746	835	(412)	8,392
Other operating (loss)/ income, net	(118)	(18)	(441)	(841)	191	(1,227)
Operating income	11,636	3,907	26,019	1,804	(221)	43,145
Impairment losses	(2,024)	(29)	(1,555)	(582)	(32)	(4,222)
General administrative expenses	-	-	-	-	(21,629)	(21,629)
Operating expenses	(2,024)	(29)	(1,555)	(582)	(21,661)	(25,851)
Profit before tax	9,612	3,878	24,464	1,222	(21,882)	17,294
Income tax expense	-	-	-	-	(3,485)	(3,485)
Profit for the year	9,612	3,878	24,464	1,222	(25,367)	13,809
Segment assets						
	POS loans	Credit card	Cash loans	Other		Total
Carrying amount at 31 December 2018	71,620	18,953	150,235	48,525		289,333

Reportable segments' assets are reconciled to total assets as follows:

MRUB	2019	2018
Total segment assets	303,245	289,333
Cash and cash equivalents (excluded from other segments)	22,325	23,760
Placements with banks and other financial institutions	2,730	2,473
Assets classified as held for sale	145	212
Property, equipment and intangible assets	9,217	7,459
Investment in associate	311	228
Current income tax receivable	599	5
Deferred tax asset	3,434	2,750
Other assets	1,841	1,570
Total assets	343,847	327,790

31. Segment analysis (continued)

(b) Geographical segments

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
Year end				
31 December 2019				
Interest income calculated using effective interest rate	41,171	15,721	(260)	56,632
Interest expense	(12,608)	(4,991)	260	(17,339)
Net interest income	28,563	10,730	-	39,293
Fee and commission income	9,003	4,131	-	13,134
Fee and commission expense	(5,315)	(458)	-	(5,773)
Net fee and commission income	3,688	3,673	-	7,361
Other operating income/(loss), net	3,461	(1,018)	(2,928)	(485)
Operating income	35,712	13,385	(2,928)	46,169
Impairment losses	(3,591)	105	-	(3,486)
General administrative expenses	(17,145)	(5,742)	-	(22,887)
Operating expenses	(20,736)	(5,637)	-	(26,373)
Profit before tax	14,976	7,748	(2,928)	19,796
Income tax expense	(2,445)	(1,579)	-	(4,024)
Profit for the year	12,531	6,169	(2,928)	15,772

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
Year end				
31 December 2018				
Interest income calculated using effective interest rate	40,414	13,508	(106)	53,816
Interest expense	(13,930)	(4,012)	106	(17,836)
Net interest income	26,484	9,496	-	35,980
Fee and commission income	9,516	3,211	-	12,727
Fee and commission expense	(3,940)	(395)	-	(4,335)
Net fee and commission income	5,576	2,816	-	8,392
Other operating income/(loss), net	330	(636)	(921)	(1,227)
Operating income	32,390	11,676	(921)	43,145
Impairment losses	(3,481)	(741)	-	(4,222)
General administrative expenses	(16,141)	(5,488)	-	(21,629)
Operating expenses	(19,622)	(6,229)	-	(25,851)
Profit before tax	12,768	5,447	(921)	17,294
Income tax expense	(2,349)	(1,136)	-	(3,485)
Profit for the year	10,419	4,311	(921)	13,809

31. Segment analysis (continued)

Segment assets

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
Carrying amount at 31 December 2019	277,750	71,187	(5,090)	343,847
Carrying amount at 31 December 2018	268,166	67,063	(7,439)	327,790

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
31 December 2019				
Cash and cash equivalents	23,859	9,803	-	33,662
Placements with banks and other financial institutions	9,773	1,074	(3,314)	7,533
Loans to customers	208,416	53,995	-	262,411
Positive fair value of derivative instruments	-	32	-	32
Investment securities	21,293	3,369	-	24,662
Assets classified as held for sale	145	-	-	145
Property, equipment and intangible assets	7,299	1,918	-	9,217
Investment in associate	2,087	-	(1,776)	311
Current income tax receivable	599	-	-	599
Deferred tax asset	3,237	197	-	3,434
Other assets	1,042	799	-	1,841
Total assets	277,750	71,187	(5,090)	343,847
Debt securities issued	4,976	6,560	-	11,536
Due to banks and other financial institutions	6,443	17,603	(3,314)	20,732
Current accounts and deposits from customers	186,399	31,143	-	217,542
Negative fair value of derivative instruments	16	440	-	456
Current income tax liability	-	109	-	109
Other liabilities	6,022	2,048	-	8,070
Total liabilities	203,856	57,903	(3,314)	258,445

31. Segment analysis (continued)

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
31 December 2018				
Cash and cash equivalents	17,388	11,577	-	28,965
Placements with banks and other financial institutions	9,299	1,557	(5,663)	5,193
Loans to customers	196,979	48,375	-	245,354
Positive fair value of derivative	-	144	-	144
Investment securities	32,852	3,058	-	35,910
Assets classified as held for sale	212	-	-	212
Property, equipment and intangible assets	5,897	1,562	-	7,459
Investment in associate	2,004	-	(1,776)	228
Current income tax receivable	-	5	-	5
Deferred tax asset	2,677	73	-	2,750
Other assets	858	712	-	1,570
Total assets	268,166	67,063	(7,439)	327,790
Debt securities issued	-	9,127	-	9,127
Subordinated debt	11,150	-	-	11,150
Due to banks and other financial institutions	3,476	17,748	(5,663)	15,561
Current accounts and deposits from customers	195,125	26,965	-	222,090
Negative fair value of derivative instruments	-	54	-	54
Current income tax liability	238	-	-	238
Other liabilities	4,678	1,806	-	6,484
Total liabilities	214,667	55,700	(5,663)	264,704

32. Subsequent events

In March 2020 the Group declared and paid out dividends of MRUB 6,000 in accordance with the decision of the General Meeting of Members.

An addition, the recent development of business environment are disclosed in the Note 2(d).

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

