AO Raiffeisenbank

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2020

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Independent auditor's report

To the shareholders and Supervisory Board of AO Raiffeisenbank

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of AO Raiffeisenbank (hereinafter, the "Bank") and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on loans and advances to customers	
Given the significance of the allowance for expected credit losses on loans and advances to customers to the Group's financial position, the complexity and judgement related to the estimation of expected credit losses in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), we consider this area as a key audit matter. To identify a significant increase in a credit risk from the date of initial recognition and to allocate loans and advances to customers to the following categories: "12-month expected credit losses", "lifetime expected credit losses – not impaired", "lifetime expected credit losses – impaired" and "purchased or originated credit-impaired assets", it is necessary to use judgment and analyze various evidence of change in level of the credit risk (e.g. how long the overdue debt is recorded in the balance sheet, significant deterioration of internal credit rating of a borrower and restructuring). For the estimation of expected credit losses, the Group uses significant unobservable inputs and factors such as internal credit ratings, comprehensive mathematical modeling and expert judgment. The calculations are made in respect of probability of default, exposure at default and loss given default. These calculations are based on available historical data and external information adjusted for forecasts (including projected macroeconomic variables). The calculation of expected credit losses on loans and advances to customers requires the analysis of financial and non-financial information, the determination of the most probable repayment scenario and use of other assumptions. Expected future cash flows are estimated based on significant unobservable inputs such as current and projected financial performance of a borrower, value of collateral and rights of claim under a loan (depends on the expected repayment scenario). The use of different modeling methodologies, assumptions and forecasts has a significant effect on the estimate of expected credit losses on loans and advances to customers. The approach used by the Group to manage credit risk and to estimate the allowance for expected credit losses on loans and advances to customers is disclosed in Notes 3, 4, 9 and 34 to the consolidated financial statements.	We analyzed the methodology of expected credit losses calculation in accordance with IFRS 9, applied by the Group to estimate allowance for expected credit losses on loans and advances to customers. We assessed the factors of credit risk selected by management to identify a significant increase in credit risk and consistency of their application as at the reporting date. We analyzed the approach, key methods and assumptions used in the calculation of expected credit losses, including changes as compared to prior year, to reflect increased credit risks of borrowers affected by negative consequences of the COVID-19 pandemic. We analyzed mathematical models, key inputs, assumptions and forecasts used to calculate the expected credit losses. Our audit procedures included tests of controls over the process of expected credit losses calculation, namely, the determination of the borrower's rating, allocation of loans to categories, and calculation of mathematical model parameters (exposure at default, risk parameters, probability of default and loss given default). These procedures were performed with the involvement of our risk management experts and IT specialists. Together with the risk management experts we performed the subsequent testing of mathematical models, compared the results of models with alternative expert estimates, and considered the results of the subsequent testing of mathematical models performed by the Group. We analyzed the selected unimpaired loans in terms of classification by categories of the credit risk, as well as application of parameters from the mathematical model used for calculation of expected credit losses. We also performed analytical procedures aimed to identify correlation between the credit risk factors and the amount of allowance for expected credit losses. For significant loans that are impaired, we analyzed assumptions made by management when determining the expected future cash flows, including those from current operations of the borrowers, as well as those from disposal of collateral and rights of claim under loans, using our professional judgment and available market information.

Key audit matter	How our audit addressed the key audit matter
	We also considered information on allowance for expected credit losses on loans and advances to customers disclosed in notes to the consolidated financial statements.

Other information included in the Annual Report of AO Raiffeisenbank for 2020

Other information consists of the information included in the Annual Report of AO Raiffeisenbank for 2020, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of AO Raiffeisenbank for 2020 is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of the Supervisory Board for the consolidated financial statements

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

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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

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

In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activities* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Group's consolidated financial statements for the year ended 31 December 2020, we determined:

1) Whether the Bank complied as at 1 January 2021 with the obligatory ratios established by the Bank of Russia;
2) Whether internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
    - subordination of the risk management departments;
    - the existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
    - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
    - oversight performed by the Supervisory Board and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

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

The findings from our work are provided below.

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

We found that the values of the obligatory ratios of the Bank as at 1 January 2021 were within the limits established by the Bank of Russia.

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

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

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2020 the Bank's internal audit division was subordinated and accountable to the Supervisory Board, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.

- We found that the Bank's internal documents effective as at 31 December 2020 that establish the methodologies for detecting and managing credit, market (interest), operational and liquidity risks, that are significant to the Bank, and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2020, the Bank had a reporting system pertaining to credit, market (interest), operational and liquidity risks that were significant to the Bank and pertaining to its capital.

- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2020 with regard to the management of credit, market (interest), operational and liquidity risks of the Banking group complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies.

- We found that, as at 31 December 2020, the authority of the Supervisory Board and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2020, the Supervisory Board and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

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

The partner in charge of the audit resulting in this independent auditor's report is M. Ignatjeva.

M. Ignatjeva
Partner
Ernst & Young LLC

18 March 2021

Details of the audited entity

Name: AO Raiffeisenbank
Record made in the State Register of Legal Entities on 7 October 2002, State Registration Number 1027739326449.
Address: Russia 129090, Moscow, Troitskaya Str., 17/1.

Details of the auditor

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

In millions of Russian Roubles	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	6	353 737	256 623
Mandatory cash balances with the Central Bank of the Russian Federation		11 982	9 886
Trading securities	7	32 467	18 433
Trading securities pledged under repurchase agreements	7	–	1 981
Due from other banks	8	5 428	3 986
Loans and advances to customers	9	828 322	786 853
Investment securities	10	160 586	144 643
Investments in associates	11	1 289	972
Fixed assets and intangible assets	12	12 527	13 504
Right-of-use assets	13	3 435	3 675
Derivatives and other financial assets	14	30 739	22 031
Assets held for sale	16	229	364
Current income tax asset	30	–	1 113
Deferred income tax asset	30	3 171	4 317
Other assets	15	5 055	5 206
TOTAL ASSETS		**1 448 967**	**1 273 587**
LIABILITIES			
Due to other banks	17	52 342	61 631
Customer accounts	18	1 130 091	955 082
Term borrowings from the Parent Bank	19	38 941	32 701
Lease liabilities	13	3 548	3 612
Debt securities in issue	20	252	–
Derivatives and other financial liabilities	21	36 407	35 125
Current income tax liability	30	4 561	–
Deferred income tax liability	30	550	368
Other liabilities	22	7 192	8 397
TOTAL LIABILITIES		**1 273 884**	**1 096 916**
EQUITY			
Share capital	23	36 711	36 711
Share premium		621	621
Additional paid-in capital	24	1 520	1 520
Retained earnings and other reserves		136 231	137 819
TOTAL EQUITY		**175 083**	**176 671**
TOTAL LIABILITIES AND EQUITY		**1 448 967**	**1 273 587**

Approved for issue and signed on 18 March 2021.

АКЦИОНЕРНОЕ ОБЩЕСТВО «РАЙФФАЙЗЕНБАНК» Г.Р. № 3292 МОСКВА

Sergei Monin
Chairman of the Board

Gert Hebenstreit
Chief Financial Officer

In millions of Russian Roubles	Note	2020	2019
Interest income calculated using effective interest rate	25	82 581	88 205
Other interest income	25	31 005	37 609
Interest expense	25	(52 062)	(68 298)
Net interest income		**61 524**	**57 516**
Provision for impairment of loans to customers, amounts due from other banks and cash and cash equivalents	9	(9 573)	(3 898)
Net interest income after provision for loan impairment		**51 951**	**53 618**
Fee and commission income	26	32 402	32 088
Fee and commission expense	26	(9 788)	(10 761)
Gains less losses / losses net of gains from trading securities		53	(427)
(Losses net of gains) / gains less losses from investment securities at fair value through profit or loss		(248)	306
Gains less losses from trading in foreign currencies		5 073	5 640
Unrealized gains less losses / (losses net of gains) from financial derivatives	27	8 927	(13 413)
Realized (losses net of gains) / gains less losses from financial derivatives	28	(1 141)	2 360
Foreign exchange translation (losses net of gains) / gains less losses		(1 616)	14 940
Ineffectiveness from hedge accounting and amortization of hedge accounting adjustment		(187)	–
(Losses net of gains) / gains less losses on derecognition/modifications of financial assets measured at amortised cost		(961)	193
Release/(charge) of provisions for credit related commitments under IAS 37	35	752	(828)
Charge of provisions for credit related commitments under IFRS 9	35	(327)	(114)
Release of provision for investment securities at fair value through other comprehensive income		2	10
Charge of provision for investment securities at amortised cost	10	(30)	(157)
Gains less losses from disposals of investment securities at fair value through other comprehensive income		142	93
Other operating income		374	686
Income from realization of assets held for sale		54	17
Share of profit of associates	11	382	285
Operating income		**85 814**	**84 536**
Administrative and other operating expenses	29	(37 555)	(36 216)
Profit before tax		**48 259**	**48 320**
Income tax expense	30	(10 181)	(10 688)
Profit for the year		**38 078**	**37 632**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Changes in valuation reserve due to cash flow hedge and provision for debt instruments at fair value through other comprehensive income, including remeasurement	14	82	4
Income tax relating to components of other comprehensive income		(16)	(1)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**66**	**3**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Losses net of gains on equity instruments at fair value through other comprehensive income		(24)	(2)
Income tax relating to components of other comprehensive income		5	–
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		**(19)**	**(2)**
Share of other comprehensive income of associates	11	87	271
Other comprehensive income for the year, net of tax		**134**	**272**
Total comprehensive income for the year, net of tax		**38 212**	**37 904**

The notes 1-40 form an integral part of these consolidated financial statements.

In millions of Russian Roubles	Note	Share capital	Share premium	Additional paid-in capital	Retained earnings and other reserves	Total
Balance at 1 January 2019		**36 711**	**621**	**1 520**	**106 757**	**145 609**
Profit for the year		–	–	–	37 632	**37 632**
Other comprehensive income for the year		–	–	–	272	**272**
Total comprehensive income for 2019		**–**	**–**	**–**	**37 904**	**37 904**
Dividends paid	31	–	–	–	(6 842)	**(6 842)**
Balance at 31 December 2019		**36 711**	**621**	**1 520**	**137 819**	**176 671**
Balance at 1 January 2020		**36 711**	**621**	**1 520**	**137 819**	**176 671**
Profit for the year		–	–	–	38 078	**38 078**
Other comprehensive income for the year		–	–	–	134	**134**
Total comprehensive income for 2020		**–**	**–**	**–**	**38 212**	**38 212**
Dividends paid	31	–	–	–	(39 800)	**(39 800)**
Balance at 31 December 2020		**36 711**	**621**	**1 520**	**136 231**	**175 083**

In millions of Russian Roubles	Note	2020	2019
Cash flows from operating activities			
Interest received		102 665	114 633
Interest paid		(50 457)	(60 748)
Fees and commissions received		32 076	31 618
Fees and commissions paid		(9 679)	(10 698)
Realized gains less losses from trading in trading securities		(294)	186
Realized gains less losses / (losses net of gains) from financial derivative instruments		(1 141)	2 360
Realized gains less losses arising from trading in foreign currencies		5 073	5 640
Cash proceeds from sale of loans	9	1 454	442
Other operating income received		374	1 300
Staff costs paid		(18 115)	(17 391)
Administrative and other operating expenses paid		(12 079)	(12 292)
Income tax paid		(4 815)	(15 786)
Cash flows from operating activities before changes in operating assets and liabilities		**45 062**	**39 264**
Net (increase) in mandatory cash balances with the Central Bank of the Russian Federation		(2 304)	(1 145)
Net (increase) in trading securities		(11 433)	(1 205)
Net (increase) in due from other banks		(1 174)	(2 163)
Net (increase) in loans and advances to customers		(14 743)	(136 053)
Net (increase) in derivatives and other financial assets		(4 579)	(84)
Net decrease/(increase) in other assets		654	(949)
Net (decrease)/increase in due to other banks		(11 243)	29 660
Net increase in customer accounts		95 103	129 591
Net increase in derivatives and other financial liabilities		4 794	132
Net (decrease) in other liabilities		(1 735)	(1 867)
Net cash from operating activities		**98 402**	**55 181**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets	12	(3 401)	(3 524)
Proceeds from disposal of premises and equipment		19	11
Acquisition of investment securities		(609 804)	(454 341)
Proceeds from redemption and sale of investment securities		598 331	452 198
Interest received on investment securities		9 223	7 461
Proceeds from sale of assets held for sale		180	80
Dividends received	11	152	110
Net cash (used in) / from investing activities		**(5 300)**	**1 995**
Cash flows from financing activities			
Interest paid on term borrowings from the Parent Bank and other financial institutions		(2 897)	(3 642)
Proceeds from debt securities in issue		251	–
Repayment of debt securities in issue		–	(38)
Dividends paid	31	(39 800)	(6 842)
Net cash (used in) financing activities		**(42 446)**	**(10 522)**
Change in accrued interest on cash and cash equivalents		1 033	2 576
Change in provision on cash and cash equivalents		–	1
Effect of exchange rate changes on cash and cash equivalents		45 425	(18 534)
Net (increase) cash and cash equivalents		**97 114**	**30 697**
Cash and cash equivalents at the beginning of the year		256 623	225 926
Cash and cash equivalents at the end of the year	6	**353 737**	**256 623**

The notes 1-40 form an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2020 for AO Raiffeisenbank (hereinafter − the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with the Russian regulations. The Bank is owned by Raiffeisen Bank International AG with 100% of the authorized capital of the Bank (36 565 ordinary uncertificated shares). As at 31 December 2019: the Bank is owned by Raiffeisen Bank International AG with 100% of the authorized capital of the Bank (36 565 ordinary uncertificated shares)

Principal activity

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1996. The Bank operates in all banking sectors of the Russian financial markets, including money market, investments, corporate and retail banking, and provides a complete range of banking services to its clients. In addition, the Group, through operations of its subsidiaries and associates, is also involved in asset management and leasing businesses. On 2 February 2005 the Bank was accepted to the State deposit insurance scheme, introduced by the Federal law No. 177-FZ *Deposits of Individuals Insurance in Russian Federation* dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1,4 million per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

As at 31 December 2020 the Group had 5 branches within the Russian Federation and 117 outlets (31 December 2019: 5 branches and 141 outlets).

The number of the Group's employees (full time equivalents) as at 31 December 2020 was 8 729 (31 December 2019: 8 788).

Registered address and place of business

The Bank's registered address is: 17/1 Troitskaya street, 129090 Moscow, Russian Federation. The Bank's main place of business is: 28 Smolenskaya-Sennaya, 119002 Moscow, Russian Federation.

Presentation currency

These consolidated financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation

Economic environment has changed significantly starting the end of the first quarter of 2020. The main changes include:

- Deterioration and high volatility of the stock, foreign exchange and commodity markets, including a drop in oil prices (with a recovery at the end of 2020) and considerable depreciation of the Russian Rouble against major foreign currencies.
- Worsening of business activity in many sectors of the economy as a result of restrictions imposed in response to the COVID-19 pandemic, both in Russia and abroad. Nevertheless, despite the second wave of COVID-19 and unprecedented oil production cuts under OPEC+ agreement, the shock for the economy was relatively mild. Russia's GDP declined only by 3,1% yoy in 2020. Government consumption, restocking and imports decline allowed for such a modest drop.
- Development and implementation of support measures for individuals and business due to the COVID-19 pandemic by the government and the Central Bank of Russia

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances. Management tested various possible scenarios and their outcomes confirm that the Group will be able to continue as a going concern.

2 Operating Environment of the Group (continued)

Russian Federation (continued)

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The key rate of the Central Bank of the Russian Federation decreased from 6,25% (from 16 December 2019) to 5,5% (from 27 April 2020), to 4,5% (from 22 June 2020) and to 4,25% (from 27 July 2020).

3 Significant Accounting Policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, financial instruments categorized as at fair value through profit or loss, and financial assets and liabilities subject to fair value hedge. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Effect of COVID-19 pandemic

Due to the rapid spread of COVID-19 pandemic in 2020 many governments, including the Russian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Government and the Central Bank of Russia to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures. (refer to Note 4).

Consolidated financial statements

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

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

3 Significant Accounting Policies (Continued)

Consolidated financial statements (continued)

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

Changes in accounting policies

Amendment to IFRS 16: Covid-19-Related Rent Concessions, which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The Group doesn't apply this Amendment.

No other standard, interpretation or amendment that has been issued but is not yet effective was early adopted by the Group.

Several other amendments effective since 1 January 2020 were applied but do not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

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

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The impact on the consolidated financial statements of the Group that may arise from these amendments are in the process of evaluation.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

3 Significant Accounting Policies (Continued)

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method, the consolidated financial statements of the combined entity are presented as if the businesses had been combined from since the date of acquisition of the subsidiary under common control, i.e. prospectively. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Any difference between the carrying amount of net assets and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to retained earnings within equity.

Associates

Associates are entities, over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognized as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately; (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Information on investment in associates is disclosed in Note 11.

Financial instruments − key measurement terms

Depending on their classification financial instruments are carried at fair value, or amortized cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The Group uses the last bid price as the quoted market price for financial assets and the last asking price as the quoted market price for financial liabilities.

3 Significant Accounting Policies (Continued)

Financial instruments − key measurement terms (continued)

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different consolidated profit, income, total assets or total liabilities.

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

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

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

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

3 Significant Accounting Policies (Continued)

Initial recognition (continued)

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

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

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

3 Significant Accounting Policies (Continued)

Initial recognition (continued)

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

The SPPI test

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

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The Group uses discounted cash flow valuation techniques to determine the fair value of foreign exchange forwards, interest rate swaps and cross currency interest rate swaps that are not traded in an active market. Refer to Note 39.

Derecognition of financial assets

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

Cash and cash equivalents

Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Restricted funds are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Mandatory cash balances with the Central Bank of the Russian Federation (CBRF)

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

3 Significant Accounting Policies (Continued)

Trading securities

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

Other securities at fair value through profit or loss

Financial assets that do not meet the criteria for classification as subsequently measured at either amortised cost or FVOCI are classified as subsequently measured at fair value, with changes in fair value recognised in profit or loss.

Repurchase receivables

Repurchase receivables related to trading securities or other securities at fair value through profit or loss represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or re-pledge. Accounting policy for Repurchase receivables is in line with accounting policy for correspondent portfolio.

Due from other banks

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

Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost.

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

Purchased or originated credit-impaired (POCI) financial assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR.

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

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

Financial assets − write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a dercognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

3 Significant Accounting Policies (Continued)

Measurement of ECL allowance

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition. For these assets, 12mECL are recognized and interest revenue is calculated on the gross carrying amount of the asset.
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, LTECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset.
- Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, LTECL are recognized, interest income is calculated on assets net book value basis with unwinding methodology application.

For POCI assets ECL are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Political and Sanction risk

The risk of adverse measures in political conflicts or the risk of potential sanctions is typically not reflected in the standard credit risk measurement process. However, it is reflected in the risk management process of the bank leading to close monitoring of these risks as well limiting the exposure of the bank toward these risk factors if necessary. In order to reflect these potential risks in the impairment calculation we need to apply a method that is rather based on estimates than on quantitative statistical model results. These are founded on the analysis performed in the risk management process.

This approach is used to create provisions for expected credit losses for a certain group of borrowers who are sanctioned and, accordingly, for which the Group sees increased credit risks. Credit risks (credit quality) are forcibly increased at the level of the whole portfolio of borrowers under sanctions (in response to macro / portfolio risks that cannot be accurately attributed to a specific client). Due to the increase in credit risk, these loans are transferred from the group "12-month expected credit losses" to the group "lifetime expected credit losses – not impaired assets", and then the provisions for expected credit losses are calculated in accordance with approved methodology, and the sanctions risk premium applies to all borrowers in this portfolio. If it becomes apparent that the sanction risks are no longer relevant, the corresponding portfolio reserve is released.

The approach described above makes the Bank's financial result less volatile. Potential risks are analyzed and provisioned in advance and the chosen approach to assessing this risk is used as a tool for timely and smoother provisioning.

3 Significant Accounting Policies (Continued)

Measurement of ECL allowance (continued)

Post-model adjustments

Post-model adjustments to expected credit loss allowance estimates are adjustments which are used in circumstances where existing inputs, assumptions and model techniques do not capture all relevant risk factors. Existing inputs, assumptions and model techniques might not capture all relevant risk factors due to transient circumstances, insufficient time to appropriately incorporate relevant new information into the rating or re-segmentation of portfolios and when individual lending exposures within a group of lending exposures react to factors or events differently than initially expected. In order to reduce the potential for bias post-model adjustments are temporary.

COVID-19 related post-model adjustments came from the collective impact on the tourism and related industries as well as auto-mobile, air travel, oil and gas, real estate and some consumer goods industries as a result of the demand shock, supply chain disruptions and the containment measures. The adjustments were necessary as models cannot fully capture the speed of change and the depth of the economic impact of the virus. Going forward it might take some time until a complete picture of the impact of COVID-19 and subsequent measures on individual customers emerges.

Staging criteria

At each reporting date, an assessment is performed to check whether the credit risk on a financial instrument has increased significantly since initial recognition. Furthermore, the assessment is made using both qualitative and quantitative information:

- ► Quantitative assessment: to be made by looking at the change in the risk of default occurring over the expected life of the financial instrument: Stage 2 is triggered if the scaled default probability has increased by more than 250%.
- ► Qualitative assessment: a number of factors are relevant when assessing significant increase in credit risk (Past due information, Significant changes in the expected performance and behaviour of the borrower, Significant changes, such as reductions, in financial support from a parent entity etc.).

Loans move from Stage 1 to Stage 2 in case of the following signals:

- ► Past due exposure more than 30 days;
- ► Revealed early warning signals of credit risk increased (corporate borrowers);
- ► Forced change in the previously established terms under the Loan Agreement in order to provide more favorable conditions for the client due to the client's inability to pay current obligations caused by financial standing;
- ► Full or partial refinancing of current debt, which would not have been granted if the client had not experienced financial difficulties;
- ► Unrated client as of reporting date;
- ► Assets for which information on future changes that may lead to credit losses has become known, but this information is not taken into account in the rating system (military conflicts in the region, which may create a significant impact on credit quality in the future);
- ► Assets without default flag, in case of other defaulted credit products on the client level (retail);
- ► Assignment to PMA or Sanction risk.

The Group calculates ECL based on a three probability-weighted scenarios (base scenario, an optimistic scenario and a pessimistic scenario) to measure the expected cash shortfalls, discounted at effective interest rate.

3 Significant Accounting Policies (Continued)

Measurement of ECL allowance (continued)

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. For off-balance-sheet items (issued guarantees, letter of credits, undrawn facilities) total exposure is exposure before the application of credit conversion factors (CCF). The credit conversion factor which is the proportion of the current undrawn amount that will be drawn down at time of default (used for off-balance exposures).

LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. As the LGD actually is influenced by the macro-economic environment the LGD actually depends on the time. Depending on the availability of loss data different approaches for estimating the LGD are used. In case sufficient loss data is available the LGD can be estimated by comparing the EAD with discounted cashflows ('workout LGD'). If the available loss data is limited external data can be used ('Implied Market LGD').

ECL calculation approach for is as follows:

$ECL = EAD * PD_{12month} * LGD$	Stage 1 12-month expected credit losses (ECL) Performing
$ECL(k) = EAD * PD_{lifetime} * LGD$ $LEL = \sum_{k=1}^{n} \frac{ECL(k)}{(1+EIR)^k}$	Stage 2 Lifetime expected credit loss (LEL) Under-performing
Basic approach: $ECL = EAD - \text{Net present value of expected cash flows}$ For Retail exposure: $ECL = EAD * BEEL$ (Best Estimate of Expected Loss)	Stage 3 Non-performing

where

$PD_{12month}$ – the estimated probability of default occurring within the next 12 months;

$PD_{lifetime}$ – the estimated probability of default occurring within the lifetime.

Macroeconomic overlay and Macroeconomic Scenarios

The Group incorporates forward looking information into its impairment calculation. This is done via the macroeconomic models, which leads to a direct adjustment of the default probabilities. Since the Group will not know future realizations of these macroeconomic parameters with certainty, the inherent uncertainty makes it necessary to consider a scenario calculation.

The Group considers three scenarios: A base scenario, an optimistic scenario and a pessimistic scenario. The latter two scenarios are attached with a weight of 25%. The base scenario has an attached weight of 50% in the calculation.

For each scenario a set of values for the relevant macroeconomic variables is used as an input for the macroeconomic model, which subsequently is applied to adjust the relevant input parameter.

3 Significant Accounting Policies (Continued)

Measurement of ECL allowance (continued)

The List of Macro-Economic Indicators

- Real GDP;
- Unemployment;
- Consumer Price Inflation / HICP;
- 10Y Government Bond Yield.

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies, e.g. central banks, and international financial institutions). Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios.

The Group uses the "credit clock" as additional forward-looking information. This approach identifies the current position in a credit cycle as well as a trend. The credit clock is applied within Group to identify new opportunities and warning signals. It is used to adjust industry limits in response to change along the industry cycle and acts as early warning signals. Consistently, since the approach drives portfolio actions as forward-looking input and due to the proven connection with portfolio data / default spreads, it should also be considered as forward-looking information within the IFRS 9 framework.

Default process

Default is defined in accordance with article 178 of Capital Requirements Regulation (EU Capital Requirement Regulation No. 575/2013). Default takes place within one of the following events:

1. The debtor is unlikely to pay its credit obligations to the Group from primary sources; or
2. The debtor is overdue more than 90 days on any material credit obligation to the Group.

The definition of default used to calculate expected credit losses is the same definition of default used for internal credit risk management practices.

Repossessed collateral

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

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

Credit related commitments

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

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

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

3 Significant Accounting Policies (Continued)

Performance guarantees

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

Debt instruments at FVOCI

The Group debt instruments measured at FVOCI when both of the following conditions are met:

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

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

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

Equity instruments at FVOCI

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

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Sale and repurchase agreements and lending of securities

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

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

3 Significant Accounting Policies (Continued)

Sale and repurchase agreements and lending of securities

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the consolidated statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in due to other banks.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

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

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in consolidated profit or loss for the year (within other operating income or expenses).

Depreciation

Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Premises	40-50
Office and computer equipment	5-7
Leasehold improvements	Over the term of the underlying lease

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

Intangible assets

All of the Group's intangible assets have definite useful life and primarily include capitalised computer software and licenses.

Software and licences are amortized in accordance with exactly documented details about the useful life by means of judgments.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

3 Significant Accounting Policies (Continued)

Non-current assets classified as held for sale

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

Due to other banks, term borrowings from the Parent Bank and from other financial institutions

Amounts due to other banks, term borrowings from the Parent Bank and other financial institutions are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency options and other derivative financial instruments are carried at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in consolidated profit or loss for the year (unrealized gains less losses from derivative financial instruments).

The Group designates certain derivatives as hedging instruments in a portfolio fair value hedge. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

For the portfolio fair value hedge the hedged items is adjusted for the changes in its fair value attributable to the risk being hedged and those fair value changes are recognized in the consolidated statement of profit or loss (Unrealized losses, net of gains from derivative financial instruments). The gain or loss relating to the hedging derivatives is offset, in the consolidated profit or loss for the year, with the fair value gains and losses on the hedged items to the extent that the hedge is effective. The hedging adjustment to the portfolio-hedged items is shown in the consolidated statement of financial position in "Loans and advances to customers". The ineffective portion of the fair value changes is recognized immediately in the consolidated statement of profit or loss and other comprehensive income in "Ineffectiveness from hedge accounting". If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged items amortized to profit or loss over the period to maturity and recorded as net interest income. In order to assess hedge effectiveness the Group regularly performs two kinds of effectiveness tests: prospective effectiveness test (a forward-looking test of whether a hedging relationship is expected to be highly effective in future periods); and retrospective effectiveness test (a backward-looking test of whether a hedging relationship has actually been highly effective in a past period). Both tests need to be met for hedge accounting to be available.

3 Significant Accounting Policies (Continued)

Derivative financial instruments and hedge accounting (continued)

A hedge is regarded as highly effective only if both of the following conditions are met:

1) The inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in present values of cash flows attributable to the hedged risk during the period, for which the hedge is designated − prospective effectiveness test, range of 80-125% is used; and
2) The actual results of the hedge demonstrate that the hedge is highly effective during its life – retrospective effectiveness test; range of 80-125% is used.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contacts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value with changes recognised in the consolidated statement of profit or loss. Financial assets are classified based on the business model and SPPI assessments.

Leases

i. Group as a lessee

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

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

3 Significant Accounting Policies (Continued)

Leases (continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of premises, land and office and computer equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of premises, land and office and computer equipment that are considered of low value (below EUR 5 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term among administrative and other operating expenses.

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

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

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

ii. Operating − Group as a lessor

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

iii. Finance − Group as a lessor

The Group records finance lease receivables in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments net of reimbursable expenses, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

The difference between the gross investment in the lease and the net investment in the lease represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Initial direct costs incurred by the lessor include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by sales and marketing team. For finance leases, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Insurance payments made by lessor and not reimbursable by lessees are included in the minimum lease payments.

Finance lease receivables also include equipment under installation if all the significant risks and rewards of ownership of leased assets are transferred to counterparties. Payments received by the Group from the lessee before the installation date of the lease assets are recorded as advances from lessees. The Group starts to accrue interest income from the commencement date.

3 Significant Accounting Policies (Continued)

Leases (continued)

Any advances made to the supplier after the date of the inception of the lease and before the date of commencement of the lease term, are recorded as prepayments within other assets. Payments received by the Group from the lessee before the commencement of the lease term are recorded as advances received within advances from lessees and other liabilities. Such amounts are adjusted against finance lease receivables on the date of commencement of the lease term.

Income taxes

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

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

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

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

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

Uncertain tax positions

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

Provisions for liabilities and charges

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

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

3 Significant Accounting Policies (Continued)

Trade payables and other accrued expenses

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Additional paid-in capital

Any amounts contributed by shareholders in addition to share issues are recorded as additional paid − in capital in equity.

Dividends

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

Income and expense recognition

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through consolidated profit or loss.

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognized as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

3 Significant Accounting Policies (Continued)

Fee and commission income on operations with plastic cards

Fee and commission income on operations with plastic cards is recognized upon customer's settlements with plastic cards and with references to reports by payment systems.

Customer loyalty programs

The Group offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. For point-based programs, the Group generally recognized a liability for the accumulated points that are expected to be utilized by the customers, which is reversed to profit or loss as the points expire. Cashbacks on plastic card transactions reduce fee and commission income.

Realized and unrealized gains less losses from financial derivatives

The Group separates realized gains less losses from financial derivatives from total gains less losses from financial derivatives. Realized gains less losses from financial derivatives consist of profit and loss from closed financial derivatives, where profit and loss calculated as difference between cash received on settlement date and original cost of derivatives, received and accrued interest income, paid and accrued interest expense. Unrealized gains less losses from financial derivatives consist of change in clean present value of interest rate derivative instruments and foreign exchange derivative instruments, fair value of bought put option on corporate bonds, change in fair value of the hedged item (long-term deposit), which is subject to fair value hedge accounting.

Foreign currency translation

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognized in consolidated profit or loss for the year (as foreign exchange translation gains less losses).

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2020 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 73,8757, EUR 1 = RR 90,6824 (2019: USD 1 = RR 61,9057, EUR 1 = RR 69,3406). The principle average rate of exchange used for translating income and expenses for USD and EUR in 2020 was USD 1 = RR 72,3701, EUR 1 = RR 82,8686 (2019: USD 1 = RR 64,6184, EUR 1 = RR 72,3187).

Fiduciary assets

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

Offsetting

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

3 Significant Accounting Policies (Continued)

Staff costs and related contributions

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances to customers

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers.

Due to the large-scale distribution of COVID-19 and the crisis situation in the world, the Group implemented some changes to the approach for calculating expected credit losses to reflect increased credit risks of entities affected by COVID-19 and these changes resulted in increased provision in the amount of RR 397 million. Since it is impossible to unambiguously assess the impact of COVID-19 on clients (and isolate this effect from Macro and individual factors), the account of increased credit risk is carried out through the classification of assets at risk in Stage 2 and calculation of expected credit losses over the lifetime of the loans and commitments. Transfer to Stage 2 had been done based on analysis on the level of each customer potentially affected by COVID-19. Also for the estimation of the potential effect from the second wave of COVID-19, the Bank applied the approach with using of the stressed ratings in the process of ECL calculation for corporate clients. The provisions will be released once the effect of systematic risks becomes insignificant.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

The Group's internal credit grading model, which assigns PDs to the individual grades;

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Impairment losses on loans and advances to customers (continued)

The Group internal measures of retail credit risk are based on assessments of the risk characteristics of both the borrower and the specific type of transaction/product.

The internal control system for retail credit risks includes different types of monitoring measures, which are tightly integrated into the workflows to be monitored − from the customer's initial credit application, to the bank's credit approval, and finally to the repayment of the loan.

Fair value of derivatives

The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Valuation of financial derivatives is applied to single currency interest rate swap transactions, cross currency interest swap transactions and foreign exchange forward contracts. The fair value of these transactions is determined as the difference between the present value of fixed receivable and the present value of floating obligation or vice versa. Refer to Note 39. The present value of floating obligation is determined using discount factors derived from the zero coupon curve. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Any over or under estimation of these future cash flows could require a material adjustment to the carrying value of these derivatives.

Hedge accounting

The Bank has designated portfolio hedge relationships. The Bank's hedge accounting policies include an element of judgement and estimation, in particular, in respect of the projected behavior of mortgage and retail loans prepayments in portfolio fair value hedge and portfolio cash flow hedge. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Bank's hedge accounting policies are described in Note 3, Note 9, Note 14 and Note 21.

Leases − estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and in a similar currency, funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group estimates the IBR using observable inputs such as market interest rates. More details are provided in Note 3.

5 New Accounting Pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

5 New Accounting Pronouncements (continued)

IFRS 17 Insurance Contracts (continued)

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Group is currently in the process of assessing the impact of adopting IFRS 17 on its consolidated financial statements.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to consolidated financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its consolidated financial statements.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued *Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Group will apply IBOR reform Phase 2 from 1 January 2021.

The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

6 Cash and Cash Equivalents

In millions of Russian Roubles	31 December 2020	31 December 2019
Cash on hand	73 716	31 074
Cash balances with the CBRF (other than mandatory reserve deposits)	61 948	29 961
Correspondent accounts and overnight placements with other banks and non-bank credit institutions		
- Russian Federation	7 204	16 580
- Other countries	34 305	49 427
Placements with other banks with original maturities of less than three months	137 088	55 289
Reverse securities sale and repurchase agreements with other banks and other financial institutions with original maturities of less than three months	39 476	74 292
Total cash and cash equivalents	**353 737**	**256 623**

All cash and cash equivalents balances relate to Stage 1.

At 31 December 2020 cash equivalents in the amount of RR 39 476 million (31 December 2019: RR 74 292 million) are effectively collateralised by securities purchased under reverse securities sale and repurchase agreements with a fair value of RR 42 916 million (31 December 2019: RR 80 151 million) which the Group has a right to sell or repledge.

Correspondent accounts, overnight placements and placements with other banks with original maturities of less than three months and deals with securities purchased under “reverse-repo agreements” with original maturities of less than three months represent balances with large and well-known international banks and top-rated Russian banks and financial institutions.

At 31 December 2020 the Group had significant accounts placed in three financial institutions (31 December 2019: three financial institutions) with balances exceeded 10% of consolidated equity of the Group as at this date. The aggregated balance of these customers at 31 December 2020 was RR 273 297 million or 77,26% of cash and cash equivalents (31 December 2019: RR 209 534 million or 81,65%).

Amount of repossessed collaterals acquired by the Group in investment transactions that did not require the use of cash and cash equivalents are as follows:

In millions of Russian Roubles	31 December 2020	31 December 2019
Non-cash investing activities		
Total amount of repossessed collateral in exchange for loans and advances to customers	280	744

The repossessed collateral is recognized as other assets. Refer to Note 15.

6 Cash and Cash Equivalents (Continued)

The credit quality analysis of cash equivalents balances is summarized as follows at 31 December 2020:

In millions of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts and overnight placements with other banks**		**Placements with other banks with original maturities of less than three months**	**Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months**	**Total**
		Russian Federation	**Other countries**			
Minimal risk	61 948	–	2 648	–	–	**64 596**
Excellent credit standing	–	5 770	31 363	137 039	37 365	**211 537**
Very good credit standing	–	39	155	–	–	**194**
Good credit standing	–	33	90	–	–	**123**
Sound credit standing	–	973	5	–	–	**978**
Acceptable credit standing	–	95	44	49	2 111	**2 299**
Marginal credit standing	–	294	–	–	–	**294**
Total cash equivalents	**61 948**	**7 204**	**34 305**	**137 088**	**39 476**	**280 021**

The credit quality analysis of cash equivalents balances is summarized as follows at 31 December 2019:

In millions of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts and overnight placements with other banks**		**Placements with other banks with original maturities of less than three months**	**Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months**	**Total**
		Russian Federation	**Other countries**			
Minimal risk	29 961	–	5 896	–	–	**35 857**
Excellent credit standing	–	14 389	42 151	53 637	71 108	**181 285**
Very good credit standing	–	757	1 310	124	–	**2 191**
Good credit standing	–	278	1	–	–	**279**
Sound credit standing	–	965	7	–	–	**972**
Acceptable credit standing	–	84	10	1 528	182	**1 804**
Marginal credit standing	–	107	52	–	3 002	**3 161**
Total cash equivalents	**29 961**	**16 580**	**49 427**	**55 289**	**74 292**	**225 549**

Geographical, currency, liquidity and interest rate analysis of cash and cash equivalents are disclosed in Note 34. Information on related party balances is disclosed in Note 40.

For information about offsetting please refer to Note 36.

7 Trading Securities and Repurchase Receivables Related to Trading Securities

In millions of Russian Roubles	31 December 2020	31 December 2019
Federal loan bonds (OFZ)	21 565	11 796
Corporate bonds	5 393	3 958
Corporate Eurobonds	4 822	2 479
Russian Federation Eurobonds	687	200
Total debt securities	**32 467**	**18 433**
Trading securities pledged under repurchase agreements		
Federal loan bonds (OFZ)	–	1 981
Total Trading securities	**32 467**	**20 414**

Estimation of fair value of trading securities is based on their market quotations.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at fair value based on observable market data, the Group does not analyse or monitor impairment indicators separately on these securities.

Analysis by credit quality of debt trading securities at 31 December 2020 is as follows:

In millions of Russian Roubles	Corporate bonds	Federal loan bonds	Russian Federation Eurobonds	Corporate Eurobonds	Municipal bonds	Total
Neither past due nor impaired (at fair value)						
Minimal risk	–	21 565	687	–	–	**22 252**
Excellent credit standing	322	–	–	9	–	**331**
Very good credit standing	506	–	–	891	–	**1 397**
Good credit standing	3 832	–	–	2 062	–	**5 894**
Sound credit standing	733	–	–	1 860	–	**2 593**
Total trading securities	**5 393**	**21 565**	**687**	**4 822**	**–**	**32 467**

Analysis by credit quality of debt trading securities at 31 December 2019 is as follows:

In millionss of Russian Roubles	Corporate bonds	Federal loan bonds	Russian Federation Eurobonds	Corporate Eurobonds	Municipal bonds	Total
Neither past due nor impaired (at fair value)						
Minimal risk	–	13 777	200	–	–	**13 977**
Excellent credit standing	1 231	–	–	584	–	**1 815**
Very good credit standing	323	–	–	508	–	**831**
Good credit standing	481	–	–	130	–	**611**
Sound credit standing	1 923	–	–	1 192	–	**3 115**
Acceptable credit standing	–	–	–	65	–	**65**
Total trading securities	**3 958**	**13 777**	**200**	**2 479**	**–**	**20 414**

For the disclosure of credit risk measurement refer to Note 34.

The Bank is licensed by the Federal Commission on Securities Markets of the Russian Federation for trading in securities.

7 Trading Securities and Repurchase Receivables Related to Trading Securities (Continued)

At 31 December 2020 and 31 December 2019 no trading securities were past due or impaired and there were no renegotiated balances of trading securities that would otherwise be past due. Trading securities are not collateralised.

Repurchase Receivables related to trading securities represent securities sold under sale and repurchase agreements, which the counterparty has the right, by contract or custom, to sell or re-pledge. At 31 December 2020 there were no securities pledged under sale and repurchase agreements (at 31 December 2019 Federal loan bonds (OFZ) included securities with fair value of RR 1 981 million pledged under sale and repurchase agreements). Refer to Notes 17 and 35.

Geographical, currency, liquidity and interest rate analysis of trading securities and repurchase receivables related to trading securities are disclosed in Note 34.

8 Due from Other Banks

In millions of Russian Roubles	**31 December 2020**	**31 December 2019**
Short-term placements with other banks with original maturities of more than three months and less than one year	5 266	2 069
Long-term placements with other banks with original maturities of more than one year	183	1 942
Less: ECL allowances	(21)	(25)
Total due from other banks	**5 428**	**3 986**

One placement in amount of RR 21 million (2019: RR 19 million) relates to Stage 3 and fully impaired. All other balances relate to Stage 1.

An analysis of changes in the ECL allowances during the year ended 31 December 2020 is as follows:

In millions of Russian Roubles	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2020	**6**	**–**	**19**	**25**
New assets originated or purchased	1	–	–	**1**
Changes due to change in credit risk (net)	(7)	–	–	**(7)**
Foreign exchange adjustments	–	–	2	**2**
At 31 December 2020	**–**	**–**	**21**	**21**

An analysis of changes in the ECL allowances during the year ended 31 December 2019 is as follows:

In millions of Russian Roubles	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2019	**–**	**–**	**20**	**20**
New assets originated or purchased	5	–	–	**5**
Changes due to change in credit risk (net)	–	–	–	–
Foreign exchange adjustments	1	–	(1)	–
At 31 December 2019	**6**	**–**	**19**	**25**

8 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2020 is as follows:

In millions of Russian Roubles	Short-term placements with other banks with original maturities of more than three months and less than one year	Long-term placements with other banks with original maturities of more than one year	Total
Excellent credit standing	3 329	–	**3 329**
Very good credit standing	764	183	**947**
Sound credit standing	890	–	**890**
Marginal credit standing	262	–	**262**
Default	21	–	**21**
Total due from other banks	**5 266**	**183**	**5 449**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2019 is as follows:

In millions of Russian Roubles	Short-term placements with other banks with original maturities of more than three months and less than one year	Long-term placements with other banks with original maturities of more than one year	Total
Excellent credit standing	668	–	**668**
Very good credit standing	1 365	–	**1 365**
Acceptable credit standing	17	1 942	**1 959**
Default	19	–	**19**
Total due from other banks	**2 069**	**1 942**	**4 011**

For the disclosure of credit risk management refer to Note 34.

At 31 December 2020 the Group had balances with four counterparty banks (2019: four banks) with aggregated amount above RR 200 million. The total aggregated amount of these deposits was RR 5 192 million (31 December 2019: RR 3 976 million) or 95,65% of the total amount due from other banks (2019: 99,12%).

In total, credit risk exposure to financial institutions is amounted to RR 218 073 million (2019: RR 195 588 million) comprising cash and cash equivalents, deposits and other amounts due from banks and financial derivatives.

Disclosure of the fair value of due from other banks is presented in Note 39.

Geographical, currency, liquidity and interest rate analysis of due from other banks are disclosed in Note 34. The information on related party balances is disclosed in Note 40.

9 Loans and Advances to Customers

In millions of Russian Roubles	2020	2019
Loans to corporate customers (Corporate loans)	427 030	387 050
Loans to individuals (Retail loans)	319 611	310 710
Here off: change in fair value of hedged items	28	–
Loans to medium entities (Middle business)	74 980	77 213
Loans to small and micro entities (SME loans)	28 839	27 362
Total gross loans and advances to customers	**850 460**	**802 335**
Less: expected credit loss allowance	(22 138)	(15 482)
Total loans and advances to customers	**828 322**	**786 853**

At 31 December 2020 loans and advances to customers include finance lease receivables in the following proportion: RR 15 852 million in loans to corporate customers (31 December 2019: RR 11 620 million), RR 7 027 million in loans to medium entities (31 December 2019: RR 6 840 million) and RR 1 167 million in loans to a small and micro entities (31 December 2019: RR 527 million).

On 1 November 2020 the Group entered portfolio fair value hedge relationships to protect itself against changes in the fair value of financial assets due to movements in interest rates (Mosprime 3M). The Group designated certain interest rate swaps as hedging instruments together with its fixed rate mortgages as hedged items. As at 31 December 2020 the amount of the negative fair value adjustment attributable to the hedged risk and recorded in the balance of the loans to customers, which were being hedged (hedged portfolio in the amount of RR 149 720 million), amounted to loss of RR 437 million. Loss from the ineffective part of the hedge relationship in amount of RR 39 million is reported within "Ineffectiveness from hedge accounting and amortization of hedge accounting adjustment". The information regarding the hedging derivative financial instruments is disclosed in Note 14 and Note 21.

During the year 2020 the Group terminated portfolio fair value hedge relationships started on the 1 January 2020 (hedged portfolio of fixed rate mortgage loans in the amount of RR 37 579 million) and portfolio fair value hedge relationships started on the 1 August 2020 (hedged portfolio of fixed rate mortgage loans in the amount of RR 65 005 million). The amount of the accumulated fair value adjustments reported within Loans and advances to customers in relation terminated hedge relationships was plus RR 465 million. As of 31 December 2020 the amount of total amortization made within "Ineffectiveness from hedge accounting and amortization of hedge accounting adjustment" was minus RR 87 million.

To protect itself against changes in the cash flows of financial assets due to movements in interest rates (CBR key rate), the Group entered portfolio cash flow hedge relationships on 1 May 2020. The Group designated certain interest rate swaps as hedging instruments together with its floating rate corporate loans as hedged items. As at 31 December 2020 the amount of hedged portfolio was RR 18 100 million. As at 31 December 2020 gain from the effective part of the hedge relationship in the amount of RR 82 million is reported within other comprehensive income. Gain from the ineffective part of the hedge relationship in amount of RR 22 million is reported within "Ineffectiveness from hedge accounting and amortization of hedge accounting adjustment". The information regarding the hedging derivative financial instruments is disclosed in Note 14.

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during the year ended 31 December 2020 are as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2020	**1 700**	**3 672**	**9 252**	**858**	**15 482**
Transfers to Stage 1	1 005	(929)	(76)	–	**–**
Transfers to Stage 2	(253)	335	(82)	–	**–**
Transfers to Stage 3	(49)	(315)	364	–	**–**
Interest revenue provisions	–	–	1 340	–	**1 340**
New assets originated or purchased	882	494	–	–	**1 376**
Changes due to change in credit risk (net)	(1 396)	691	8 035	466	**7 796**
Unwind of discount (recognised in interest income)	–	–	(776)	–	**(776)**
Changes to contractual cash flows due to modifications not resulting in derecognition	–	(30)	(26)	(2)	**(58)**
Changes to models and inputs used for ECL calculations	5	6	(149)	–	**(138)**
Changes to assumptions used for ECL calculations	–	397	–	–	**397**
Derecognition of provision due to disposal of loans	–	–	(3 523)	–	**(3 523)**
Amounts written off	–	–	(370)	–	**(370)**
Foreign exchange adjustments and other effects	20	202	97	293	**612**
At 31 December 2020	**1 914**	**4 523**	**14 086**	**1 615**	**22 138**

Movements in the provision for loan impairment during the year ended 31 December 2019 are as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2019	**1 396**	**3 405**	**10 708**	**515**	**16 024**
Transfers to Stage 1	1 156	(1 034)	(122)	–	**–**
Transfers to Stage 2	(152)	242	(90)	–	**–**
Transfers to Stage 3	(25)	(165)	190	–	**–**
Interest revenue provisions	–	–	948	–	**948**
New assets originated or purchased	1 158	233	–	–	**1 391**
Changes due to change in credit risk (net)	(1 595)	1 246	3 403	390	**3 444**
Unwind of discount (recognised in interest income)	–	–	(432)	–	**(432)**
Changes to contractual cash flows due to modifications not resulting in derecognition	(2)	(8)	(1)	–	**(11)**
Changes to models and inputs used for ECL calculations	(225)	(104)	(240)	–	**(569)**
Derecognition of provision due to disposal of loans	–	–	(4 450)	–	**(4 450)**
Amounts written off	–	–	(526)	–	**(526)**
Foreign exchange adjustments and other effects	(11)	(143)	(136)	(47)	**(337)**
At 31 December 2019	**1 700**	**3 672**	**9 252**	**858**	**15 482**

9 Loans and Advances to Customers (Continued)

The provision for loan impairment during 2020 year differs from the amount presented in the consolidated statement of profit or loss and other comprehensive income for the year due to RR 148 million recovery of amounts previously written-off as uncollectible and change in expectations about recovery for POCI (2019: RR 373 million). This amount was booked directly to the provisions line in Consolidated Statement of Profit or Loss for the period.

During 2020 year the Bank disposed loans to customers under cession and other agreements with the total gross value of RR 4 959 million (2019: RR 3 456 million) for cash proceeds of RR 1 454 million (2019: RR 442 million) and other assets with carrying value of RR 83 million (2019: RR 309 million). As of the date of disposal during 2020 year these loans were provided for impairment in the total amount of RR 3 380 million (2019: RR 3 032 million). The net financial result of a loan disposal during 2020 year recognized in the consolidated statement of profit or loss and other comprehensive income among Gains less losses on derecognition and modifications of financial assets measured at amortised cost was RR (42) million (2019: RR 327 million).

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2020		2019	
In millions of Russian Roubles	**Amount**	**Amount**	**Amount**	**%**
Individuals	319 611	37,59%	310 710	38,74%
here off: Change in fair value of hedged items	28	–	–	–
Manufacturing	196 124	23,06%	185 210	23,08%
Trade	107 536	12,64%	111 246	13,87%
Mining and quarrying	73 961	8,70%	51 269	6,39%
Transport, storage and communication	53 659	6,31%	45 511	5,67%
Real estate, renting and business activities	52 494	6,17%	41 739	5,20%
Electricity, gas and water supply	20 946	2,46%	16 062	2,00%
Agriculture, hunting and forestry	9 220	1,08%	15 037	1,87%
Professional, scientific and technical activities	3 326	0,39%	4 449	0,55%
Hotels and restaurants	3 382	0,40%	3 674	0,46%
Health and social work	2 297	0,27%	4 389	0,55%
Financial Services	3 848	0,45%	7 316	0,91%
Other	4 056	0,48%	5 723	0,71%
Total loans and advances to customers (gross carrying amount)	**850 460**	**100,00%**	**802 335**	**100,00%**

During the year 2020 significant changes in the gross carrying amount of loan portfolio that contributed to changes in the loss allowance were:

- Transfers between impairment stages during the year 2020 (gross carrying amount in millions RUR):

Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
To Stage 2 from Stage 1	**To Stage 1 from Stage 2**	**To Stage 3 from Stage 2**	**To Stage 2 from Stage 3**	**To Stage 3 from Stage 1**	**To Stage 1 from Stage 3**
47 848	43 592	7 559	458	7 624	97

- The write-off and disposal of impaired loans of RUR 4 959 million;
- Derecognition of credit impaired corporate loans of RUR 619 million due to significant modifications, which contributed to decrease of loan loss allowance in a lifetime ECL credit-impaired basis in amount of RUR 72 million;
- New volumes of corporate clients (first drawdowns from revolving credit lines and drawdowns from non-revolving credit lines) RUR 95 814 million, which contributed to an increase of loan loss allowance in amount of RUR 684 million;
- New volumes of retail clients RUR 153 134 million, which contributed to an increase of loan loss allowance amount of RUR 692 million.

9 Loans and Advances to Customers (Continued)

During the year 2019 significant changes in the gross carrying amount of loan portfolio that contributed to changes in the loss allowance were:

- Transfer of loans between impairment stages during the year 2019 (gross carrying amount in millions RUR):

Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
33 334	31 906	2 447	181	3 953	132

- The write-off and disposal of impaired loans of RUR 3 456 million;
- Derecognition of credit impaired corporate loans of RUR 3 588 million due to significant modifications, which contributed to decrease of loan loss allowance in a lifetime ECL credit-impaired basis in amount of RUR 1 205 million;
- New volumes of corporate clients (first drawdowns from revolving credit lines and drawdowns from non-revolving credit lines) RUR 116 745 million, which contributed to an increase of loan loss allowance in amount of RUR 663 million;
- New volumes of retail clients RUR 121 925 million, which contributed to an increase of loan loss allowance in amount of RUR 730 million.

The amount of undiscounted ECL at initial recognition on purchased credit-impaired loans and advances to customers that were initially recognised during the year ended 31 December 2020 and during the year ended 31 December 2019 was as follows:

In millions of Russian Roubles	**2020**	**2019**
Large corporates	73	1 205
Loans to small and micro entities	5	–
Mortgage loans	47	110
Other retail loans	20	159
Total undiscounted ECL at initial recognition of POCI	**145**	**1 474**

Modified and restructured loans

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

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

During 2020, the Group has modified the terms and conditions of certain mortgage and consumer loans, including introduction of payment holidays, as part of the measures introduced by the Government related to consequences of COVID-19 pandemic. The Group considered these modifications to be non-substantial.

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

The table below includes loans that were modified during the year 2020 and during the year 2019, with the related modification loss suffered by the Group.

In millions of Russian Roubles	2020	2019
Loans modified during the period		
Amortised cost before modification	55 232	15 214
Net modification loss/gain	(275)	(1)
Loans modified since initial recognition		
Gross carrying amount at 31 December of loans for which loss allowance has changed to 12-month measurement during the period	1 289	71

Due to offered loans restructuring under the state support programs the Group recognized modification loss during the year ended 31 December 2020 in amount of RR 79 million.

The main principles used for the estimation of the fair value of collateral are summarized in the Policy of the Collateral valuation, approved for the Group.

The collateral coverage, which is taken into account, has the following characteristics:

- Valid legal title, which should be properly documented and legally enforceable under the applicable jurisdiction;
- Sustainable intrinsic value for at least the maximum tenor of the underlying credit contract, being regularly monitored and evaluated by the Group. In case of a decrease in value, appropriate measures to reflect this decrease are taken immediately by the Group;
- Realizable and willingness to realize. The collateral is realizable in cash within reasonable time, proven by a favourable track record of jurisdiction in the respective country.

The fair value of collateral is the estimated amount, for which a tangible/intangible asset could be exchanged at the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably prudent and without compulsion. In accordance with the internal procedures, the Group's Risk Management Collateral Department regularly performs the assessment of the fair value of the collaterals using the Group's internal guidelines and in some cases evaluation of collateral by independent appraisal companies.

The list of collateral that the Group requires from the customers includes residential real estate, other real estate, guarantees of the Parent Bank, cash deposits, other assets. Personal loans to individuals and credit cards are not secured. Mortgage loans and car loans to individuals are collateralized by the property and cars, correspondingly.

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

Information about collateralized loans at 31 December 2020 is as follows:

In millions of Russian Roubles	**Corporate loans**	**Retail loans**	**SME loans**	**Middle business**	**Total**
Unsecured loans	235 545	166 177	775	6 943	**409 440**
Loans collateralised by:					
- commercial real estate	43 175	–	19 030	19 090	**81 295**
- guarantees and suretyships	122 509	–	4 001	36 129	**162 639**
- guarantees of Parent Bank	27	–	–	–	**27**
- equipment and vehicles	25 223	89	1 816	11 918	**39 046**
- residential real estate	17	153 345	3 217	900	**157 479**
- other assets	534	–	–	–	**534**
Total loans and advances to customers (gross carrying amount)	**427 030**	**319 611**	**28 839**	**74 980**	**850 460**
Expected credit loss allowance 31 December 2020	(5 470)	(13 981)	(1 244)	(1 443)	**(22 138)**
Total loans and advances to customers	**421 560**	**305 630**	**27 595**	**73 537**	**828 322**

Information about collateralized loans at 31 December 2019 is as follows:

In millions of Russian Roubles	**Corporate loans**	**Retail loans**	**SME loans**	**Middle business**	**Total**
Unsecured loans	172 972	169 270	1 282	7 479	**351 003**
Loans collateralised by:					
- commercial real estate	42 128	–	17 195	17 302	**76 625**
- guarantees and suretyships	149 384	–	4 865	40 298	**194 547**
- guarantees of Parent Bank	85	–	–	–	**85**
- equipment and vehicles	22 464	213	1 175	11 132	**34 984**
- residential real estate	17	141 227	2 835	1 002	**145 081**
- other assets	–	–	10	–	**10**
Total loans and advances to customers (gross carrying amount)	**387 050**	**310 710**	**27 362**	**77 213**	**802 335**
Expected credit loss allowance at 31 December 2019	(3 103)	(10 380)	(982)	(1 017)	**(15 482)**
Total loans and advances to customers	**383 947**	**300 330**	**26 380**	**76 196**	**786 853**

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

Information about collateralized loans after impairment provision in Stage 3 at 31 December 2020 and at 31 December 2019 is as follows:

In millions of Russian Roubles	**2020**	**2019**
Corporate lending	7 596	2 809
Small business lending	17	9
Middle business lending	484	355
Consumer lending	–	4
Residential mortgages	1 586	706
Total	**9 683**	**3 883**

Analysis by credit quality of loans granted to legal entities outstanding at 31 December 2020 is as follows:

In millions of Russian Roubles	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Large corporates					
Performing					
Minimal risk	134	–	–	–	**134**
Excellent credit standing	24 778	–	–	–	**24 778**
Very good credit standing	65 793	16 605	–	–	**82 398**
Good credit standing	153 156	44 325	–	–	**197 481**
Sound credit standing	48 361	17 025	–	–	**65 386**
Acceptable credit standing	29 568	4 497	–	–	**34 065**
Marginal credit standing	3 994	5 848	–	–	**9 842**
Weak credit standing	722	260	–	–	**982**
Very weak credit standing	–	–	–	–	**–**
Unrated	–	–	–	–	**–**
Total performing loans	**326 506**	**88 560**	**–**	**–**	**415 066**
Past due but not impaired loans					
- less than 30 days overdue	–	10	–	–	**10**
- 31-60 days overdue	–	–	–	–	**–**
- 61-90 days overdue	–	–	–	–	**–**
Total past due but not impaired loans	**–**	**10**	**–**	**–**	**10**
Impaired loans					
- not overdue	–	–	3 483	3 214	**6 697**
- less than 30 days overdue	–	–	1	–	**1**
- 31-60 days overdue	–	–	1 153	–	**1 153**
- 61-90 days overdue	–	–	–	–	**–**
- 91-180 days overdue	–	–	–	–	**–**
- 181-364 days overdue	–	–	–	3 189	**3 189**
- over 365 days overdue	–	–	776	138	**914**
Total impaired loans (gross)	**–**	**–**	**5 413**	**6 541**	**11 954**
Total gross loans and advances to customers	**326 506**	**88 570**	**5 413**	**6 541**	**427 030**
Less: expected credit loss allowance	(442)	(1 534)	(1 949)	(1 545)	**(5 470)**
Total loans and advances to customers	**326 064**	**87 036**	**3 464**	**4 996**	**421 560**

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	POCI	Total
Middle business and SME loans					
Performing					
Minimal risk	78	–	–	–	**78**
Excellent credit standing	13	–	–	–	**13**
Very good credit standing	314	1	–	–	**315**
Good credit standing	2 535	255	–	–	**2 790**
Sound credit standing	21 826	815	–	–	**22 641**
Acceptable credit standing	42 749	7 382	–	–	**50 131**
Marginal credit standing	10 686	7 739	–	–	**18 425**
Weak credit standing	1 082	3 004	–	–	**4 086**
Very weak credit standing	61	1 290	–	–	**1 351**
Unrated	695	4	–	–	**699**
Total performing loans	**80 039**	**20 490**	**–**	**–**	**100 529**
Past due but not impaired loans					
- less than 30 days overdue	91	504	–	–	**595**
- 31-60 days overdue	–	93	–	–	**93**
- 61-90 days overdue	–	10	–	–	**10**
Total past due but not impaired loans	**91**	**607**	**–**	**–**	**698**
Impaired loans					
- not overdue	–	–	656	–	**656**
- less than 30 days overdue	–	–	37	–	**37**
- 31-60 days overdue	–	–	119	–	**119**
- 61-90 days overdue	–	–	82	–	**82**
- 91-180 days overdue	–	–	135	–	**135**
- 181-364 days overdue	–	–	413	–	**413**
- over 365 days overdue	–	–	1 150	–	**1 150**
Total impaired loans (gross)	**–**	**–**	**2 592**	**–**	**2 592**
Total gross loans and advances to customers	**80 130**	**21 097**	**2 592**	**–**	**103 819**
Less: expected credit loss allowance	(509)	(567)	(1 611)	–	**(2 687)**
Total loans and advances to customers	**79 621**	**20 530**	**981**	**–**	**101 132**

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

Analysis by credit quality of loans granted to legal entities outstanding at 31 December 2019 is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	POCI	Total
Large corporates					
Performing					
Minimal risk	12 040	14	–	–	**12 054**
Excellent credit standing	51 459	15 783	–	–	**67 242**
Very good credit standing	58 523	17 084	–	–	**75 607**
Good credit standing	73 824	21 141	–	–	**94 965**
Sound credit standing	67 061	3 802	–	–	**70 863**
Acceptable credit standing	40 552	7 232	–	–	**47 784**
Marginal credit standing	8 060	625	–	–	**8 685**
Weak credit standing	864	1 043	–	–	**1 907**
Very weak credit standing	–	26	–	–	**26**
Unrated	–	–	–	–	**–**
Total performing loans	**312 383**	**66 750**	**–**	**–**	**379 133**
Past due but not impaired loans					
- less than 30 days overdue	170	24	–	–	**194**
- 31-60 days overdue	–	758	–	–	**758**
- 61-90 days overdue	–	–	–	–	**–**
Total past due but not impaired loans	**170**	**782**	**–**	**–**	**952**
Impaired loans					
- not overdue	–	–	328	4 986	**5 314**
- less than 30 days overdue	–	–	–	–	**–**
- 31-60 days overdue	–	–	–	–	**–**
- 61-90 days overdue	–	–	–	–	**–**
- 91-180 days overdue	–	–	–	–	**–**
- 181-364 days overdue	–	–	199	–	**199**
- over 365 days overdue	–	–	624	828	**1 452**
Total impaired loans (gross)	**–**	**–**	**1 151**	**5 814**	**6 965**
Total gross loans and advances to customers	**312 553**	**67 532**	**1 151**	**5 814**	**387 050**
Less: expected credit loss allowance	(322)	(1 213)	(747)	(821)	**(3 103)**
Total loans and advances to customers	**312 231**	**66 319**	**404**	**4 993**	**383 947**

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	POCI	Total
Middle business and SME loans					
Performing					
Minimal risk	426	–	–	–	**426**
Excellent credit standing	159	–	–	–	**159**
Very good credit standing	183	–	–	–	**183**
Good credit standing	640	–	–	–	**640**
Sound credit standing	17 560	92	–	–	**17 652**
Acceptable credit standing	54 513	1 489	–	–	**56 002**
Marginal credit standing	19 288	1 882	–	–	**21 170**
Weak credit standing	2 808	1 909	–	–	**4 717**
Very weak credit standing	9	625	–	–	**634**
Unrated	253	–	–	–	**253**
Total performing loans	**95 839**	**5 997**	**–**	**–**	**101 836**
Past due but not impaired loans					
- less than 30 days overdue	80	152	–	–	**232**
- 31-60 days overdue	–	23	–	–	**23**
- 61-90 days overdue	–	11	–	–	**11**
Total past due but not impaired loans	**80**	**186**	**–**	**–**	**266**
Impaired loans					
- not overdue	–	–	242	–	**242**
- less than 30 days overdue	–	–	46	–	**46**
- 31-60 days overdue	–	–	50	–	**50**
- 61-90 days overdue	–	–	46	–	**46**
- 91-180 days overdue	–	–	390	–	**390**
- 181-364 days overdue	–	–	483	–	**483**
- over 365 days overdue	–	–	1 216	–	**1 216**
Total impaired loans (gross)	**–**	**–**	**2 473**	**–**	**2 473**
Total gross loans and advances to customers	**95 919**	**6 183**	**2 473**	**–**	**104 575**
Less: expected credit loss allowance	(473)	(100)	(1 426)	–	**(1 999)**
Total loans and advances to customers	**95 446**	**6 083**	**1 047**	**–**	**102 576**

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

Analysis by credit quality of retail loans outstanding at 31 December 2020 is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	POCI	Total retail loans
Mortgage loans					
Performing					
Minimal risk	86 114	1 300	–	–	**87 414**
Excellent credit standing	37 946	1 223	–	–	**39 169**
Very good credit standing	13 149	1 118	–	–	**14 267**
Good credit standing	3 870	569	–	–	**4 439**
Sound credit standing	1 357	548	–	–	**1 905**
Acceptable credit standing	296	538	–	–	**834**
Marginal credit standing	6	550	–	–	**556**
Weak credit standing	–	378	–	–	**378**
Very weak credit standing	3	276	–	–	**279**
Unrated	–	820	–	–	**820**
Total performing loans	**142 741**	**7 320**	**–**	**–**	**150 061**
Change in fair value of hedged items	**–**	**–**	**–**	**–**	**28**
Past due but not impaired loans					
- less than 30 days overdue	28	209	–	–	**237**
- 31-60 days overdue	–	67	–	–	**67**
- 61-90 days overdue	–	55	–	–	**55**
Total past due but not impaired loans	**28**	**331**	**–**	**–**	**359**
Impaired loans					
- not overdue	–	–	1 740	339	**2 079**
- less than 30 days overdue	–	–	67	6	**73**
- 31-60 days overdue	–	–	58	10	**68**
- 61-90 days overdue	–	–	27	–	**27**
- 91-180 days overdue	–	–	114	5	**119**
- 181-364 days overdue	–	–	110	47	**157**
- over 365 days overdue	–	–	398	25	**423**
Total impaired loans (gross)	**–**	**–**	**2 514**	**432**	**2 946**
Total gross loans and advances to customers	**142 769**	**7 651**	**2 514**	**432**	**153 394**
Less: expected credit loss allowance	(154)	(257)	(988)	(61)	**(1 460)**
Total loans and advances to customers	**142 615**	**7 394**	**1 526**	**371**	**151 934**

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	POCI	Total retail loans
Other retail loans					
Performing					
Minimal risk	5 687	320	–	–	**6 007**
Excellent credit standing	13 671	649	–	–	**14 320**
Very good credit standing	28 808	1 256	–	–	**30 064**
Good credit standing	42 302	2 847	–	–	**45 149**
Sound credit standing	32 106	4 801	–	–	**36 907**
Acceptable credit standing	6 294	4 378	–	–	**10 672**
Marginal credit standing	939	2 790	–	–	**3 729**
Weak credit standing	249	1 659	–	–	**1 908**
Very weak credit standing	92	1 957	–	–	**2 049**
Unrated	–	1 057	–	–	**1 057**
Total performing loans	**130 148**	**21 714**	**–**	**–**	**151 862**
Past due but not impaired loans					
- less than 30 days overdue	231	1 015	–	–	**1 246**
- 31-60 days overdue	–	526	–	–	**526**
- 61-90 days overdue	–	381	–	–	**381**
Total past due but not impaired loans	**231**	**1 922**	**–**	**–**	**2 153**
Impaired loans					
- not overdue	–	–	887	41	**928**
- less than 30 days overdue	–	–	221	5	**226**
- 31-60 days overdue	–	–	170	1	**171**
- 61-90 days overdue	–	–	208	–	**208**
- 91-180 days overdue	–	–	1 661	2	**1 663**
- 181-364 days overdue	–	–	4 182	5	**4 187**
- over 365 days overdue	–	–	4 806	13	**4 819**
Total impaired loans (gross)	**–**	**–**	**12 135**	**67**	**12 202**
Total gross loans and advances to customers	**130 379**	**23 636**	**12 135**	**67**	**166 217**
Less: expected credit loss allowance	(809)	(2 165)	(9 538)	(9)	**(12 521)**
Total loans and advances to customers	**129 570**	**21 471**	**2 597**	**58**	**153 696**

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

Analysis by credit quality of retail loans outstanding at 31 December 2019 is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	POCI	Total retail loans
Mortgage loans					
Performing					
Minimal risk	76 678	1 118	–	–	**77 796**
Excellent credit standing	36 326	1 371	–	–	**37 697**
Very good credit standing	12 953	998	–	–	**13 951**
Good credit standing	4 708	488	–	–	**5 196**
Sound credit standing	1 368	791	–	–	**2 159**
Acceptable credit standing	288	571	–	–	**859**
Marginal credit standing	32	520	–	–	**552**
Weak credit standing	57	323	–	–	**380**
Very weak credit standing	11	347	–	–	**358**
Unrated	–	207	–	–	**207**
Total performing loans	**132 421**	**6 734**	**–**	**–**	**139 155**
Past due but not impaired loans					
- less than 30 days overdue	22	209	–	–	**231**
- 31-60 days overdue	–	73	–	–	**73**
- 61-90 days overdue	–	19	–	–	**19**
Total past due but not impaired loans	**22**	**301**	**–**	**–**	**323**
Impaired loans					
- not overdue	–	–	611	436	**1 047**
- less than 30 days overdue	–	–	88	20	**108**
- 31-60 days overdue	–	–	36	–	**36**
- 61-90 days overdue	–	–	18	9	**27**
- 91-180 days overdue	–	–	155	3	**158**
- 181-364 days overdue	–	–	105	20	**125**
- over 365 days overdue	–	–	459	9	**468**
Total impaired loans (gross)	**–**	**–**	**1 472**	**497**	**1 969**
Total gross loans and advances to customers	**132 443**	**7 035**	**1 472**	**497**	**141 447**
Less: expected credit loss allowance	(92)	(188)	(791)	(30)	**(1 101)**
Total loans and advances to customers	**132 351**	**6 847**	**681**	**467**	**140 346**

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	POCI	Total retail loans
Other retail loans					
Performing					
Minimal risk	5 793	306	−	−	**6 099**
Excellent credit standing	14 525	507	−	−	**15 032**
Very good credit standing	31 887	1 384	−	−	**33 271**
Good credit standing	41 546	4 311	−	−	**45 857**
Sound credit standing	30 371	6 926	−	−	**37 297**
Acceptable credit standing	8 212	5 215	−	−	**13 427**
Marginal credit standing	1 284	2 889	−	−	**4 173**
Weak credit standing	89	1 497	−	−	**1 586**
Very weak credit standing	−	1 429	−	−	**1 429**
Unrated	−	1 041	−	−	**1 041**
Total performing loans	**133 707**	**25 505**	**−**	**−**	**159 212**
Past due but not impaired loans					
- less than 30 days overdue	303	1 118	−	−	**1 421**
- 31-60 days overdue	−	495	−	−	**495**
- 61-90 days overdue	−	200	−	−	**200**
Total past due but not impaired loans	**303**	**1 813**	**−**	**−**	**2 116**
Impaired loans					
- not overdue	−	−	322	46	**368**
- less than 30 days overdue	−	−	105	4	**109**
- 31-60 days overdue	−	−	112	1	**113**
- 61-90 days overdue	−	−	261	3	**264**
- 91-180 days overdue	−	−	1 261	7	**1 268**
- 181-364 days overdue	−	−	2 203	18	**2 221**
- over 365 days overdue	−	−	3 580	12	**3 592**
Total impaired loans (gross)	**−**	**−**	**7 844**	**91**	**7 935**
Total gross loans and advances to customers	**134 010**	**27 318**	**7 844**	**91**	**169 263**
Less: expected credit loss allowance	(814)	(2 170)	(6 288)	(7)	**(9 279)**
Total loans and advances to customers	**133 196**	**25 148**	**1 556**	**84**	**159 984**

The primary factors that the Group considers whether a loan is impaired are its overdue status, financial performance of the borrower and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired. The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days for Retail loans or whether there are any other known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the respective contract for Corporate, Middle Business and SME loans.

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

Past due but not impaired corporate loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. Past due but not impaired loans are assessed for impairment on collective basis. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Fair value of the collateral was determined by the Group's credit department using the Group's internal guidelines on the basis of an internal expert evaluation and an independent appraiser's evaluation.

These internal guidelines describe collateral management and valuation process including: 1) analysis of a legal title, 2) visual assessment of collateral, 3) assessment of fair value, 4) assessment according to Basel II requirements, 5) documentation, 6) accounting in core system. Fair valuation is being done on a regular basis by specialists with appropriate qualification. Market prices are collected from different open information sources and calculated using different models. Verification of assessment is being done using four eyes principle.

Valuation of collateral, including periodic reassessment of fair value, is performed by the Bank's credit department or by an independent appraiser with the use of templates and methodology provided by the Group's credit department. Valuation reports of independent appraisers are verified for compliance with the Group guidelines. The following methods and techniques are used for valuation:

- Residential real estate: (i) Sales comparison approach; (ii) Market value matrixes per square meter; (iii) Statistical methods based on market data;
- Commercial real estate: (i) Sales comparison approach; (ii) Income approach (Discounted Cash Flow or Direct Capitalization methods); (iii) For real estate under construction and infrastructure objects − Costs of Replacement approach;
- Quoted financial instruments: Market quotes;
- Other assets: (i) Sales comparison approach; (ii) Income approach (Discounted Cash Flow or Direct Capitalization methods); (iii) Costs of Replacement approach; (iv) Nominal or face value (e.g. for non-quoted shares).

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2020:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	156 071	1 391 965	265 489	24 992
Retail loans	151 499	366 644	154 131	595
SME loans	25 912	182 965	1 683	781
Middle business	59 481	747 975	14 056	3 621
Total	**392 963**	**2 689 549**	**435 359**	**29 989**

9 Loans and Advances to Customers (Continued)

Modified and restructured loans (continued)

The effect of collateral at 31 December 2019:

	Over-collateralised assets		Under-collateralised assets	
In millions of Russian Roubles	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	177 985	797 805	205 961	29 627
Retail loans	139 495	317 291	160 836	833
SME loans	24 888	149 766	1 491	340
Middle business	61 913	371 074	14 284	3 662
Total	**404 281**	**1 635 936**	**382 572**	**34 462**

Disclosure of the fair value of the Group's loans and advances to customers at 31 December 2020 and 2019 is presented in Note 39. Geographical, currency, liquidity and interest rate analysis of loans and advances to customers are disclosed in Note 34. The information on related party balances is disclosed in Note 40.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows at 31 December 2020:

In millions of Russian Roubles	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Finance lease payments receivable at 31 December 2020	**12 544**	**14 379**	**1 350**	**28 273**
Unearned finance income	(2 141)	(1 870)	(216)	**(4 227)**
Impairment loss provision	(156)	(151)	(12)	**(319)**
Present value of lease payments receivable at 31 December 2020	**10 247**	**12 358**	**1 122**	**23 727**

Finance lease payments receivable (gross investment in the leases) and their present values are as follows at 31 December 2019:

In millions of Russian Roubles	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Finance lease payments receivable at 31 December 2019	**9 604**	**12 053**	**1 168**	**22 825**
Unearned finance income	(1 818)	(1 798)	(222)	**(3 838)**
Impairment loss provision	(166)	(104)	(3)	**(273)**
Present value of lease payments receivable at 31 December 2019	**7 620**	**10 151**	**943**	**18 714**

The carrying amount of the finance lease receivables includes RR 23 727 millions (2019: RR 18 714 millions) of guaranteed residual values accruing to the benefit of the Group.

10 Investment Securities

Investment securities comprise:

In millions of Russian Roubles	31 December 2020	31 December 2019
Debt securities at amortised cost		
Bonds of Central Bank of Russia	110 652	100 945
Corporate eurobonds	23 673	19 702
Corporate bonds	10 115	6 612
Eurobonds of the European Bank for Reconstruction and Development	–	2 901
Federal loan bonds (OFZ)	295	240
Less: allowance for impairment	(407)	(322)
Debt securities at amortised cost	**144 328**	**130 078**
Debt securities at FVOCI		
Federal loan bonds (OFZ)	159	158
Corporate bonds	–	2 966
Equity securities at FVOCI	108	131
Total securities at FVOCI	**267**	**3 255**
Debt securities at FVtPL		
Federal loan bonds (OFZ)	15 991	11 310
Debt securities at FVtPL	**15 991**	**11 310**
Total Investment securities	**160 586**	**144 643**

An analysis of changes in the ECLs during the year ended 31 December 2020 is, as follows:

Debt securities at amortised cost	**Stage 1**	**Stage 2**	**Total**
ECLs as at 1 January 2020	**4**	**318**	**322**
Transfers to Stage 1	–	–	**–**
Transfers to Stage 2	(1)	1	**–**
New assets originated or purchased	22	30	**52**
Changes due to change in credit risk (net)	(13)	(4)	**(17)**
Assets derecognised or repaid (excluding write-offs)	(5)	–	**(5)**
Foreign exchange adjustments	–	55	**55**
At 31 December 2020	**7**	**400**	**407**

An analysis of changes in the ECLs during the year ended 31 December 2019 is, as follows:

Debt securities at amortised cost	**Stage 1**	**Stage 2**	**Total**
ECLs as at 1 January 2019	**3**	**178**	**181**
Transfers to Stage 1	5	(5)	**–**
Transfers to Stage 2	(1)	1	**–**
New assets originated or purchased	4	97	**101**
Changes due to change in credit risk (net)	(7)	63	**56**
Foreign exchange adjustments	–	(16)	**(16)**
At 31 December 2019	**4**	**318**	**322**

10 Investment Securities (Continued)

Analysis by credit quality of Investment Securities outstanding at 31 December 2020 is as follows:

In millions of Russian Roubles	**Bonds of Central Bank of Russia**	**Bonds of the European Bank for Reconst-ruction and Development (EBRD bonds)**	**Corporate eurobonds**	**Corporate bonds**	**Federal loan bonds**	**Equity securities at FVOCI**	**Total**
Neither past due nor impaired (at fair value)							
Minimal risk	110 649	–	–	–	16 444	–	**127 093**
Excellent credit standing	–	–	–	2 461	–	–	**2 461**
Very good credit standing	–	–	15 211	1 890	–	–	**17 101**
Good credit standing	–	–	8 097	5 726	–	–	**13 823**
Sound credit standing	–	–	–	–	–	108	**108**
Acceptable credit standing	–	–	–	–	–	–	**–**
Total investment securities	**110 649**	**–**	**23 308**	**10 077**	**16 444**	**108**	**160 586**

Analysis by credit quality of Investment Securities outstanding at 31 December 2019 is as follows:

In millions of Russian Roubles	**Bonds of Central Bank of Russia**	**Bonds of the European Bank for Reconst-ruction and Development (EBRD bonds)**	**Corporate eurobonds**	**Corporate bonds**	**Federal loan bonds**	**Equity securities at FVOCI**	**Total**
Neither past due nor impaired (at fair value)							
Minimal risk	100 944	2 902	–	–	11 707	–	**115 553**
Excellent credit standing	–	–	15 725	399	–	–	**16 124**
Very good credit standing	–	–	3 694	6 175	–	–	**9 869**
Good credit standing	–	–	–	–	–	131	**131**
Sound credit standing	–	–	–	2 966	–	–	**2 966**
Acceptable credit standing	–	–	–		–	–	**–**
Total investment securities	**100 944**	**2 902**	**19 419**	**9 540**	**11 707**	**131**	**144 643**

For securities that are carried at their fair value based on observable market data, the Group does not analyse or monitor separate impairment indicators.

As of 31 December 2020 and as of 31 December 2019 bonds were neither past due nor impaired and had good credit rating.

Geographical, currency, liquidity and interest rate analysis of Investment securities held to maturity are disclosed in Note 34. Refer to Note 39 for the disclosure of the fair value of each class of investment.

11 Investment in Associates

In millions of Russian Roubles	**2020**	**2019**
Raiffeisen Life	1 289	972
Total investment in associates	**1 289**	**972**

11 Investment in Associates (Continued)

The table below summarizes the movements in the carrying amount of the Group's investment in associates.

In millions of Russian Roubles	2020	2019
Carrying amount at 1 January	**972**	**526**
Share of other comprehensive income of associates	87	271
Dividends received	(152)	(110)
Share of results of associates for the reporting period	382	285
Carrying amount at 31 December	**1 289**	**972**

The Group's interests in its principal associates were as follows:

	2020		2019	
Name	**% ownership interest held (% of voting rights if different)**	**Place of business (country of incorporation if different)**	**% ownership interest held (% of voting rights if different)**	**Place of business (country of incorporation if different)**
Raiffeisen Life	25%	Russian Federation	25%	Russian Federation

Summarized financial information of material associates is as follows at 31 December 2020:

In millions of Russian Roubles	Raiffeisen Life
Current assets	3 385
Non-current assets	26 637
Current liabilities	1 382
Non-current liabilities	23 778
Revenue	5 934
Profit for the year	1 528
Total comprehensive income	1 877
Cash flows from operating activities	2 173
Cash flows from investing activities	(1 586)
Cash flows from financing activities	(663)

Summarized financial information of material associates is as follows at 31 December 2019:

In millions of Russian Roubles	Raiffeisen Life
Current assets	3 481
Non-current assets	22 686
Current liabilities	985
Non-current liabilities	21 497
Revenue	6 441
Profit for the year	1 141
Total comprehensive income	2 542
Cash flows from operating activities	3 467
Cash flows from investing activities	(2 800)
Cash flows from financing activities	(465)

12 Fixed Assets and Intangible Assets

In millions of Russian Roubles	Note	Premises	Office and computer equipment	Leasehold improve-ments	Software and licenses	Construc-tion in progress	Total
Cost at 1 January 2018		11 063	10 118	1 877	13 083	726	**36 867**
Accumulated depreciation and amortisation and impairment		(2 650)	(7 819)	(1 453)	(10 619)	–	**(22 541)**
Carrying amount at 1 January 2018		**8 413**	**2 299**	**424**	**2 464**	**726**	**14 326**
Additions		189	1 038	127	1 525	645	**3 524**
Transfers		(2)	2	–	–	–	**–**
Depreciation and Amortisation charge	29	(212)	(817)	(109)	(2 125)	–	**(3 263)**
Impairment	29	(395)	–	–	–	–	**(395)**
Disposals (at cost)		(388)	(553)	(32)	(2)	(327)	**(1 302)**
Disposals (accumulated depreciation and amortisation)		73	522	17	2	–	**614**
Carrying amount at 31 December 2019		**7 678**	**2 491**	**427**	**1 864**	**1 044**	**13 504**
Cost at 31 December 2019		**10 862**	**10 605**	**1 972**	**14 606**	**1 044**	**39 089**
Accumulated depreciation and amortisation and impairment		(3 184)	(8 114)	(1 545)	(12 742)	–	**(25 585)**
Carrying amount at 31 December 2019		**7 678**	**2 491**	**427**	**1 864**	**1 044**	**13 504**
Additions		112	1 612	201	1 080	396	**3 401**
Depreciation and Amortisation charge	29	(201)	(1 014)	(116)	(1 356)	–	**(2 687)**
Impairment	29	(1 062)	–	–	(32)	–	**(1 094)**
Disposals (at cost)		(3)	(791)	(336)	(58)	(429)	**(1 617)**
Disposals (accumulated depreciation and amortisation)		1	718	281	20	–	**1 020**
Carrying amount at 31 December 2020		**6 525**	**3 016**	**457**	**1 518**	**1 011**	**12 527**
Cost at 31 December 2020		10 971	11 426	1 837	15 628	1 011	**40 873**
Accumulated depreciation and amortisation and impairment		(4 446)	(8 410)	(1 380)	(14 110)	–	**(28 346)**
Carrying amount at 31 December 2020		**6 525**	**3 016**	**457**	**1 518**	**1 011**	**12 527**

Construction in progress consists mainly of construction, refurbishment of premises and software. Upon completion, assets are transferred to premises and equipment. As of 31 December 2020 and as of 31 December 2019 for premises with signs of impairment the recoverable amount was estimated as a fair value less costs to sell in accordance with an internal appraisal.

13 Leases

Amounts recognised in the consolidated statement of financial position and consolidated income statement

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year ended 31 December 2020:

	Right-of-use assets			
In millions of Russian Roubles	**Premises and land**	**Office and computer equipment**	**Total**	**Lease liability**
As at 1 January 2020	**3 589**	**86**	**3 675**	**3 612**
Additions	722	11	**733**	728
Disposals (cost)	(88)	(7)	**(95)**	(79)
Disposals (accumulated depreciation)	16	2	**18**	
Amortization expense	(870)	(26)	**(896)**	
Interest expense				268
Exchange difference				33
Payments				(1 014)
As at 31 December 2020	**3 369**	**66**	**3 435**	**3 548**

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year ended 31 December 2019:

	Right-of-use assets			
In millions of Russian Roubles	**Premises and land**	**Office and computer equipment**	**Total**	**Lease liability**
As at 1 January 2019	**4 136**	**112**	**4 248**	**4 039**
Additions	1 113	25	**1 138**	1 136
Disposals (cost)	(810)	(32)	**(842)**	(656)
Disposals (accumulated depreciation)	211	2	**213**	
Amortization expense	(1 061)	(21)	**(1 082)**	
Interest expense				354
Exchange difference				(26)
Payments				(1 235)
As at 31 December 2019	**3 589**	**86**	**3 675**	**3 612**

14 Derivatives and Other Financial Assets

In millions of Russian Roubles	**2020**	**2019**
Fair value of currency rate based financial derivatives	10 047	7 880
- *Foreign exchange swaps*	*6 068*	*2 830*
- *Cross currency interest rate swaps*	*3 184*	*3 988*
- *Foreign exchange forwards*	*705*	*832*
- *Foreign exchange options*	*90*	*230*
Fair value of interest rate based financial derivatives	6 498	5 925
- *Interest rate swaps*	*6 493*	*5 925*
- *Interest rate options*	*5*	–
Fair value of interest rate based financial derivatives in hedge accounting	1 538	–
- *Interest rate swaps*	*1 538*	–
Plastic card receivables	9 138	4 181
Prepayments made to acquire equipment for leasing purposes	1 394	1 682
Trade receivables	758	1 531
Other	1 366	832
Total derivatives and other financial assets	**30 739**	**22 031**

To protect itself against changes in the cash flows of financial assets due to movements in interest rates (CBR key rate), the Group entered portfolio cash flow hedge relationships on 1 May 2020. The Group designated certain interest rate swaps (with maturities within four years) as hedging instruments together with its floating rate corporate loans as hedged items. As at 31 December 2020 the positive fair values of the hedging derivative financial instruments was RR 1 379 million and the notional amount was RR 18 100 million. As at 31 December 2020 the effective part of the hedge relationship in amount of RR 82 million is reported within other comprehensive income. The information regarding the loans to customers, which were being hedged, is disclosed in Note 9.

To protect itself against changes in the fair value of financial assets due to movements in interest rates (Mosprime 3M), the Group entered portfolio fair value hedge relationships on 1 November 2020. The Group designated certain interest rate swaps (with maturities within five years) as hedging instruments together with its fixed rate mortgages as hedged items. As at 31 December 2020 the positive fair values of the hedging derivative financial instruments was RR 158 million and the notional amount was RR 56 670 million while the rest of the derivatives having negative fair value that are disclosed in Note 20. The information regarding the loans to customers, which were being hedged, is disclosed in Note 9.

The primary factors that the Group considers whether a receivable is impaired are its overdue status and recoverability of related collateral, if any.

As at 31 December 2020 and as at 31 December 2019 derivatives and other financial assets of the Group are neither past due nor impaired. The Group has net settled derivative financial instruments with the counterparties with the credit rating of good and above.

For information about offsetting please refer to Note 36.

Refer to Note 39 for the disclosure of the fair value of each class of derivatives and other financial assets. Geographical, maturity, and interest rate analysis of derivatives and other financial assets are disclosed in Note 34. The information on related party balances is disclosed in Note 40.

15 Other Assets

In millions of Russian Roubles	2020	2019
Prepayments for services and equipment	4 351	3 290
Repossessed collateral	280	744
Prepaid taxes other than on income	73	134
Other	351	1 038
Total other assets	**5 055**	**5 206**

Repossessed collateral represents real estate assets and other assets acquired by the Group in settlement of overdue loans. The Group currently evaluates the possibilities of disposing of these assets. The carrying amount of repossessed collateral less accumulated impairment losses is RR 280 million (2019: RR 744 million).

16 Non-Current Assets Classified as Held for Sale

Major classes of non-current assets classified as held for sale are as follows:

In millions of Russian Roubles	2020	2019
Non-current assets held for sale		
Premises and equipment	229	364
Total non-current assets held for sale	**229**	**364**

The Group is actively marketing these assets and expects the sale to complete in the second quarter of 2021.

17 Due to Other Banks

In millions of Russian Roubles	2020	2019
Correspondent accounts and overnight placements of other banks	49 902	34 852
Short-term placements of other banks	2 384	7 975
Long-term placements of other banks	–	17
Direct sale and repurchase agreements with securities with other financial institutions	–	18 451
Loans from Central Bank	56	336
Total due to other banks	**52 342**	**61 631**

Carrying value of each class of due to other banks approximates their fair value at 31 December 2020 and 31 December 2019. Refer to Note 39.

At 31 December 2020 there were no Loans from Central Bank secured by securities and included in amounts due to other banks (31 December 2019: no).

At 31 December 2020 there were no liabilities from sale and repurchase agreements included in amounts due to other banks (31 December 2019: 18 451 million). As at 31 December 2020 the fair value of securities sold under direct sale and repurchase agreements with other banks amounted to RR nil million (31 December 2019: RR 20 173 million, RR 1 981 million of them were securities owned by the Group, and RR 18 192 of them were securities purchased by the Group before under reverse repo).

Geographical, currency, liquidity and interest rate analysis of due to other banks are disclosed in Note 34.

The information on related party balances is disclosed in Note 40.

For information about offsetting please refer to Note 36.

18 Customer Accounts

In millions of Russian Roubles	2020	2019
State and public organisations		
- Current/settlement accounts	1 682	5 909
- Term deposits	23	21 970
Legal entities		
- Current/settlement accounts	320 673	229 298
- Term deposits	171 457	217 166
Individuals		
- Current/demand accounts	574 386	363 028
- Term deposits	61 870	117 711
Total customer accounts	**1 130 091**	**955 082**

Economic sector concentrations within customer accounts are as follows:

	2020		2019	
In millions of Russian Roubles	Amount	%	Amount	%
Individuals	636 256	56,30%	480 739	50,33%
Trade	155 070	13,73%	100 264	10,50%
Real estate	98 793	8,75%	86 405	9,05%
Manufacturing	74 188	6,56%	74 447	7,79%
Transport and communication	62 233	5,51%	74 179	7,77%
Financial services	46 578	4,12%	48 672	5,10%
Mining	17 106	1,51%	36 082	3,78%
Electricity, gas and water supply	6 384	0,56%	3 292	0,34%
Other	33 483	2,96%	51 002	5,34%
Total customer accounts	**1 130 091**	**100,00%**	**955 082**	**100,00%**

At 31 December 2020 the aggregate balances of twenty largest customers amounted to RR 73 523 million (31 December 2019: RR 125 259 million) or 6,5% (31 December 2019: 13,1%) of the total customer accounts.

At 31 December 2020 included in customer accounts are deposits of RR 6 903 million (31 December 2019: RR 6 772 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 35.

At 31 December 2020 included in customer accounts are deposits of RR 1 568 million (31 December 2019: RR 3 090 million) held as collateral for irrevocable commitments under guarantees. Refer to Note 35.

Disclosure of the fair value of the Group's customer accounts at 31 December 2020 and 31 December 2019 are presented in Note 39.

Geographical, currency, liquidity and interest rate analysis of customer accounts are disclosed in Note 33. The information on related party balances is disclosed in Note 40.

Analysis of customer accounts by segments is set out below:

In millions of Russian Roubles	2020	2019
Customer accounts of individuals (Retail)	636 256	480 739
Customer accounts of corporates (Corporate)	314 214	303 497
Customer accounts of small and micro entities (SME)	97 744	81 431
Customer accounts of medium entities (Middle business)	80 172	61 536
Customer accounts of state and municipal organisations (Public sector)	1 705	27 879
Total customer accounts	**1 130 091**	**955 082**

19 Term Borrowings from the Parent Bank

In millions of Russian Roubles	2020	2019
Subordinated Loans from the Parent Bank	38 941	32 701
Total term borrowings from the Parent Bank	**38 941**	**32 701**

In September 2014 the Group raised two Subordinated loans from the Parent Bank. Loan in the amount of USD 130 million is made available for an indefinite period of time. The borrower may at its option but only with the prior consent of the lender and the prior written annual consent of CBR repay the loan, on the 5th anniversary of the date of inclusion of the loan into the own funds and on each subsequent anniversary of that date. Loan in the amount USD 165 million has maturity date on 27 September 2021. For both loans the Group shall pay interest on the outstanding principal amounts at the Libor dependent floating interest rates.

In April 2015 the Group raised Subordinated loan from the Parent Bank in amount of USD 228 million. The loan has maturity date on 17 September 2029. For this loan the Group pays interest on the outstanding principal amount at Libor dependent floating interest rates.

Disclosure of the fair value of term borrowings from the Parent Bank at 31 December 2020 and 31 December 2019 are presented in Note 39.

Geographical, currency, liquidity and interest rate analysis of term borrowings from the Parent Bank and from other financial institutions are disclosed in Note 33. The information on related party balances is disclosed in Note 40.

20 Debt Securities in Issue

In July 2020 the Group has started placing its first investment bonds of the BRO-01 series in amount of RR 250 million with full capital protection. The yield level depends on the dynamics and value of the STOXX50E index at the time of bond redemption. Raiffeisenbank guarantees investors a full return on their initial investment and a basic income of 0,01% per annum, regardless of the dynamics of the STOXX50E index. The bonds will have a maturity period of one year, with a par value of 1 000 Roubles.

The Group designated these bonds as the entire hybrid contract at fair value through profit and loss.

Disclosure of fair value of debt securities in issue is presented in Note 39.

Geographical, currency, liquidity and interest rate analysis of debt securities in issue is disclosed in Note 34.

21 Derivatives and Other Financial Liabilities

Derivatives and other financial liabilities comprise the following:

In millions of Russian Roubles	**2020**	**2019**
Fair value of interest rate based financial derivatives	7 229	7 796
- *Interest rate swaps*	*7 224*	*7 796*
- *Interest rate options*	*5*	–
Fair value of currency rate based financial derivatives	5 771	12 518
- *Foreign exchange swaps*	*3 247*	*6 243*
- *Cross currency interest rate swaps*	*1 966*	*5 925*
- *Foreign exchange forwards*	*444*	*193*
- *Foreign exchange options*	*114*	*157*
Plastic cards payables	5 483	256
Shortselling of trading assets	5 378	6 094
Other accrued expenses	4 489	4 389
Fair value of interest rate based financial derivatives in fair value hedge accounting	2 931	–
- *Interest rate swaps*	*2 931*	–
Provision for credit related commitments	2 461	2 542
Advances from lessees and other financial liabilities	1 111	941
Unsettlement transaction of funds of the Group's customers	1 001	127
Trade payables	81	246
Other	472	216
Total derivatives and other financial liabilities	**36 407**	**35 125**

To protect itself against changes in the fair value of financial assets due to movements in interest rates (Mosprime 3M), the Group entered portfolio fair value hedge relationships on 1 November 2020. The Group designated certain interest rate swaps (with maturities within four years) as hedging instruments together with its fixed rate mortgages as hedged items. As at 31 December 2020 the negative fair values of the hedging derivative financial instruments was RR 2 931 million and the notional amount was RR 93 050 million while the rest of the derivatives having positive fair value that are disclosed in Note 14. The information regarding the loans to customers, which were being hedged, is disclosed in Note 9.

Shortselling of trading assets are selling deals of bond securities that the Group has obtained as collaterals in reverse repo agreements and currently doesn't keep in its own securities' portfolio.

Provision for credit related commitments represents specific provisions created for expected losses on financial guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Movement in the provisions for credit related commitments is presented in Note 35.

For information about offsetting please refer to Note 36.

Disclosure of the fair value of the Group's derivatives and other financial liabilities at 31 December 2020 and 31 December 2019 are presented in Note 39.

Currency, geographical and liquidity analysis of derivatives and other financial liabilities are disclosed in Note 34. Information on related party transactions is presented in Note 40.

22 Other Liabilities

In millions of Russian Roubles	2020	2019
Accrued staff bonuses	4 465	4 382
Other deferred commission income	1 012	751
Provisions for liabilities and charges	667	2 579
Taxes other than on income	603	498
Prepayment for equipment	271	–
Deferred commission income from financial guarantees	166	140
Other	8	47
Total other liabilities	**7 192**	**8 397**

As of 31 December 2020 current portion of non-financial liabilities comprised RR 7 192 million (2019: 8 397 million).

Movements in provisions for liabilities and charges are as follows:

In millions of Russian Roubles	2020	2019
Carrying amount at 1 January	**2 579**	**1 546**
Provision charge during the year	714	1 546
Utilisation of provision	(524)	(83)
Release of provision	(2 102)	(430)
Carrying amount at 31 December	**667**	**2 579**

Information on related party balances is disclosed in Note 40.

23 Share Capital

In millions of RR, except for number of shares	Number of outstanding shares, in thousands	Nominal amount	Inflation adjusted amount
At 1 January 2019	36 565	36 711	36 711
At 31 December 2019	36 565	36 711	36 711
At 31 December 2020	36 565	36 711	36 711

At 31 December 2020, all of the Bank's outstanding shares were authorised, issued and fully paid.

During 2020 the Group did not receive any capital contribution from its shareholders.

All ordinary shares have a nominal value of RR 1 million per share (2019: RR 1 million per share) and rank equally. Each share carries one vote.

24 Additional Paid-in Capital and Other Reserves

Additional paid-in capital comprises additional contribution made by the shareholder to the Bank.

At 31 December 2020 additional paid-in capital in amount of RR 1 520 millions represents amounts contributed by shareholders in addition to the share purchase (2019: RR 1 520 millions).

Other reserves comprise fair value differences on debt securities at fair value through other comprehensive income net of deferred tax.

In accordance with the Russian legislation, the Bank on a standalone basis distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's unconsolidated reserves under Russian Accounting Rules at 31 December 2020 are RR 127 949 millions (2019: RR 131 343 millions).

25 Interest Income and Expense

In millions of Russian Roubles	**2020**	**2019**
Interest income		
Interest income calculated using effective interest rate		
Loans and advances to retail customers	39 071	38 840
Loans and advances to legal entities	33 958	35 542
Debt securities at amortised cost	6 624	5 020
Cash and cash equivalents	1 131	2 644
Interest income from reverse repo transactions	811	1 853
Interest income on impaired financial assets	775	422
Due from other banks	166	224
Debt securities at fair value through other comprehensive income	45	3 660
Other interest income		
Interest rate swap contracts	19 614	23 021
Foreign exchange swap contracts	4 913	6 794
Cross-currency interest rate swap contracts	3 602	5 861
Trading securities	2 026	1 278
Debt securities at fair value through profit and loss	850	655
Total interest income	**113 586**	**125 814**
Interest expense		
Interest rate swap contracts	19 789	22 819
Foreign exchange swap contracts	6 910	14 878
Term deposits of legal entities	6 408	7 607
Current/settlement accounts	7 418	6 545
Cross-currency interest rate swap contracts	4 549	5 619
Term borrowings from the Parent Bank	2 797	3 392
Term deposits of individuals	2 477	4 328
Term placements of other banks	736	1 754
Interest expense on shortselling of trading bonds	542	560
Lease liability	268	354
Correspondent accounts of other banks	121	141
Interest expense from repo transactions	39	214
Placements of the Central Bank	8	87
Total interest expense	**52 062**	**68 298**
Net interest income	**61 524**	**57 516**

26 Fee and Commission Income and Expense

In millions of Russian Roubles	2020	2019
Fee and commission income		
Commissions on operations with plastic cards	12 834	14 320
Commissions on settlement transactions	7 092	6 421
Commissions on documentary business and guarantees	2 726	2 271
Fiduciary activities	2 384	1 605
Insurance commission income	1 664	1 924
Commissions on export operations	1 299	1 167
Commissions on transactions with securities	1 208	927
Credit facility fee	1 006	1 160
Commissions on cash operations	774	957
Early and late repayment fees	442	381
Consulting service income	405	342
Other	568	613
Total fee and commission income	**32 402**	**32 088**
Fee and commission expense		
Commissions on operations with plastic cards	7 499	8 794
Commissions for agency services	731	563
Commissions on settlement transactions	640	564
Commissions on cash operations	323	348
Commissions on transactions with securities	229	238
Commissions on transfer payments	97	108
Other	269	146
Total fee and commission expense	**9 788**	**10 761**
Net fee and commission income	**22 614**	**21 327**

27 Unrealized Gains less Losses / (Losses Net of Gains) from Derivative Financial Instruments

In millions of Russian Roubles	2020	2019
Foreign exchange swaps	6 234	(7 102)
Cross currency interest rate swaps	2 144	(7 220)
Interest rate swaps	1 024	(293)
Foreign exchange options	(96)	73
Foreign exchange forwards	(379)	1 129
Total unrealized gains less losses / (losses net of gains) from derivative financial instruments	**8 927**	**(13 413)**

28 Realized (Losses Net of Gains) / Gains less Losses from Financial Derivatives

In millions of Russian Roubles	2020	2019
Interest rate swaps	5	–
Cross currency interest rate swaps	2	399
Foreign exchange options	(342)	207
Foreign exchange forwards	(806)	1 754
Total realized (losses net of gains) / gains less losses from financial derivatives	**(1 141)**	**2 360**

29 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2020	2019
Staff costs		20 268	19 531
IT services		2 667	1 562
Deposit insurance fee		2 636	3 291
Advertising and marketing		2 515	2 245
Depreciation of premises and equipment	12	1 331	1 138
Amortization of intangible assets	12	1 356	2 125
Premises and equipment maintenance expenses		1 256	1 497
Amortization of right-of-use asset	13	896	1 082
Impairment of Fixed Assets and Intangible Assets	12	1 094	395
Professional services		794	729
Communication expenses		510	371
Taxes other than on income		454	357
Security expenses		208	245
Short-term leases and leases of low-value assets		136	150
Other		1 434	1 498
Total administrative and other operating expenses		**37 555**	**36 216**

Included in staff costs are statutory social security and pension contributions of RR 3 704 million (2019: RR 3 484 million). Staff costs also comprise employee bonuses in the amount of RR 1 913 million (2019: RR 1 868 million). Provisions for employee bonuses generated monthly on accrual basis.

Included in staff costs are the contributions to the defined contribution pension plan, paid by the Group for its employees in the amount of RR 62 million (2019: RR 46 million).

30 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In millions of Russian Roubles	2020	2019
Current tax	8 864	16 048
Deferred tax	1 317	(5 360)
Income tax expense for the year	**10 181**	**10 688**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2020 income is 20% (2019: 20%). The income tax rate applicable to the majority of income of subsidiaries ranges from 10% to 20% (2019: 10-20%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	2020	2019
Profit before tax	**48 259**	**48 320**
Theoretical tax charge at statutory rate (2020: 20%; 2019: 20%)	**9 652**	**9 664**
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	283	682
- Income on government securities taxed at different rates	(376)	(433)
- Non-taxable loss from other taxable jurisdictions	132	(23)
- Other	490	798
Income tax expense for the year	**10 181**	**10 688**

30 Income Taxes (Continued)

(c) Deferred taxes analyzed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2019: 20%).

In t millions of Russian Roubles	**1 January 2020**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) to OCI**	**31 December 2020**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(2 076)	56	−	(2 020)
Loan impairment provision	(3 828)	(670)	−	(4 498)
Fair valuation of trading securities and repurchase receivables related to trading securities and other securities at fair value through profit or loss and investments securities available for sale and repurchase receivables related to other securities at fair value through profit or loss	385	(796)	5	(406)
Loans and advances to customers	2 531	(134)	−	2 397
Fair value of derivative financial instruments	2 521	(2 952)	(16)	(447)
Provision for credit related commitments	508	(17)	−	491
Other deferrals and accruals	3 908	3 196	−	7 104
Net deferred tax asset/(liability)	**3 949**	**(1 317)**	**(11)**	**2 621**

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In millions of Russian Roubles	**1 January 2019**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) to OCI**	**31 December 2019**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(982)	(1 094)	−	(2 076)
Loan impairment provision	(5 342)	1 514	−	(3 828)
Fair valuation of trading securities and repurchase receivables related to trading securities and other securities at fair value through profit or loss and investments securities available for sale and repurchase receivables related to other securities at fair value through profit or loss	(102)	487	−	385
Debt securities in issue	3	(3)	−	−
Loans and advances to customers	3 325	(794)	−	2 531
Fair value of derivative financial instruments	(1 317)	3 838	−	2 521
Provision for credit related commitments	333	175	−	508
Other deferrals and accruals	2 671	1 237	−	3 908
Net deferred tax asset/(liability)	**(1 411)**	**5 360**	**−**	**3 949**

30 Income Taxes (Continued)

(c) Deferred taxes analyzed by type of temporary difference (continued)

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

	2020			2019		
In millions of Russian Roubles	**Before-tax amount**	**Income tax expense**	**Net-of-tax amount**	**Before-tax amount**	**Income tax expense**	**Net-of-tax amount**
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income arising during the year	82	(16)	66	4	(1)	3
Losses less gains on equity instruments at fair value through other comprehensive income	(24)	5	(19)	(2)	–	(2)
Other comprehensive income/ (expense)	**58**	**(11)**	**47**	**2**	**(1)**	**1**

31 Dividends

In millions of Russian Roubles	**2020**	**2019**
Dividends payable at 1 January		
Dividends declared during the year	39 800	6 842
Dividends paid during the year	(39 800)	(6 842)
Dividends payable at 31 December	**–**	**–**
Dividends per share declared during the year, in the Russian Roubles	**1 088**	**187**

All dividends are declared and paid in the Russian Roubles.

32 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person − or group of persons − who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by Managing board of the Group.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organized on a basis of three primary business divisions:

- Corporate banking − comprises corporate lending, loans to corporate entities and state and municipal organizations, corporate deposit services, trade finance operations, structured corporate lending, corporate finance advisory services and leasing services.
- Retail banking − comprises retail demand and term deposit services, credit and debit card services, retail lending, including consumer loans and personal instalment loans and loans to small and micro-entities, auto loans and mortgages, money transfers and private banking services.
- Proprietary business − comprises securities trading, debt and equity capital markets services, foreign currency and derivative products, structured financing, lending, including loans and advances to banks and other financial institutions and other transactions.

32 Segment Analysis (Continued)

(a) Description of products and services from which each reportable segment derives its revenue (continued)

In addition to the primary business divisions, the performance of the Group is being assessed on a basis of geographical regions located across the Russian Federation. Since 2020, there have been changes in the regional management model due to the reorganization of the branch network structure: four macro-regions have been formed instead of seven hubs. The Bank has disclosed updated information on profit or loss of the reportable segment and assets and liabilities for the year ended 31 December 2019 by geographical location due to the reorganization of the branch network structure, which led to a change in the composition of its reportable segment.

At 31 December 2020 the geographical regions are Moscow, Centre, West and Siberia-Ural (2019: Moscow, Centre, North-West, Siberia, South, Ural and Volga):

- The Centre includes territories of the Centre and South hubs with the accession of the Samara and Saratov regions;
- The West includes territories that were previously part of the North-West and Volga hubs, with the exception of the Samara and Saratov regions, the Republic of Bashkortostan and the Perm Territory;
- Siberia-Ural includes territories of the Ural and Siberia hubs with the accession of the Republic of Bashkortostan and the Perm Territory.

(b) Factors that management used to identify the reportable segments

The Group’s business divisions are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the operating segments are materially the same as those described in the summary of significant accounting policies except for: (i) the fair value changes in available for sale securities that are reported within the segments’ profits or losses rather than in other comprehensive income; (ii) use of a transfer pricing system, (iii) different classification of certain lines of income and expenses and (iv) some balances and operations are excluded from segment analysis since they are monitored separately and on a less regular basis. In accordance with the transfer pricing system used by the Group funds are generally reallocated at internal interest rates, which are determined by reference to market interest rate benchmarks.

Segment assets and liabilities are reported to the CODM net of inter-segment assets and liabilities.

(d) Information about reportable segment profit or loss, assets and liabilities by business divisions

Assets and liabilities of business segments of the Group are set out below:

In millions of Russian Roubles	31 December 2020	31 December 2019
Corporate business	525 460	481 526
Retail business	332 663	329 618
Proprietary business	591 152	462 707
Total business division assets	**1 449 275**	**1 273 851**
Corporate business	365 088	339 515
Retail business	738 248	564 235
Proprietary business	171 266	193 480
Total business division liabilities	**1 274 602**	**1 097 230**

32 Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities by business divisions (continued)

Investments in associates are not allocated between segments. Non-financial assets and liabilities are located in Russia.

Business divisions of the Group for the year ended 31 December 2020 are as follows:

In millions of Russian Roubles	**Corporate business**	**Retail business**	**Proprietary business**	**Total**
Interest income	31 641	42 663	39 160	**113 464**
Interest expense	(7 176)	(8 768)	(36 186)	**(52 130)**
Funds transfer pricing	(10 447)	(1 774)	12 221	**–**
Net fee and commission result	9 483	19 156	2 557	**31 196**
Provision for loan impairment	(2 487)	(6 714)	(65)	**(9 266)**
Trading result	481	(533)	1 944	**1 892**
General administrative expenses	(7 742)	(26 440)	(1 945)	**(36 127)**
Ineffectiveness from hedge accounting and amortization of hedge accounting adjustment	–	–	(118)	**(118)**
Other operating profit/(loss)	(9)	(76)	(823)	**(908)**
Total business division result before tax	**13 744**	**17 514**	**16 745**	**48 003**
Income taxes	–	–	–	**(10 182)**
Total business division result after tax	**13 744**	**17 514**	**16 745**	**37 821**

Business divisions of the Group for the year ended 31 December 2019 are as follows:

In millions of Russian Roubles	**Corporate business**	**Retail business**	**Proprietary business**	**Total**
Interest income	33 254	42 371	50 841	**126 466**
Interest expense	(8 520)	(8 769)	(51 536)	**(68 825)**
Funds transfer pricing	(11 709)	(1 294)	13 003	**–**
Net fee and commission result	8 291	19 589	1 731	**29 611**
Provision for loan impairment	(1 613)	(3 338)	(50)	**(5 001)**
Trading result	(104)	(95)	1 548	**1 349**
General administrative expenses	(6 917)	(26 383)	(1 540)	**(34 840)**
Other operating profit/(loss)	(117)	(514)	17	**(614)**
Total business division result before tax	**12 565**	**21 567**	**14 014**	**48 146**
Income taxes	–	–	–	**(10 688)**
Total business division result after tax	**12 565**	**21 567**	**14 014**	**37 458**

32 Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities by business divisions (continued)

Major customers

The Group does not have any single customer, from which it earns revenue representing 10% of more of the total revenues. Based on domicile of the customers substantially all of the revenues are from the Russian customers.

Major ratio calculations for the reportable segment of the Group for the year ended 31 December 2020 and the year ended 31 December 2019 are set out below:

In millions of Russian Roubles	**31 December 2020**	**31 December 2019**
Capital expenditure	**3 401**	**3 524**
Cost/income ratio	39,54%	40,45%
Average equity	175 877	161 140
Return on equity before tax	27,44%	29,99%
Return on equity after tax	21,65%	23,35%

Capital expenditure represents additions to non-current assets other than financial instruments.

(e) Information about reportable segment profit or loss, assets and liabilities by geographical location

Hubs of the Group for the year ended 31 December 2020 and 31 December 2019 are as follows:

In millions of Russian Roubles	**31 December 2020**	**31 December 2019**
Head Office	588 982	458 653
Moscow	494 749	449 309
Centre	97 368	95 925
West	153 101	143 652
Siberia-Ural	115 075	126 312
Total hub assets	**1 449 275**	**1 273 851**
Head Office	111 813	153 577
Moscow	791 590	636 703
Centre	76 519	62 484
West	208 276	163 573
Siberia-Ural	86 404	80 893
Total hub liabilities	**1 274 602**	**1 097 230**

Investments in associates are not allocated between segments. Non-financial assets and liabilities are located in Russia.

32 Segment Analysis (Continued)

(e) Information about reportable segment profit or loss, assets and liabilities by geographical location (continued)

Hubs of the Group for the year ended 31 December 2020 are as follows:

In millions of Russian Roubles	Head Office	Moscow	Centre	West	Siberia-Ural	Total
Interest income	38 958	40 136	11 026	7 050	16 294	**113 464**
Interest expense	(35 663)	(10 739)	(1 625)	(866)	(3 237)	**(52 130)**
Fund transfer pricing	11 054	(3 504)	(3 692)	2 968	(6 826)	**–**
Net fee and commission result	837	18 310	3 421	5 657	2 971	**31 196**
Provision for loan impairment	(64)	(3 678)	(1 485)	(1 918)	(2 121)	**(9 266)**
Trading result	1 899	308	(67)	(194)	(54)	**1 892**
General administrative expenses	(1 110)	(17 616)	(4 781)	(7 026)	(5 594)	**(36 127)**
Ineffectiveness from hedge accounting and amortization of hedge accounting adjustment	(118)	–	–	–	–	**(118)**
Other operating income/(loss)	(908)	–	–	–	–	**(908)**
Total hub result before tax	**14 885**	**23 217**	**2 797**	**5 671**	**1 433**	**48 003**
Income taxes	(10 182)	–	–	–	–	**(10 182)**
Total hub result after tax	**4 703**	**23 217**	**2 797**	**5 671**	**1 433**	**37 821**

Hubs of the Group for the year ended 31 December 2019 are as follows:

In millions of Russian Roubles	Head Office	Moscow	Centre	West	Siberia-Ural	Total
Interest income	50 668	37 175	8 185	17 632	12 806	**126 466**
Interest expense	(50 222)	(12 284)	(1 009)	(3 563)	(1 747)	**(68 825)**
Fund transfer pricing	10 787	1 201	(1 912)	(5 335)	(4 741)	**–**
Net fee and commission result	484	17 183	3 223	5 676	3 045	**29 611**
Provision for loan impairment	(46)	(2 727)	(844)	(383)	(1 001)	**(5 001)**
Trading result	1 509	(115)	32	(66)	(11)	**1 349**
General administrative expenses	(911)	(16 888)	(4 818)	(6 552)	(5 671)	**(34 840)**
Other operating income/(loss)	(614)	–	–	–	–	**(614)**
Total hub result before tax	**11 655**	**23 545**	**2 857**	**7 409**	**2 680**	**48 146**
Income taxes	(10 688)	–	–	–	–	**(10 688)**
Total hub result after tax	**967**	**23 545**	**2 857**	**7 409**	**2 680**	**37 458**

32 Segment Analysis (Continued)

(f) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Reconciliation of segment revenues, segment result and other material items is presented below.

In millions of Russian Roubles	2020	2019
Total interest and fee and commission result for segment	**92 530**	**87 252**
Reclassification of commission result to trading result	(8 549)	(8 288)
Effect of the consolidation of the subsidiaries and other adjustments	157	(121)
Total net interest and fee and commission result	**84 138**	**78 843**

Total revenue comprises interest and similar income and fee and commission income.

Reconciliation of reportable segment result is presented below.

In millions of Russian Roubles	2020	2019
Total segment result	**37 821**	**37 458**
Consolidation of subsidiaries and associate	230	176
Intercompany and other adjustments	27	(2)
Profit after tax	**38 078**	**37 632**

Reconciliation of other material items of income or expenses for the year ended 31 December 2020 is as follows:

In millions of Russian Roubles	Total amount for reportable segment	Reclassifications	Effect of consolidation of the subsidiaries and equity accounting for the associates	As reported under IFRS
Interest income	**113 464**	–	(153)	113 311
Interest expense	**(52 130)**	–	68	(52 062)
Net fee and commission result	**31 196**	(8 549)	(33)	22 614
Provision for loan impairment	**(9 266)**	–	(595)	(9 861)
Net trading and fair value result	**1 892**	8 549	749	11 190
Ineffectiveness from hedge accounting and amortization of hedge accounting adjustment	**(118)**	–	(69)	(187)
Depreciation and amortization	**(4 676)**	–	–	(4 676)
Other administrative expenses	**(31 451)**	–	(130)	(31 581)
Share of profit of associates	**–**	–	382	382
Other operating income/(loss)	**(908)**	–	37	(871)
Income taxes	**(10 182)**	–	1	(10 181)

32 Segment Analysis (Continued)

(f) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (continued)

Reconciliation of other material items of income or expenses for the year ended 31 December 2019 is as follows:

In millions of Russian Roubles	Total amount for reportable segment	Reclassifications	Effect of consolidation of the subsidiaries and equity accounting for the associates	As reported under IFRS
Interest Income	**126 466**	–	(652)	125 814
Interest Expense	**(68 825)**	–	527	(68 298)
Net fee and commission result	**29 611**	(8 288)	4	21 327
Provision for loan impairment	**(5 001)**	–	300	(4 701)
Net trading and fair value result	**1 349**	8 288	(231)	9 406
Depreciation and amortization	**(4 740)**	–	–	(4 740)
Other administrative expenses	**(30 100)**	–	8	(30 092)
Share of profit of associates	**–**	–	285	285
Other operating income/(loss)	**(614)**	–	(67)	(681)
Income taxes	**(10 688)**	–	–	(10 688)

Provision for loan impairment comprises of provision for impairment of loans and advances to customers, provision for credit related commitments and gains from the sale of loans.

33 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the CBRF (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on principles of the Basel Accord.

Under the current capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. According to requirements set by the CBRF statutory capital ratio has to be maintained above minimum level of 8%. Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Management believes the Bank meets all the requirements in relation to the minimum amount of regulatory capital set by the CBRF.

Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In millions of Russian Roubles	31 December 2020	31 December 2019
Tier 1 capital		
Net assets under Russian GAAP	138 171	145 451
Less: intangible assets and shares of subsidiaries	(1 139)	(1 186)
Subordinated debt	9 618	8 060
Total Tier 1 capital	**146 650**	**152 325**
Tier 2 capital		
Subordinated debt	18 685	17 701
Current year profit and Increase in the value of the property of a credit institution due to revaluation	18 691	11 714
Items from additional own funds plus LLP surplus	2 124	2 677
Total Tier 2 capital	**39 500**	**32 092**
Total regulatory capital	**186 150**	**184 417**

33 Management of Capital (Continued)

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements including capital adequacy levels calculated in accordance with the requirements of the Basel Accord as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998), Amendment to the Capital Accord to incorporate market risks (updated November 2005) and Group of Governors and Heads of Supervision announces higher global minimum capital standards (updated September 2010) commonly known as Basel III.

The Group applies the Internal Ratings-based (IRB) Approach for a calculation of capital requirement for Non-Retail Customers credit risk that assumes reliance on internal estimates of risk components in determining the capital requirement for a given exposure.

The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In millions of Russian Roubles	2020	2019
Common Equity Tier 1 capital		
Share capital	36 711	36 711
Share premium	621	621
Additional paid-in capital	1 520	1 520
Retained earnings	136 231	137 819
Total Tier 1 capital before deductions	**175 083**	**176 671**
Less: intangible assets	(1 518)	(1 864)
Less: deferred tax asset	(3 171)	(4 317)
Less: Cash flow hedge reserve	(82)	–
Total Tier 1 capital	**170 312**	**170 490**
Tier 2 capital		
Subordinated debt	26 474	24 228
Items from additional own funds plus LLP surplus	1 632	596
Total Tier 2 capital	**28 106**	**24 824**
Total capital	**198 418**	**195 314**

The Group and the Bank have complied with all externally imposed capital requirements throughout 2020 and 2019.

Risk weighted assets

In millions of Russian Roubles	2020	2019
Total Risk weighted assets	**798 268**	**720 886**
Capital Adequacy Ratio by Basel III	24,86%	27,09%

The Bank manages capital ratios using different capital amounts calculated in accordance with the above mentioned Capital Adequacy regulations.

34 Financial Risk Management

The Group's risk management covers all material risks defined via annual Risk Assessment procedure: Credit risk (incl. Concentration risk), Market risk, Interest Rate risk, Liquidity risk, Operational risk and Macroeconomic risk. The Group sees the main objective of the risk management function as to assure sustainable risk/income during the economic cycle.

Risk management is executed in accordance with Raiffeisen Bank International (RBI) Risk Management Group Directives, CBR requirements and with European Banking Authority (EBA) and European Central Bank (ECB) requirements.

Responsibility for the Group's risk management activities are divided among the following: Risk and Credit Management Directorate, Assets and Liabilities Committee (ALCO), Credit Committee, Problem Loan Committee, Operational Risk Committee and other authorized bodies of the Group within the scope of responsibilities delegated by the Group's Supervisory and Management Board and in accordance with the Group's Charter.

Risk and Credit Management Directorate

The Risk and Credit Management Directorate is responsible for:

- Preparation of internal documents on Bank and Group level based on CBRF and EBA regulatory requirements and the Bank's risk management standards;
- Identification, evaluation, management and control of risks to which the Bank is exposed to;
- Qualitative and quantitative analysis of the material risks;
- Independent analysis of financial and operational risks, including risks associated with the Bank's credit activity;
- Independent monitoring of the Bank's clients' financial and business situation;
- Credit analysis of borrowers and assignment of internal ratings: monitoring of borrowers' performance and credit quality;
- Acceptance, evaluation, monitoring and revaluation of the collaterals, including collateral for derivatives' deals;
- Support of credit transactions at all stages of credit process coming after credit decision;
- Credit and collateral documentation preparation;
- Monitoring of the clients fulfilment of obligations in accordance with the loan documentation and credit decisions;
- Managing the process of limit establishing, monitoring and limit breach cases escalation;
- Problem assets management;
- Analysis and monitoring of retail portfolios;
- Management of risks in credit, underwriting and fraud prevention processes within retail lending; scorecards development;
- Development and support of regular reporting on performance and collection of retail portfolios;
- Management of technology and the development of strategies for the collection of overdue retail loans to retail customers and individual entrepreneurs;
- Development and management of statistical models in order to make high-quality, effective decisions on credit applications / loan portfolio of private individuals and individual entrepreneurs;
- Centralized regulatory normatives and material risks reporting;
- Risk Weighted Assets analysis and monitoring; Basel II/III implementation and maintenance;
- Economic capital management;
- Stress-testing; results analysis and reporting;

34 Financial Risk Management (Continued)

Risk and Credit Management Directorate (continued)

- Local validation of internal models for credit risk parameters estimation in accordance with CBR requirements;
- Quality assurance of the risk management data and risk data quality performance monitoring and reporting;
- Evaluation of potential and incurred losses and calculation of provisions;
- Assurance of the effective market risk management, optimization of the risk/return ratio; analysis and control of the market risk for the Bank and subsidiaries;
- Liquidity and market risk management by setting limits;
- Development and implementation of the Bank operational risk management and anti-fraud prevention methodology and regulations; coordination of the Bank anti-fraud prevention, detection and recovery processes;
- Coordination and control of operational risk management activities for the Bank and its subsidiaries;
- Evaluation of fair value of financial instruments.

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee (ALCO) is responsible for the development and implementation of the Bank's asset and liability management strategy. The following items are recognized as the ALCO's main areas of responsibility:

- Development and implementation of Asset and Liability management strategy;
- Economic and Regulatory Capital adequacy plan realization;
- Target balance sheet indicators development and establishment;
- Market and Liquidity Risk identification;
- Market and Liquidity Risk Model development, Model parameters approval;
- Strategic decisions on Market and Liquidity Risks management, concentration issues for market and liquidity risks;
- Asset and liabilities pricing;
- Strategic decisions on directions of Capital Markets, Asset Liability Management (ALM) and Investment Banking (IB) activities;
- Product approval process for Capital Markets, ALM and IB.

ALCO is presided over by the Chairman of the Bank's Management Board.

Management Board / Credit Committee

The Management Board is the highest authorized decision body for credit limits applications and for workout applications, in accordance with the Credit Approval Authority.

The Management Board delegates its Approval Authority to the Extended Credit Committee, the Credit Committee, the Problem Loans Committee and the Small Problem Loan Committee.

The Credit Committee is responsible for managing the Group's credit risks, including:

- Consideration and recommendation for approval the Group's credit policy (with its further approval by respective subordinated approval authority) and control on it's adherence;
- Vote or approve limits application, Credit Strategies, modification of limits;
- Vote or approve Limit Reviews;
- Approval and amendment of terms and conditions of credit products.

34 Financial Risk Management (Continued)

Management Board / Credit Committee (continued)

The composition of the Credit Committee to be adopted by the Bank Management Board with final approval by the Supervisory Board and include Bank's senior management representatives, incl. the Bank Management Board Chairman and authorized representatives of Risk and Credit Management Directorate. The Credit Committee is chaired by the Head of the Risk and Credit Management Directorate, who is responsible for ensuring the Bank's risk management policies realization and compliance.

The authorities of the Credit Committee are stipulated in the Bank Credit Committee Bylaws. The Credit Committee has the right to delegate approval authority to lower approval bodies.

For particular cases approval by the Extended Credit Committee is required (approval body empowered for credit decisions approval within particular scope of authorities in order to clients ratings relevant authorities establishment). Extended Credit Committee's personal composition includes members of Credit Committee and several the Bank 's senior management representatives from the "Extended membership list".

Granting Bank's credit risk products for Corporate, FI and SMB clients is allowed only with prior consideration by relevant risk management departments and approval by the respective approval body.

Credit limits are to be approved in dependence of client's rating, amount, type and tenor of credit product. If the requested limit exceeds local approval authorities of Credit Committee / Extended Credit Committee / Management Board, the respective credit application after being considered by Credit Committee / Extended Credit Committee / Management Board shall be sent to Supervisory Board / Executive Credit Committee approval, which may require additional approvals by relevant authorities of Parent's Bank.

Supervisory Board / Executive Credit Committee and the Parent Bank Managing Board

The Supervisory Board and the Parent Bank Managing Board are responsible for approving limit applications when the total credit limit for group of connected customers (GCC) exceeds the approval powers of the local Credit Committee / Extended Credit Committee / Management Board. The Executive Credit Committee is a standing advisory body of the Supervisory Board, where the credit decisions in the approval power of the Group's Supervisory Board are delegated and which meets on a regular basis.

The Supervisory Board is authorized to approve loan applications from a GCC with a total credit limit of less than EUR 100 million. Loan applications from a GCC with a total credit limit exceeding EUR 100 million must be approved by the Parent Bank Managing Board. Loan applications that exceed certain reporting limits set by the Parent Bank must be approved by both the Parent Bank Supervisory Board and the Parent Bank Managing Board.

Problem Loan Committee of the Bank

All corporate problem loans are reviewed by Problem Loan Committee (PLC), Small Problem Loan Committee (SPLC) or Lower Approval Bodies (depending on the approval authorities). PLC has the decision making authority on customers with "workout (early/late)" risk status, customers with default rating, as well as if specifically requested; including approval of workout strategies, reviews, write-offs, sale of the debt / debt assignment with discount, creation and release of provisions, improvement of risk status of problem customers and other requests. PLC members are appointed by the Bank's Management Board. Appointment of PLC members representing new functions requires prior approval of the Supervisory Board. The PLC meetings are held at least once a month.

34 Financial Risk Management (Continued)

Problem Loan Committee of the Bank (continued)

PLC is authorized to:

- Approve workout strategy, reviews of the problem customers and other issues related to workout customers;
- Approve changes of tenor;
- Approve re-aging of customers;
- Approve new limit or limit increase;
- Approve creation or release of provisions for a GCC;
- Approve direct write-off and write-off against provisions;
- Approve costs related to the handling of problem loans;
- Approve minor changes.

Members of the SPLC are appointed by the Bank's Management Board. Number of SPLC members should be at least three persons. The SPLC meetings are held on a weekly basis.

SPLC is authorized to:

- Approve workout strategy.
- Approve applications in respect of problem loans on the following cases:
  - Minor changes (incl. extension of the term/grace period, within one payment period and other);
  - Review of the problem customers;
  - Improvement of client's risk status; or
  - Combination of the above.
- Approve creation or release of provisions.
- Approve direct write-offs and write-off against provisions.
- Approve costs related to the problem customers.

The scope of authorities of the Lower Approval Bodies is defined in the PLC Bylaws and SPLC Bylaws. The LAB members are appointed by the PLC and SPL. Lower Approval Bodies are authorized to approve minor changes and measures in line with the strategy which are not associated with credit risks or banking operations, and changes of loan terms and condition, required by the law due to COVID-19 pandemic.

Decisions beyond the approval authorities of LAB must be approved either by PLC or by SPLC. Decisions beyond the approval authorities of SPLC must be approved by PLC. Decisions beyond the approval authorities of PLC must be approved by the Bank's Management Board and/or the Supervisory Board of the Bank.

Credit risk

The Group's credit risk mainly relates to the possibility of a financial loss due to a borrower's creditworthiness deterioration and/or inability to meet its obligations. Credit risk management is in line with the RBI Group standards.

Credit risk management and lending decisions are based on the respective credit risk manuals and policies and the corresponding tools and processes that have been developed for this purpose. Credit policies are to be developed and approved on annual basis. The Credit Policies' main objective is to establish line of credit portfolio development to ensure its quality. The Credit Policies include special underwriting criteria, targets and limits that are mandatory for adherence by the respective units.

34 Financial Risk Management (Continued)

Credit risk (continued)

A regular audit of the credit process and assessment of the effectiveness of credit risk management systems is carried out by the Bank's Internal audit division. Audit makes at least once a year, in accordance with the annual inspection plan approved by the Supervisory Board. In addition, the Bank's processes and divisions related to credit risk management are audited by the Group internal audit.

The main principles of estimating the fair value of the collateral are documented in the Collateral evaluation Policy approved by the Bank. The considered collateral has the following characteristics:

- There is a real proprietorship which should be documented in a proper manner and have legal force in accordance with the respective jurisdiction;
- There is a stable internal value for the period not less than maximum term of the credit agreement, which is monitored and appraised by the Bank on a regular basis. In case of value decrease the Bank should take proper measures without any delays for this decrease booking;
- There is a possibility to sell collateral. Collateral is possible to be realized in the form of cash in during appropriate terms. Possibility of collateral selling should be approved by favorable practice of the jurisdiction on the respective country;
- There is a little correlation or there is no correlation between the collateral value and customer's creditworthiness (as an example of the high correlation might be issued bonds applied as a collateral).

The fair value of collateral represents the estimated amount that could be exchanged material / intangible asset on the valuation date for the transaction between an independent buyer and an independent seller, acting on a voluntary basis, after proper marketing, during which the parties act consciously and without compulsion. In accordance with the internal procedures, Collateral Management Department appraises the fair value of the collateral on a regular basis applying internal instructions of the Group. The list of types of the collateral, which Bank requires from the customers, includes residential real estate, commercial real estate, other tangible assets, guarantees, cash deposits, receivables and other assets. Mortgages and car loans are collateralized by real estate and the cars respectively.

In accordance with the Bank of Russia requirements and internal rules the Bank performs re-valuation all kinds of the collateral on a regular basis with the following frequency:

- Commercial and residential real estate, equipment, transport − on a quarterly basis;
- Guarantees, cash − on a daily basis;
- Other assets − dependent on a type of asset, but not less than once a quarter.

Bank Credit Policies and LLC "Raiffeisen Leasing" Credit Policy are approved and reviewed annually. The main objective of credit policies is to determine the direction of development of the loan portfolio in order to improve quality. Credit Policies include lending criteria, targets and different limits.

The Group analyses credit risk associated with derivative financial instruments and attempts to limit its potential default risk from over the counter ("OTC") derivative transactions by:

- Claiming a collateral from the counterparties;
- Concluding the transaction with better reliable counterparties and suppose that a collateral is claimed;
- Obtaining a guarantee of the claim a collateral from the high quality counterparties;
- Establishing limits on the unsecured obligation (taking into account the possible growth).

The Group also minimizes counterparty risk for derivatives by signing Credit Support Annex (where it's available according to legislation and negotiable with clients).

Collateral is carried mostly within hedging derivatives and derivatives with the Bank's clients.

34 Financial Risk Management (Continued)

Credit risk (continued)

Reappraisal of the derivatives and putting in claims for providing additional claims due to increase of the derivatives' value for Bank are executed by Financial Markets Risk Management Department on a daily basis.

Correlation between credit quality of counterparties and changes of obligation volume is monitored. The volume of transactions with positive correlation are limited.

Credit risk of derivative transactions is taken into account in the calculation of additional capital requirements for credit risk.

The Bank enforce the conservative policy of setting limits for derivatives with positive correlation between credit risk exposure and probability of counterparty default. Specific underwriting criteria defines stricter requirements for counterparty quality and deal structure. The limits are usually set for hedging risk counterparty.

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2020.

Key drivers	ECL scenario	Assigned probabilities, %	2021	2022	2023
Real GDP, % YoY					
	Upside	25%	4,0	2,6	2,4
	Base case	50%	2,3	1,3	1,5
	Downside	25%	-1,0	-1,2	-0,2
USD/RUR exchange rate					
	Upside	25%	60,6	62,3	66,7
	Base case	50%	74,2	72,5	73,5
	Downside	25%	89,6	84,0	81,2
EUR/RUR exchange rate					
	Upside	25%	71,3	75,2	81,6
	Base case	50%	88,6	88,2	90,3
	Downside	25%	103,4	99,2	97,6
CPI avg, % YoY					
	Upside	25%	2,2	2,4	3,0
	Base case	50%	3,7	3,5	3,8
	Downside	25%	7,8	6,6	5,8
3m money market rate, %					
	Upside	25%	3,5	3,9	4,2
	Base case	50%	4,5	4,7	4,7
	Downside	25%	7,6	7,0	6,3
10y LCY government bond yield, %					
	Upside	25%	5,7	6,0	6,3
	Base case	50%	6,7	6,7	6,8
	Downside	25%	9,1	8,5	8,0
Unemployment rate, %					
	Upside	25%	3,9	4,1	4,0
	Base case	50%	5,1	5,0	4,6
	Downside	25%	7,6	6,9	5,8

34 Financial Risk Management (Continued)

Credit risk (continued)

Credit quality per class of financial assets

The following credit quality analysis of financial assets and off-balance-sheet commitments is a point in time assessment of the probability of default. The following credit quality analysis is different from the credit quality analysis depending on rating models and it is set up in order to unify and to compare the credit quality of different segments. The following list provides a description of the grouping of assets / off-balance-sheet commitments by probability of default:

- Excellent are exposures which demonstrate a strong capacity to meet financial commitments, with negligible or no probability of default (PD range 0,0000-0,0300 per cent).
- Strong are exposures which demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default (PD range 0,0300-0,1878 per cent).
- Good are exposures which demonstrate a good capacity to meet financial commitments, with low default risk (PD range 0,1878-1,1735 per cent).
- Satisfactory are exposures which require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk (PD range 1,1735-7,3344 per cent).
- Substandard are exposures which require varying degrees of special attention and default risk is of greater concern (PD range 7,3344-100,0 per cent).
- Credit-impaired are exposures which have been assessed as impaired (PD range 100,0 per cent).

The category unrated includes financial assets for several retail customers for whom no ratings are available. The rating is therefore based on qualitative factors.

The following table sets out information about the credit quality of financial assets measured at amortized cost and fair value through other comprehensive income and off-balance-sheet commitments. The amortized cost and fair value through other comprehensive income amounts represent the gross carrying amount. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

34 Financial Risk management (Continued)

Credit risk (continued)

The table below shows the credit quality by class of asset in the consolidated statement of financial position as at 31 December 2020.

In million of Russian Roubles	Note		Excellent	Strong	Good	Satisfactory	Substandard	Impaired	Unrated	Total
Cash and cash equivalents, except for cash on hand	6	Stage 1	2 648	273 681	1 100	2 592	–	–	–	**280 021**
Amounts due from credit institutions	8	Stage 1	–	4 276	890	262	–	–	–	**5 428**
		Stage 2	–	–	–	–	–	–	–	**–**
		Stage 3	–	–	–	–	–	21	–	**21**
Loans to customers at amortised cost	9		134	186 583	433 533	178 685	19 388	29 471	2 638	**850 460**
- Large corporates		Stage 1	134	82 161	198 740	44 750	721	–	–	**326 506**
		Stage 2	–	16 605	55 947	15 748	270	–	–	**88 570**
		Stage 3	–	–	–	–	1	5 412	–	**5 413**
		POCI	–	–	–	–	–	6 540	–	**6 540**
- Middle business and SME loans		Stage 1	–	378	24 339	52 585	2 096	–	733	**80 131**
		Stage 2	–	1	942	14 997	5 139	–	18	**21 097**
		Stage 3	–	–	–	–	–	2 592	–	**2 592**
		POCI	–	–	–	–	–	–	–	**–**
- Residential mortgages		Stage 1	–	86 115	54 975	1 668	11	–	–	**142 769**
		Stage 2	–	1 299	2 908	1 107	1 517	–	820	**7 651**
		Stage 3	–	–	–	–	–	2 514	–	**2 514**
		POCI	–	24	98	40	46	224	–	**432**
Change in fair value of hedged items					–	–	–	–	–	**28**
- Other retail loans		Stage 1	–	–	90 499	38 519	1 361	–	–	**130 379**
		Stage 2	–	–	5 085	9 268	8 216	–	1 067	**23 636**
		Stage 3	–	–	–	–	–	12 135	–	**12 135**
		POCI	–	–	–	3	10	54	–	**67**
Debt investment securities	10		–	130 879	14 015	–	–	–	–	**144 894**
- Measured at FVOCI		Stage 1	–	159	–	–	–	–	–	**159**
- Measured at FVOCI		Stage 2	–	–	–	–	–	–	–	**–**
- Measured at amortised cost		Stage 3	–	–	–	–	–	–	–	**–**
		Stage 1	–	120 524	1 653	–				**122 177**
- Measured at amortised cost		Stage 2	–	10 196	12 362	–				**22 558**
		Stage 3	–	–	–	–	–	–	–	**–**
Undrawn credit lines and Overdraft facilities / undrawn commitments to issue documentary instruments	35	Stage 1	1 516	150 766	208 872	69 241	407	–	99	**430 901**
		Stage 2	–	40 819	44 697	16 169	1 665	–	13	**103 363**
		Stage 3	–	–	–	–	–	410	–	**410**
Letters of credit (import/export)	35	Stage 1	–	351	9 435	3 868	–	–	6 903	**20 557**
		Stage 2	–	–	3 260	885	25	–	–	**4 170**
		Stage 3	–	–	–	–	–	–	–	**–**
Financial guarantees	35	Stage 1	–	10 000	44 716	17 605	2	–	–	**72 323**
		Stage 2	–	712	32 204	3 202	31	–	–	**36 149**
		Stage 3	–	–	–	–	–	–	–	–
Total			**4 298**	**798 067**	**792 722**	**292 509**	**21 518**	**29 902**	**9 653**	**1 948 697**

34 Financial Risk management (Continued)

Credit risk (continued)

Credit quality per class of financial assets

The table below shows the credit quality by class of asset in the consolidated statement of financial position as at 31 December 2019.

In millions of Russian Roubles	Note		Excellent	Strong	Good	Satisfactory	Substandard	Impaired	Unrated	Total
Cash and cash equivalents, except for cash on hand	6	Stage 1	5 896	213 438	1 250	4 965	–	–	–	**225 549**
Amounts due from credit institutions	8	Stage 1	–	2 033	–	1 959	–	–	–	**3 992**
		Stage 2	–	–	–	–	–	–	–	**–**
		Stage 3	–	–	–	–	–	19	–	**19**
Loans to customers at amortised cost	9		17 809	224 455	312 256	212 293	15 916	19 046	560	**802 335**
- Large corporates		Stage 1	12 040	105 755	132 737	60 960	1 044	–	17	**312 553**
		Stage 2	14	32 876	24 943	8 539	1 160	–	–	**67 532**
		Stage 3	–	–	–	–	–	1 153	–	**1 153**
		POCI	–	–	–	–	–	5 813	–	**5 813**
- Middle business and SME loans		Stage 1	430	344	18 075	73 953	2 862	–	254	**95 918**
		Stage 2	–	–	93	3 387	2 701	–	2	**6 183**
		Stage 3	–	–	–	–	–	2 474	–	**2 474**
		POCI	–	–	–	–	–	–	–	**–**
- Residential mortgages		Stage 1	5 266	76 527	48 238	2 317	95	–	–	**132 443**
		Stage 2	57	1 204	2 629	1 817	1 328	–	–	**7 035**
		Stage 3	–	–	–	–	–	1 472	–	**1 472**
		POCI	–	30	132	82	23	230	–	**497**
- Other retail loans		Stage 1	2	7 368	79 592	46 564	483	–	–	**134 009**
		Stage 2	–	351	5 817	14 665	6 198	–	287	**27 318**
		Stage 3	–	–	–	–	–	7 844	–	**7 844**
		POCI	–	–	–	9	22	60	–	**91**
Debt investment securities	10		2 902	127 657	2 965	–	–	–	–	**133 524**
- Measured at FVOCI		Stage 1	–	159	2 965	–	–	–	–	**3 124**
		Stage 2	–	–	–	–	–	–	–	**–**
		Stage 3	–	–	–	–	–	–	–	**–**
- Measured at amortised cost		Stage 1	2 902	111 032	–	–	–	–	–	**113 934**
		Stage 2	–	16 466	–	–	–	–	–	**16 466**
		Stage 3	–	–	–	–	–	–	–	**–**
Undrawn credit lines and Overdraft facilities/Undrawn commitments to issue documentary instruments	35	Stage 1	5 470	178 489	170 462	70 550	451	–	276	**425 698**
		Stage 2	–	46 739	22 163	3 583	1 346	–	–	**73 831**
		Stage 3	–	–	–	–	–	272	–	**272**
Letters of credit (import/export)	35	Stage 1	–	360	7 400	4 697	–	–	6 771	**19 228**
		Stage 2	–	784	561	19	–	–	–	**1 364**
		Stage 3	–	–	–	–	–	–	–	**–**
Financial guarantees	35	Stage 1	334	3 859	51 384	20 570	885	–	5	**77 037**
		Stage 2	–	13 617	4 789	1 345	16	–	–	**19 767**
		Stage 3	–	–	–	–	–	81	–	**81**
Total			**32 411**	**811 431**	**573 230**	**319 981**	**18 614**	**19 418**	**7 612**	**1 782 697**

34 Financial Risk Management (Continued)

Corporate risk management

Corporate credit risk is regulated by the Group on two main levels: Portfolio level; and Individual level of the borrower/group of connected customers.

On the portfolio level minimum requirements to the corporate credit portfolio are reflected in the Corporate Credit Policy (CCP) of the Bank and annually reviewed. CCP establishes maximum possible weighted risk limit against one borrower/group of connected customers (GCC). Risk of Corporate portfolio regulated depending on customer's/GCC's rating, industry, probability of default, limit type and collateralization.

Group control on the credit risk also via establishment/review of maximum possible limit for each borrower or GCC based on regular analysis of existing and potential borrowers' ability to perform their credit obligations. Receiving of collateral, corporate and private individuals' sureties also allow to manage and mitigate Bank's credit risk.

The exposure to any borrower/group of connected customers is restricted by limits covering both on − and off-balance sheet exposures, including credit, settlement and trading risks and risk limits on contingent liabilities. Actual meeting of the limits against accepted risks are monitored daily.

These limits shall be pre-considered by respective risk management unit before submitted to the approval body and unanimous approval by the approval body (see the chapter "Credit Committee"), which has respective approval powers for limits approval.

Monitoring of the established limits is executed at least annually. Monitoring (appraisal) of the financial status is performed on a regular basis in accordance with the Central Bank of the Russian Federation requirements.

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

The Group uses best practices that have proven themselves in the last few years:

- Portfolio analysis, macroeconomics and industry analysis, SWOT-analysis for particular markets and largest corporations;
- Industry specialization principle used for credit analysis preparation, different approaches for credit analysis used depending on limit type and client's industry (e.g. separate rating model used for project finance deals);
- Regular tight monitoring (including external and internal sources of information) of clients' financial standing.

The Group implemented early warning systems, which are specialized tools meant to identify problem corporate, SMB and project finance customers early on and allow defaults to be prevented by taking appropriate action. The system is based on 46 warning signals for corporate clients and on 38 signals for SMB clients and consolidate information from internal and external sources. Within the system, above stipulated types of clients are to be screened regularly to detect these warning signals, which would indicate an upcoming problem loan. Based on its findings, every customer is assigned a so-called "client risk status" and an action plan is developed in case of need.

The Bank implemented a specialized system for credit fraud prevention and detection at all stages of non-retail credit process based on RBI Group's "best practice".

Risk management of the Group's financial institutions (i.e. banks and securities houses, insurance, finance and factoring companies, brokers, asset management houses, leasing companies, subsidiaries of the above mentioned financial institutions and similar entities) and sovereign and sub-sovereign borrowers is carried by means of research, analysis, and ensuring that the risk management standards, policies, practices and tools of the Parent Bank are adhered to by all business units in the credit process, the daily control of limits observance (including real-time control for treasury and securities types of credit risk limits), and reporting.

34 Financial Risk Management (Continued)

Corporate risk management (continued)

Limits for Group financial institutions counterparty are subject to constant monitoring. This controlling function includes daily real-time monitoring of Treasury and Capital markets operations within the existing treasury & securities types of credit risk limits, operations with securities, derivatives, Money Market and REPO transactions (counterparty, issuer), and commercial limits. Monthly monitoring covers exposure, disbursed cash and the off-balance sheet commitment.

The Group implemented an early warning system for Russian banks counterparties. The system is based on more than 14 warning signals calculated on the basis of monthly reports (under Russian Accounting Standards) and daily news monitoring. The combination of warning signals and qualitative information produces an “EWS status”, and an action plan is developed in the case of status deterioration. Also in case of serious macro-economic events stress testing of financial indicators is carried out.

Country risk management is fully managed by the Parent Bank through system of country limits. All country limits of the Group are approved, monitored and administered by the Parent Bank.

Asset class segmentation as an initial stage of the rating process

Asset class segmentation (risk segmentation) consists of determining a client’s asset class (risk segment) and is one of the first steps in choosing respective rating model.

The standards for asset class segmentation are determined by the Parent Bank Group directives, which establish general rules, and also in internal documents of the Head Office of the Group, which regulate the rules of risk segment assignment taking into account Russian legislative and economic environment.

The results of the asset class segmentation and rating process are used for the Risk Weighted Assets calculation in order to meet the Basel II/III Accord requirements, the Bank of Russia Regulation No. 483-P as well as the European Banking Legislation.

Rating models

For purpose of credit risk estimation the Group practically applies internal rating-based approach (here and after – IRB, in other words ratings estimated by the Group itself. Different risk classification procedures (rating and scoring models) are used depending on the asset class.

According to Basel III requirements, banks applying Internal Rating Based approach, should internally estimate risk parameters. In particular, within the foundation IRB approach Probability of default is estimated for each rating grade for each rating model. Within the advanced IRB approach, the following risk parameters are also estimated: exposure at default, loss given default and maturity (for non-retail assets).

The following non-retail rating models are used by the Group for the estimation of the credit risk:

1 *Corporate* − for corporate counterparts;

2 *SMB* − for small or medium business customers;

3 *Insurance* − for insurance companies (both life & non-life);

4 *FI* − for all types of financial institutions, except insurance companies;

5 *Sovereigns* − for countries’ central governments and related to countries’ non-commercial public sector entities (PSEs);

6 *LRG* − for local authorities and regional governments, and is related to non-commercial PSEs;

7 *CIUs* − for Collective Investment Undertakings;

8 *Project Finance* − for specialized projects.

Besides that, in the corporate asset class two modifications of respective rating model are further distinguished:

- Rating model for regular corporate customers − CO5; and
- Rating model for large corporate customers − LCO2.

34 Financial Risk Management (Continued)

Rating models (continued)

Justification for the use of particular corporate rating model modification (CO5 or LCO2) is based on 2 criteria: amount of the customer's total assets and total sales, thresholds for which are established on the level of the Group. The respective financial indicators of the customer should fulfill both of the mentioned conditions for the last two consecutive reporting periods (i.e. actual total assets and total sales exceed specified thresholds) in order for LCO1 rating model to be applied.

All non-retail rating models are developed by the Parent Bank. The models are centralized and used throughout the whole Group. Rating calculation is executed by means of special software tools. Ratings under models Corporate, SMB, Local and Regional Governments (LRG) and Project Finance are assigned by the Groups' head office.

The rating tools are kept under regular review by the Parent Bank and updated if necessary. The Group regularly validates applied rating models and appraised predictive power of the models.

The assignment of customers/counterparties of the Group to the rating grade (within "Financial Institutions", "Insurance", "Sovereign" and "Collective investment Funds" rating models) is centralized and conducted by the Parent Bank analysts. The local analysts also participate in local customer analysis and the rating process by providing analytical charts and their analysis and rating spreadsheets. At the same time the local analysis is checked by the Parent bank analysts, which make scoring and assign rating after that.

For Sovereign customers responsibility of rating process is fully laid on respective risk management divisions of the Parent Bank.

For LRGs the whole process of rating assignment lies within responsibility of the local analysts of AO Raiffeisenbank Russia.

For retail customers scorecards are applied automatically in application processing systems.

The rating model for corporate customers and financial institutions ranks creditworthiness in 10 rating classes (9 non-default rating classes and default one), each class (except default one) has three sub-grades − A, B and C (in all 25 non-default grades and 1 default. The rating models for the other non-retail asset classes (CIU, Insurance, Local and Regional Governments and Sovereigns) rank creditworthiness in 10 rating grades; at the same time "Small and Medium Business" rating model has seven major classes, three of which have three additional categories: Project Finance rating model ranks creditworthiness in five grades (due to supervisory slotting criteria approach according to Basel 2). A professional judgment on counterparty is based on analysis of financial data, as well as on credit analysts' professional expertise. Within the framework of several rating models counterparties are additionally assessed by means of comparison with externally available data and behavioral data relevant for the clients.

The Retail rating scale contains 12 categories (nine rating grades for non-defaulted customers, one grade for defaults and one "Not rated" category). For credit cards inactive rating grade was validated in 2015.

The Group's rating scale, which is shown below, is an unified one amongst all the subsidiaries of the Parent Bank and reflects the range of PDs (probabilities of default), corresponding to the certain grade of the rating scale of each rating model.

34 Financial Risk Management (Continued)

Rating models (continued)

The Group's internal ratings scales, based on the Probability of Default, are presented in the table below.

Rating description	Group's Retail rating	Group's Corporate, SMB and FI rating	Group's Sovereign, LRG rating	Group's Insurance rating	Group's CIU rating	Group's Project Finance rating
Minimal risk	0,5	1A, 1B, 1C	A1	0,5	C1	
Excellent credit standing	1,0	2A, 2B, 2C	A2	1,0	C2	6,1
Very good credit standing	1,5	3A, 3B, 3C	A3	1,5	C3	
Good credit standing	2,0	4A, 4B, 4C	B1	2,0	C4	6,2
Sound credit standing	2,5	5A, 5B, 5C	B2	2,5	C5	
Acceptable credit standing	3,0	6A, 6B, 6C	B3	3,0	C6	6,3
Marginal credit standing	3,5	7A, 7B, 7C	B4	3,5	C7	
Weak credit standing	4,0	8A, 8B, 8C	B5	4,0	C8	6,4
Very weak credit standing	4,5	9A, 9B, 9C	C	4,5	C9	
Default	5,0	10	D	5,0	D	6,5

Estimation of the amount of default risk is executed for all credit requirements, exposed to the credit risk.

Private Individuals

Private individual credit risk appears when performing risk-bearing transactions for private individual customers. A borrower could be defined as a private individual customer in case of lending for his own personal use. Basic types of private individual loans are mortgages, personal loans and credit cards. For each type of private individual loan, the Group has established a product approval process, which is approved by the Parent Bank.

When establishing private individual credit risk limits, the Group usually follows the general guidelines set for the entire Parent Bank group and the guidelines for the Group (as a subsidiary of the Parent Bank). The decision on whether or not to provide a loan to a private individual customer depends on:

- The customer's conformity with the basic conditions, which are documented separately for each type of credit product;
- The customer's scoring data;
- The customer's financial status (his/her ability to pay);
- The results of a security check;
- Credit history data;
- And collateral (if it exists).

The Group uses certain reports for credit risk analysis on a monthly basis, such as consumer portfolio reports, branch monitoring reports, product reports, risk cost reports, vintage reports, default reports, collection bucket reports, collection target tracking and analytical fraud reports.

Collection for Private Individuals and Micro Business

Collection for Private individuals and Micro Business' objective is to obtain money owing from delinquent customer in such a way as to maintain customer service while minimizing bad debt losses and maximizing resource effectiveness in a cost-effective manner.

Collection process starts when customer account becomes past due and involves various activities, which depend on delinquency stage, product, customer situation, legal environment, etc.

34 Financial Risk Management (Continued)

Collection for Private Individuals and Micro Business (continued)

Within collection process two specialized tools implemented in the Bank are used: Debt Manager system meant for delinquent customers tracking and auto dialer system meant for making calls to customers in automatic mode and connection customers with Collection officers when both are available. At the late past due stages Bank applies to the court and works in cooperation with FSSP (Bailiffs).

Collection for Private individuals and Micro Business' responsibilities are divided between Collection department (customers with 1+ days past due), Mortgage and Micro Enterprises Loans Collection Department and Restructuring group. At the late debt recovery stages Economic Security Division also takes part in collection process.

The main objective of Collection for Private individuals and Micro Business is to bring past due customers back to current delinquency status or/and minimizing potential credit losses for the Bank.

Credit limits

The Group monitors direct credit exposure to FI, Sovereign and LRG using a system of limits developed by the Parent Bank. The limits include finance type of primary risks limits (Letter of credit, Trade Finance, Derivatives, Securities Settlement, Issuer Trading, Securities Finance, Lending, Money Market, Overdraft, Issuer Investment) and secondary risks limits (Insurance), Settlement Limits. For limit application a counterparty should have the assigned internal rating, which is the base for limit value in its favor. Limits and ratings are reviewed at least once a year. In addition every limit application supported by Group internal analysis. Limits applications should be approved by authorised bodies of the Group and of the Parent Bank. Financial standing of FI, Sovereign & Sub-Sovereign counterparties is monitored on a regular basis according to the Parent Bank and Central Bank of Russia requirements. Exposures in the frame of the established limits on FIs, Sovereign & Sub-Sovereign are monitored on a daily basis.

Credit risk management of exposure to other groups of borrowers (other than FIs, Sovereign & Sub-Sovereign) is also conducted by setting limits on different types and terms of transactions for each individual counterparty and industry segment (economic entity), and include regular monitoring of borrowers' creditworthiness based on evaluations and rating systems.

For credit risk management incl. risk of debt securities, the Group uses internal ratings to manage credit risk exposure. The Bank extrapolates the ratings model on its subsidiaries as well.

Credit risk for off-balance sheet financial instruments

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the contract's terms. The Group uses the same credit policies for contingent liabilities as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Credit risk concentrations

Concentration risk is associated with the credit related exposures in the Bank and the Banking Group and is classified into the following subtypes:

- Industrial concentration;
- Regional concentration (in relation to geographic zones);
- FX credit exposure volume concentration (for denominated in foreign currency;
- "Name" concentration (exposure concentration on the individual borrowers and GCC);
- Collateral concentration (in relation to collateral used by the Bank to mitigate credit risk).

Credit Concentration risk is monitored via indicators included in Risk Appetite Framework and indicators established within Bank's Credit Policies. For example, exposures to borrowers with TOP 10, 20, and 30 aggregated loan balances are evaluated in order to monitor "name" concentration risk.

34 Financial Risk Management (Continued)

Credit risk concentrations (continued)

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group had 2 borrowers with significant risk concentration at 31 December 2020 (31 December 2019: 2 borrowers) with total exposure of RR 45 161 million (2019: RR 38 321 million).

Market risk

Market risk is the risk of loss due to adverse changes in interest rates, exchange rates, equity prices, commodity prices, bond issuer credit spreads, which may affect the Group's equity, profit or the market value of its assets and liabilities. Market risk derives from on- and off-balance sheet positions in the Bank's treasury, investment banking and lending operations.

The Group's market risk management approach encompasses the recognition, measurement, monitoring and management of market risk that results from the Group's banking business on a group basis. The Group encounters market risk in both trading and non-trading activities (including interest rate positions, balance sheet structures and hedging positions).

The Group's market risk management unit is in charge of identifying and assessing market risks and establishing procedures to control market risks, including monitoring position limits and exposures. The Bank's market risk management unit also assesses market risk for new businesses and products, including structured products. The Treasury and Corporate and Investment Banking Directorate, which trade within the trading limits set by the market risk management unit and approved by the ALCO / Parent Bank' MACO / CC, performs trading and market positioning for the Bank. The Bank is subject to the policies and limits set by the Parent Bank and approved by the Parent Bank's market risk committee.

The Bank's market risk management unit is in charge of daily limit monitoring and reporting to the Parent Bank, and is responsible for reporting any limited breach to the Bank's management and Parent Bank. In the case of a limit breach, the Parent Bank's MACO has the right to intervene in the Bank's risk management activities and practices.

Market Risk is controlled by the following activities:

- Establishment of market risk limits (interest rate, FX) by ALCO and MACO;
- Provide Market Risk Report on a daily basis to Bank's Management; informing about limit violation and current taking risks;
- Analysis of each issues and setting the liquidity limit for issues;
- Limits control during the day by Financial Markets Risk Management Department.

Risk management tools

The Bank manages market risks by controlling the market risk limits for all trading portfolios (domestic and foreign fixed income securities, foreign exchange and equity positions) by using risk management tools such as position limits, value at risk, stress tests, back-testing, interest rate gap and sensitivity analysis and stop-loss limits.

Value at Risk (VaR)

VaR is a statistically-based estimate of a potential loss in the Bank's trading portfolio, including fixed income, equity and foreign exchange positions from adverse changes in market parameters. As is standard for the Parent Bank and the Group, VaR measures are calculated at a 99% confidence level, and there is a specified statistical probability of 1% that actual loss could be greater than the VaR estimate. Limits on VaR are applied for by the Bank's Treasury and Corporate and Investment Banking Directorate recommended by the Bank's market risk management unit, approved by the ALCO internally and then approved by the Parent Bank's Market Risk Committee (MACO).

In 2010, the Group started to use a model of measuring VaR that was developed and put into force by the Parent Bank. This model is now standard for all network units of the Parent Bank.

34 Financial Risk Management (Continued)

Value at Risk (VaR) (continued)

The main parameters of the model are:

- Hybrid simulation (combined Monte Carlo-Historical scenarios);
- Currency risk and interest rate risk, including credit spread risk and basis risk, covered and simulated together (including diversification effect);
- Based on a two-year time series with Volatility De-clustering (approx. 80% short-term and 20% long-term volatility).

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those of an extreme nature;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. VaR is only an estimate, which is subject to stochastic uncertainty. There is a 1% chance that the loss could exceed VaR;
- As VaR is only calculated at the end of the day, it does not necessarily reflect exposures that may arise on positions during the trading day.

VaR is dependent upon the Bank’s position and the volatility of market prices. VaR of an unchanged position reduces if market volatility declines, and vice versa.

The Parent Bank calculates VaR for the Bank based on reported risk positions in the Trading Book. The Parent Bank performs VaR calculations on a regular basis in EUR and compares the results to the VaR limits approved for the Bank. When a limit is exceeded, it is reported to the local Management and the Parent Bank’s Market Risk Committee.

VaR summary for the Trading book revalued through profit and loss statement for the year ending 31 December 2020:

In millions of Russian Roubles		**31 December 2020 1-day VaR**
Trading Book	Currency risk	9
	Interest rate risk	95
	Credit spread risk	80
	Basis risk	21
	Total risk (including diversification effect)	119

VaR summary for Trading book positions revalued through profit and loss for the year ending 31 December 2019:

In millions of Russian Roubles		**31 December 2019 1-day VaR**
Trading Book	Currency risk	21
	Interest rate risk	22
	Credit spread risk	19
	Basis risk	30
	Total risk (including diversification effect)	69

Interest rate risk is calculated without taking into consideration risk of change in credit spread and basis risk component, and credit spread risk and basis risk are presented separately. Total risk covers all the components: currency risk, interest rate risk, credit spread risk and basis risk (including diversification effect).

34 Financial Risk Management (Continued)

Value at Risk (VaR) (continued)

The Increase of VaR for 2020 is mostly driven by higher volatility in the markets and the increase of interest rate risk position in Trading book.

To calculate VaR, the Parent Bank uses the open risk positions of the Bank.

The Bank's market risk management unit monitors VaR limits and exposures. The distribution of potential profits and losses from the VaR model provides an indication of potential trading revenue volatility, and a change in the general level of VaR would normally be expected to lead to a corresponding change in the volatility of daily trading revenues. VaR is based on a one-day calculation and provides an estimate of the range of daily mark-to-market profit and loss that the Bank may incur on its current portfolio under normal market conditions.

Stress tests

The main advantage of VaR risk assessment − its reliance on the empirical data − is at the same time its biggest drawback. Extreme market moves that may cause substantial deterioration of the Bank's position have to be assessed by putting stress on a number of standard deviations of market returns. The resulting figures serve as a rough indicator of the magnitude of a likely loss under the corresponding scenario. The Bank uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests indicate the potential size of losses that could arise in extreme conditions.

Stress testing helps measure the Bank's exposure to extreme market movements and provides an indication of the potential loss that could arise as a result of such movements. Stress testing is designed to ensure that a wide range of possible outcomes is explored in order to understand the Bank's vulnerability, and to ensure that the governance and control framework is comprehensive, transparent and responsive to market conditions and developments, both globally and in the Russian economy.

Stress testing is done for the following exposures and operations:

- Bank's Interest Sensitive Income in RUB and Foreign currencies for interest rates development scenario (historical scenarios, scenarios prescribed by Analytical Department, quantitatively developed scenarios).
- Interest rate sensitivities and open FX positions limit establishing.
- REPO collateral haircuts calculation.

Back-testing

The effectiveness of the VaR model is subject to a back-testing assessment. Back-testing detects cases of above-VaR loss and compares the frequency of VaR breaches to the given confidence level.

In back-testing, the Bank compares the 1-day VaR calculated on positions at the close of each business day with the actual revenues arising on the same positions on the next business day. These revenues ("back-testing revenues") exclude non-trading components, such as commissions and fees, but include revenues from intra-day trading (so called, "dirty back-testing"). If the result is negative and exceeds the 1-day VaR, a "back-testing exception" is considered to have occurred. When VaR is measured at a 99% confidence level, a back-testing exception is expected, on average, one day out of a hundred, i.e. approximately three times a year.

The Bank uses an interest rate sensitivity analysis to assess interest rate risk for its banking portfolio, which consists of loans, deposits, interbank money market transactions, fixed-income held-to-maturity securities and interest rate derivatives and for its trading portfolio, which consists of fixed income trading securities and interest rate derivatives that hedge the exposure of fixed income trading securities. The Group calculated interest rate sensitivity (Basis Point Value) for each portfolio by calculating the change in the present market value of all future cash flows with interest rate shift for 1 bp, calculated taking the current market interest rate that the Bank uses for internal pricing, to the value of all future cash flows in the current market increased by one basis point.

34 Financial Risk Management (Continued)

Limitation of trading positions

The Bank establishes Stop-Loss/High Watermark limits to react on significant losses on its trading activities. All cases of Stop-Loss/High Watermark limit breaches are subject to escalation to ALCO and Group MACO committees.

The Bank uses a set of position limits to prevent the concentration of certain financial instruments, including trading securities and open foreign exchange positions, as well as in the Bank's overall portfolio, in order to maintain the market value of the overall portfolio. The position limits are set for individual positions and for the overall portfolio and account for certain market conditions, including liquidity.

Currency risk

Currency risk results from fluctuations in the prevailing foreign currency exchange rates. The Group is exposed to foreign currency exchange risk on open positions within established open FX position limits.

As part of managing currency risk, the Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored on a daily basis. The control system also includes limits on Value at Risk (see the description of Value at Risk measure for details), and stop-loss limits, each monitored on a daily basis.

Foreign exchange risk management is done centrally by the Capital Markets Trading & Sales Division for the Bank's Head Office and all regional and Moscow branches. Controlling over open positions is done by Financial Markets Risk Management Department.

The Bank's Capital Markets Trading & Sales Division undertakes daily aggregation of the currency position of the Bank and takes measures for maintaining of the Bank's currency position within established limits. The Bank uses spot transactions, forwards and futures contracts tradable on MICEX and RTS and OTC market as the main instruments for hedging currency risk.

VaR in EUR is calculated in Bank for reporting to the Parent Bank; analysis of factor impact is done for local currency.

Due to high FX volatility the communication procedure in conducting exchange operations and changes in balance sheet positions (for ex.: the change of credit currency) during the day is well-coordinated in order to timely hedge of OCP changes.

The Group's FX risk-appetite is below average which is reflected in not high OCP limits for each currency. The FX revaluation (the growth of Group's reserves due to exchange rate changes is hedged) depending on the current FX position (within the established limits) takes place in case of changes in exchange rates.

Due to significant part of the interest income in foreign currency the additional interest income can be received in case of RUB exchange rates decrease in the long term.

34 Financial Risk Management (Continued)

Currency risk (continued)

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 December 2020:

In millions of Russian Roubles	RUR	USD	EUR	Other	Total
Cash and cash equivalents	91 560	96 257	164 651	1 269	**353 737**
Mandatory cash balances with the Central Bank of the Russian Federation	11 982	–	–	–	**11 982**
Trading securities	28 087	3 978	402	–	**32 467**
Due from other banks	1 826	5	4	3 593	**5 428**
Loans and advances to customers	658 970	111 972	57 380	–	**828 322**
Derivatives and other financial assets	22 207	6 385	1 963	184	**30 739**
Investment securities	142 151	18 083	–	244	**160 478**
Total monetary financial assets	**956 783**	**236 680**	**224 400**	**5 290**	**1 423 153**
Due to other banks	45 546	5 048	1 172	576	**52 342**
Customer accounts	722 147	251 578	144 917	11 449	**1 130 091**
Term borrowings from the Parent Bank	–	38 941	–	–	**38 941**
Lease liabilities	3 463	83	2	–	**3 548**
Debt securities in issue	252	–	–	–	**252**
Derivatives and other financial liabilities	28 926	4 487	2 938	56	**36 407**
Total monetary financial liabilities	**800 334**	**300 137**	**149 029**	**12 081**	**1 261 581**
Less net fair value of currency derivatives	**2 864**	**2 424**	**(1 113)**	**100**	**4 275**
Currency derivatives	**5 549**	**66 296**	**(75 599)**	**8 031**	**4 277**
Net position including currency derivatives	**159 134**	**415**	**885**	**1 140**	**161 574**

34 Financial Risk Management (Continued)

Currency risk (continued)

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 December 2019:

In millions of Russian Roubles	RUR	USD	EUR	Other	Total
Cash and cash equivalents	110 731	76 571	68 498	823	**256 623**
Mandatory cash balances with the Central Bank of the Russian Federation	9 886	–	–	–	**9 886**
Trading securities	16 568	1 089	776	–	**18 433**
Trading securities pledged under repurchase agreements	1 981	–	–	–	**1 981**
Due from other banks	2 019	21	1 946	–	**3 986**
Loans and advances to customers	644 447	100 143	42 263	–	**786 853**
Derivatives and other financial assets	14 903	4 868	2 178	82	**22 031**
Investment securities	130 089	14 231	–	192	**144 512**
Total monetary financial assets	**930 624**	**196 923**	**115 661**	**1 097**	**1 244 305**
Due to other banks	36 944	23 749	907	31	**61 631**
Customer accounts	606 727	228 636	108 067	11 652	**955 082**
Term borrowings from the Parent Bank	–	32 701	–	–	**32 701**
Lease liabilities	3 467	88	57	–	**3 612**
Derivatives and other financial liabilities	30 017	2 326	2 753	29	**35 125**
Total monetary financial liabilities	**677 155**	**287 500**	**111 784**	**11 712**	**1 088 151**
Less net fair value of currency derivatives	**(6 454)**	**2 341**	**(575)**	**50**	**(4 638)**
Currency derivatives	**(109 607)**	**96 094**	**(2 017)**	**10 892**	**(4 638)**
Net position including currency derivatives	**150 316**	**3 176**	**2 435**	**227**	**156 154**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 38.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The Bank calculates VaR for the Parent Bank monitoring, using EUR as the basis currency, and for local purposes the Bank performs the sensitivity analysis.

34 Financial Risk Management (Continued)

Currency risk (continued)

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

In millions of Russian Roubles	**At 31 December 2020** **Impact on profit or loss/equity**
US Dollars strengthening by 20%	83
US Dollars weakening by 20%	(83)
Euro strengthening by 20%	177
Euro weakening by 20%	(177)
US Dollars strengthening / Euro weakening by 20%	260
US Dollars weakening / Euro strengthening by 20%	(260)

In millions of Russian Roubles	**At 31 December 2019** **Impact on profit or loss/equity**
US Dollars strengthening by 20%	635
US Dollars weakening by 20%	(635)
Euro strengthening by 20%	476
Euro weakening by 20%	(476)
US Dollars strengthening / Euro weakening by 20%	1 111
US Dollars weakening / Euro strengthening by 20%	(1 111)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its consolidated financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Group is exposed to interest rate risk, principally through the mismatch of assets and liabilities by maturities/review of interest rates of assets and liabilities in various currencies.

Financial Markets Risk Management Department monitors on a daily basis and sets limits on the level of interest rate sensitivity that may be undertaken. The Parent Bank’s market risk committee sets interest rate sensitivity limits for the Group’s Russian Rouble, US Dollar Euro and other currencies positions and for the Group’s overall exposure. In addition Group uses interest rate swaps and cross currency interest rate swap to hedge its exposure to interest rate risk.

The following instruments are used for risk management purposes:

- Making IRS and Cross Currency Swap transactions in order to interest rate risk hedge;
- Hedge via bond futures (with respect to Trading Book interest rate risk);
- Formation of a balanced balance sheet structure via internal transfer pricing;
- Restraint of the embedded options volume in the Bank’s products and their appropriate pricing.

Exposure to interest rate risk includes both fixed and floating rate instrument.

34 Financial Risk Management (Continued)

Interest rate risk (continued)

The interest rate sensitivities set out in the table below represent an effect on the historical net interest income for one-year period in case of parallel shift in all yield curves. The calculations are based on the Group's actual interest rate risk exposures of the Banking Book at the relevant reporting dates. The Group includes in the interest position calculation and sensitivity analysis instruments at both floating and fixed rates. The Group includes expected cash flows arising from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book. Change in NII is computed assuming a constant balance sheet, where maturing or repricing cash flows are replaced by new cash flows with identical features with regard to the amount, repricing period and spread components. Change in NII is disclosed as the difference in future interest income over a rolling 12-month period.

Interest rate sensitivity analysis as at 31 December 2020 and 31 December 2019 as an effect on net interest income is as follows:

NII BB *In millions of Russian Roubles*	**At 31 December 2020** **EUR: 60 bp + RUR: 150 bp + USD: 100 bp +**	**EUR: 60 bp - RUR: 150 bp - USD: 40 bp -**
EUR	(73)	73
RUR	693	(1 061)
USD	116	(47)

NII BB *In millions of Russian Roubles*	**At 31 December 2019** **EUR: 50 bp + RUR: 125 bp + USD: 100 bp +**	**EUR: 50 bp - RUR: 125 bp - USD: 100 bp -**
EUR	212	(191)
RUR	888	(1 260)
USD	456	(693)

Interest rate sensitivity analysis as at 31 December 2020 and 31 December 2019 as an effect on the net present value (NPV) of the instruments in Banking Book, which are revalued through profit and loss as at 31 December 2020 and 31 December 2019 is as follows:

NPV BB *In millions of Russian Roubles*	**At 31 December 2020** **EUR: 60 bp + RUR: 150 bp + USD: 100 bp +**	**EUR: 60 bp - RUR: 150 bp - USD: 40 bp -**
EUR	(438)	448
RUR	1 181	(1 215)
USD	(238)	97

NPV BB *In millions of Russian Roubles*	**At 31 December 2019** **EUR: 50 bp + RUR: 125 bp + USD: 100 bp +**	**EUR: 50 bp - RUR: 125 bp - USD: 100 bp -**
EUR	(475)	484
RUR	978	(1 006)
USD	(763)	789

34 Financial Risk Management (Continued)

Interest rate risk (continued)

Interest rate sensitivity analysis as at 31 December 2020 and 31 December 2019 as an effect on the net present value (NPV) of the instruments in Banking Book, which are revalued through other comprehensive income as at 31 December 2020 and 31 December 2019 is as follows:

NPV BB	**At 31 December 2020**	
In millions of Russian Roubles	**EUR: 60 bp + RUR: 150 bp + USD: 100 bp +**	**EUR: 60 bp - RUR: 150 bp - USD: 40 bp -**
EUR	–	–
RUR	(313)	322
USD	–	–

NPV BB	**At 31 December 2019**	
In millions of Russian Roubles	**EUR: 50 bp + RUR: 125 bp + USD: 100 bp +**	**EUR: 50 bp - RUR: 125 bp - USD: 100 bp -**
EUR	–	–
RUR	(27)	27
USD	–	–

Changes in NPV BB of the instruments, which are revalued through other comprehensive income, are due to a new hedge accounting relationship.

Normally the Bank does not pay any interest on current accounts maintained by corporate customers. However, in certain cases the Bank may decide to serve interest on current account balances of a specific corporate customer in view of special agreements with this customer.

The Bank is exposed to interest rate risk, principally as a result of lending activities and borrowings from customers.

As part of interest rate risk management strategy the Group entered portfolio fair value hedge relationships on 1 January 2020, and on 1 November 2020 and portfolio cash flow hedge relationship on 1 May 2020. The Group designated certain interest rate swaps as hedging instruments together with its fixed rate mortgages as hedged items in portfolio fair value hedge relationships. The Group designated certain interest rate swaps as hedging instruments together with its floating rate corporate loans as hedged items in portfolio cash flow hedge relationships. Further details are disclosed in Note 9, Note 14 and Note 21.

34 Financial Risk Management (Continued)

Geographical risk concentrations

The geographical concentration of the Group's financial assets and liabilities at 31 December 2020 is set out below:

In millions of Russian Roubles	**Russia**	**Austria**	**Other European Union**	**Other countries**	**Total**
Assets					
Cash and cash equivalents	182 331	168 249	412	2 745	**353 737**
Mandatory cash balances with the Central Bank of the Russian Federation	11 982	–	–	–	**11 982**
Trading securities	32 429	9	16	13	**32 467**
Due from other banks	1 836	3 330	–	262	**5 428**
Loans and advances to customers	814 241	16	8 430	5 635	**828 322**
Derivatives and other financial assets	21 658	6 548	2 455	78	**30 739**
Investment securities	160 478	–	–	–	**160 478**
Total financial assets	**1 224 955**	**178 152**	**11 313**	**8 733**	**1 423 153**
Liabilities					
Due to other banks	19 146	423	10 708	22 065	**52 342**
Customer accounts	1 117 658	1 880	7 244	3 309	**1 130 091**
Term borrowings from the Parent Bank	–	38 941	–	–	**38 941**
Lease liabilities	3 548	–	–	–	**3 548**
Debt securities in issue	252	–	–	–	**252**
Derivatives and other financial liabilities	23 794	9 675	2 244	694	**36 407**
Total financial liabilities	**1 164 398**	**50 919**	**20 196**	**26 068**	**1 261 581**
Net balance sheet position	**60 557**	**127 233**	**(8 883)**	**(17 335)**	**161 572**
Credit related commitments (Note 35)	**698 768**	**18 232**	**28 140**	**11 726**	**756 866**

Assets, liabilities and credit related commitments have generally been based on the country, in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the country, in which they are physically held.

34 Financial Risk Management (Continued)

Geographical risk concentrations (continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2019 is set out below:

In millions of Russian Roubles	Russia	Austria	Other European Union	Other countries	Total
Assets					
Cash and cash equivalents	153 345	94 431	1 412	7 435	**256 623**
Mandatory cash balances with the Central Bank of the Russian Federation	9 886	–	–	–	**9 886**
Trading securities	17 342	–	316	775	**18 433**
Trading securities pledged under repurchase agreements	1 981	–	–	–	**1 981**
Due from other banks	2 027	–	–	1 959	**3 986**
Loans and advances to customers	771 182	9	8 598	7 064	**786 853**
Derivatives and other financial assets	17 551	3 609	844	27	**22 031**
Investment securities	137 467	–	7 045	–	**144 512**
Total financial assets	**1 110 781**	**98 049**	**18 215**	**17 260**	**1 244 305**
Liabilities					
Due to other banks	48 697	723	9 121	3 090	**61 631**
Customer accounts	940 889	1 224	10 713	2 256	**955 082**
Term borrowings from the Parent Bank	–	32 701	–	–	**32 701**
Lease liabilities	3 612	–	–	–	**3 612**
Derivatives and other financial liabilities	21 237	10 775	2 962	151	**35 125**
Total financial liabilities	**1 014 435**	**45 423**	**22 796**	**5 497**	**1 088 151**
Net balance sheet position	**96 346**	**52 626**	**(4 581)**	**11 763**	**156 154**
Credit related commitments (Note 35)	**650 096**	**18 508**	**20 389**	**9 633**	**698 626**

Liquidity risk

Liquidity risk is the current and prospective risk to earnings or capital arising from a bank's inability to meet its financial obligations when they come due without incurring unacceptable losses (extremely high funding costs). The risk arises as the bank might not be able to meet both expected and unexpected current and future cash flow and collateral needs efficiency. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, deposits maturities or early withdrawals, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset and Liability Committee of the Group.

The Group seeks to maintain a stable funding base comprising retail and corporate customer deposits and long-term liabilities due to other banks and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

34 Financial Risk Management (Continued)

Liquidity risk (continued)

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due both in normal and in stressed conditions; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against internal and regulatory requirements. The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBRF. The information on liquidity ratios is provided to the Central Bank of the Russian Federation, disclosed on the official website of Raiffeisenbank and in reports according to Russian standards on a regular basis.The daily liquidity position (aggregate and for major currencies) is monitored and regular liquidity stress testing under scenarios covering both normal and severe market conditions is performed by Financial Markets Risk Management Department. Financial Markets Risk Management Department estimates liquidity sufficiency of the Bank for the next 90 days in the absence of external support from the market and implementation of stress outflow (stress scenario assumes not only offensive of market crisis but implementation of the crisis name). Both the limit of liquidity sufficiency in separate currencies and the limit of liquidity sufficiency in all currencies are established in order to comply sufficient liquidity for the next 90 days.

Liquidity risk report is provided to Bank’s Management on a daily basis.

Liquidity Risk Analysis, development of the balance model in case of the stress scenario, control of established liquidity limits and proposal for establishment/review liquidity limits are monitored by Financial Markets Risk Management Department. This Department is independent from Treasury and Corporate and Investment Banking Directorate. Liquidity Risk Report includes the following:

- Monitoring of liquidity limits;
- Information on Russian Accounting System liquidity coverage ratio Development;
- Information on development of the separate balance sheet accounts;
- Information on the concentrated clients;
- Information on early warning Indicators with respect to liquidity risk.

Liquidity limits (as aggregated cash outflows in case of the stress scenario) and model for liquidity risk estimation are approved by Asset and Liability Management Committee and The Parent Bank.

The operative liquidity management is implemented by Capital Markets Trading & Sales Division and Treasury.

The tables below shows assets and liabilities at 31 December 2020 and 31 December 2019 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the balance sheet because the balance sheet amounts are based on discounted cash flows, except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Financial derivatives are included at the contractual amounts to be paid or received, unless the Bank expects to close the derivative position before its maturity date, in which case the derivatives are included based on the expected cash flows.

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

34 Financial Risk Management (Continued)

Liquidity risk (continued)

The undiscounted maturity analysis of financial assets and liabilities at 31 December 2020 is as follows:

In millions of Russian Roubles	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents	353 737	–	–	–	**353 737**
Mandatory cash balances with the Central Bank of the Russian Federation	11 982	–	–	–	**11 982**
Trading securities	32 467	–	–	–	**32 467**
Due from other banks	5 019	430	–	–	**5 449**
Loans and advances to customers	191 458	234 504	452 104	200 735	**1 078 801**
Investment securities	133 382	7 648	17 722	8 116	**166 868**
Gross settled swaps and forwards:					
- inflows	265 425	67 029	8 405	–	**340 859**
- outflows	(260 353)	(63 759)	(7 243)	–	**(331 355)**
Net settled derivatives	1 908	1 739	4 481	153	**8 281**
Other financial assets	12 656	–	–	–	**12 656**
Total financial assets	**747 681**	**247 591**	**475 469**	**209 004**	**1 679 745**
Liabilities					
Due to other banks	52 322	56	–	–	**52 378**
Customer accounts	1 098 025	31 835	1 817	351	**1 132 028**
Term borrowings from Parent Bank	658	13 993	7 510	30 226	**52 387**
Lease liabilities	194	818	2 438	793	**4 243**
Debt securities in issue	–	252	–	–	**252**
Gross settled swaps and forwards:					
- inflows	(265 462)	(63 459)	(18 911)	–	**(347 832)**
- outflows	268 009	65 007	19 047	–	**352 063**
Net settled derivatives	1 064	4 110	5 280	202	**10 656**
Credit related commitments and performance guarantees before provision	756 866	–	–	–	**756 866**
Other financial liabilities	20 476	–	–	–	**20 476**
Total potential future payments for financial obligations	**1 932 152**	**52 612**	**17 181**	**31 572**	**2 033 517**
Liquidity gap arising from financial instruments	**(1 184 471)**	**194 979**	**458 288**	**177 432**	**(353 772)**

34 Financial Risk Management (Continued)

Liquidity risk (continued)

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

In millions of Russian Roubles	**Demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents	256 623	–	–	–	**256 623**
Mandatory cash balances with the Central Bank of the Russian Federation	9 886	–	–	–	**9 886**
Trading securities	18 433	–	–	–	**18 433**
Repurchase receivables related to trading securities	1 981	–	–	–	**1 981**
Due from other banks	1 352	890	1 963	–	**4 205**
Loans and advances to customers	156 066	218 261	453 426	195 858	**1 023 611**
Investment securities	116 662	5 284	24 537	3 107	**149 590**
Gross settled swaps and forwards:					
- inflows	283 354	58 088	18 924	–	**360 366**
- outflows	(280 539)	(53 126)	(16 269)	–	**(349 934)**
Net settled derivatives	150	4 326	2 169	51	**6 696**
Other financial assets	8 226	–	–	–	**8 226**
Total financial assets	**572 194**	**233 723**	**484 750**	**199 016**	**1 489 683**
Liabilities					
Due to other banks	61 363	217	100	–	**61 680**
Customer accounts	887 741	65 762	3 616	199	**957 318**
Term borrowings from Parent Bank	703	2 117	18 695	22 670	**44 185**
Lease liabilities	207	826	2 830	703	**4 566**
Gross settled swaps and forwards:					
- inflows	(381 543)	(117 831)	(4 489)	–	**(503 863)**
- outflows	386 547	127 815	4 904	–	**519 266**
Net settled derivatives	396	5 071	2 945	134	**8 546**
Credit related commitments and performance guarantees before provision	698 626	–	–	–	**698 626**
Other financial liabilities	14 811	–	–	–	**14 811**
Total potential future payments for financial obligations	**1 668 851**	**83 977**	**28 601**	**23 706**	**1 805 135**
Liquidity gap arising from financial instruments	**(1 096 657)**	**149 746**	**456 149**	**175 310**	**(315 452)**

The above analysis is based on contractual maturities; therefore, the entire portfolio of trading securities and repurchase receivables related to trading securities is classified within demand and less than three months based on Management's assessment of portfolio's reliability.

Payments in respect of gross settled forwards will be accompanied by related cash inflows, which are disclosed at their present values in Note 38. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

34 Financial Risk Management (Continued)

Liquidity risk (continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors contractual maturities based on carrying amount of assets and liabilities, which may be summarized as follows at 31 December 2020 and 31 December 2019:

In millions of Russian Roubles	Demand and less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
31 December 2020					
Cash and cash equivalents	353 737	–	–	–	**353 737**
Mandatory cash balances with the Central Bank of the Russian Federation	11 982	–	–	–	**11 982**
Trading securities	32 467	–	–	–	**32 467**
Due from other banks	5 248	180	–	–	**5 428**
Loans and advances to customers	159 716	196 087	352 204	120 315	**828 322**
Derivatives and other financial assets	17 810	4 269	7 956	704	**30 739**
Investment securities	132 314	6 843	15 051	6 270	**160 478**
Total financial assets	**713 274**	**207 379**	**375 211**	**127 289**	**1 423 153**
Due to other banks	52 286	56	–	–	**52 342**
Customer accounts	117 614	322 102	556 974	133 401	**1 130 091**
Term borrowings from the Parent bank	32	12 222	–	26 687	**38 941**
Lease liabilities	194	818	2 143	393	**3 548**
Debt securities in issue	–	252	–	–	**252**
Derivatives and other financial liabilities	17 398	9 249	8 526	1 234	**36 407**
Total financial liabilities	**187 524**	**344 699**	**567 643**	**161 715**	**1 261 581**
Net liquidity gap at 31 December 2020	**525 750**	**(137 320)**	**(192 432)**	**(34 426)**	**161 572**
Cumulative gap at 31 December 2020	**525 750**	**388 430**	**195 998**	**161 572**	

In millions of Russian Roubles	Demand and less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
31 December 2019					
Cash and cash equivalents	256 623	–	–	–	**256 623**
Mandatory cash balances with the Central Bank of the Russian Federation	9 886	–	–	–	**9 886**
Trading securities	18 433	–	–	–	**18 433**
Trading securities pledged under repurchase agreements	1 981	–	–	–	**1 981**
Due from other banks	21	2 023	1 942	–	**3 986**
Loans and advances to customers	136 510	180 720	355 286	114 337	**786 853**
Derivatives and other financial assets	10 442	4 242	7 217	130	**22 031**
Investment securities	115 377	4 230	22 348	2 557	**144 512**
Total financial assets	**549 273**	**191 215**	**386 793**	**117 024**	**1 244 305**
Due to other banks	61 326	190	115	–	**61 631**
Customer accounts	151 541	275 002	435 401	93 138	**955 082**
Term borrowings from the Parent bank	30	–	10 254	22 417	**32 701**
Lease liabilities	206	783	2 283	340	**3 612**
Derivatives and other financial liabilities	15 027	9 594	9 790	714	**35 125**
Total financial liabilities	**228 130**	**285 569**	**457 843**	**116 609**	**1 088 151**
Net liquidity gap at 31 December 2019	**321 143**	**(94 354)**	**(71 050)**	**415**	**156 154**
Cumulative gap at 31 December 2019	**321 143**	**226 789**	**155 739**	**156 154**	

34 Financial Risk Management (Continued)

Liquidity risk (continued)

The entire portfolio of trading securities and repurchase receivables related to trading securities is classified within demand and less than one month based on management's assessment of the portfolio's liquidity and eligibility.

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

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

Operational risk

In line with the proposed Basel II banking regulatory reforms, the Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. RBI Group and Bank consider operational risk as a distinct class of risks and views operational risk management as a comprehensive practice comparable to the management of credit and market risk.

In accordance with the Basel documents the process of operational risk management includes following activities: identification, evaluation/measurement, monitoring and control / risk reduction. At the moment Bank uses the Advanced Measurement Approach (AMA) to define the requirement to capital needed to cover possible operational risk losses.

Principles and structure of operational risk management, implemented by RBI Group is determined in the official methodological document "Set of methodological documents for application of advanced measurement approach for operational risk management", developed on the basis of the directives of the Parent Bank (RBI), Russian legislation and regulatory requirements of Basel II. These documents define the roles and responsibilities of operational risk management at the Bank. Regulatory requirements by the Central Bank of the Russian Federation for operational risk management are reviewed regularly, thus ensuring compliance with legal requirements at a reasonable and effective approach to managing of Operational Risk.

The Operational Risk Management Framework is designed in a way as to increase the transparency of operational risks for the entire Group, to strengthen the management of the operational risk and ensure compliance with all regulatory requirements.

Governance

- Operational Risk Policy & Strategy clearly define the operating model and strategy for Operational risk.
- Supporting documents provide detailed requirements and instructions.
- Roles and responsibilities are clearly with scope, mandate and hierarchy within three lines of defense model.
- Exceptions and escalation clearly define the escalation process in line with roles and responsibilities.

34 Financial Risk Management (Continued)

Operational risk (continued)

Instruments and methods

- Operational risk is identified, measured, managed and monitored used different instruments and methods.
- Operational Risk Event Collection: collection and analysis of operational risk events provides meaningful information for measuring the impact of operational risk events and the effectiveness of the internal control environment.
- Risk assessment: assessment of Business Environment and risks present after control or mitigation actions.
- Scenario analysis is for the identification of low probability but sever impact operational risk incidents.
- Early Warning Indicators for advanced notification of potential changes in the operational risk exposure.
- Integrate analysis and reporting provides management with an integrated view of operational risk exposure and insights into risk drivers and emerging risks events and level of risk exposure.

Operational Risk Management Cycle

- Operational risk is managed with Risk Management cycle:
- Identification: Identifying and analysing operational risk inherent in all material product, activity, process or system.
- Measurement: Ensuring quantitative and qualitative measurement are of sufficient quality and integrity to support effective tactical and strategic decision-making.
- Management:

  Management of Operational risk including:

  - Risk avoidance: refusal to participate in activities in which appropriate risk management is impossible or output from such activities;
  - Risk mitigation: implementation of effective methods and controls, which will be reduced the frequency and volume of losses to a manageable level;
  - Risk transfer: the risk-sharing with other parties (such as insurance or outsourcing);
  - Risk acceptance: the decision to accept the risk without further risk reduction or transfer for some period of time.
- Monitoring:

  For sustainment and continual improvement. The main objective of monitoring process is to regular review Operational risk management cycle:

  - The efficiency of the cycle and its individual components (identification, assessment, management) to ensure proper management of operational risks;
  - Tools and methods for operational risk management in order to ensure their relevance and usefulness for assessing the operational risk;
  - To ensure effectiveness of implemented measures for risk mitigation, their regular review for necessary adjustments.

34 Financial Risk Management (Continued)

Operational risk (continued)

Capital requirement

Capital Requirement for Operational Risk is calculated using the internal model according to Advanced Measurement Approach to Operational Risk. The model uses the following data to calculate capital requirement:

- Internal and External Loss Data;
- Business Environment and Internal Control Factors;
- Scenario Analysis.

Analyzing the Three lines of defense operating model establishes the appropriate responsibility for the management of operational risk.

The first line of defense is the risk-originating units whose business activities give rise to risk. The risk originating units own operational risk. The Operational Risk Managers (ORM) and Dedicated Operational Risk Specialists (DORS) are responsible for the day-to-day management of OR in a manner consistent with the Group-wide principles.

- The second line of defense provides an independent assessment of operational risk, oversight and challenges the first line of defense (The second line of defense is comprised of Chief Risk Officer, Operational Risk Controlling department, Operational Risk Management Committee, Controlling units (i.e. Compliance, Security&BCM, etc).
- The third line of defense is Internal Audit, it reviews effectiveness and suitability of the general risk management processes. The audit function shall not be part of the day-by-day OR Management process in order to act as an independent review function.

The definition of operational risk events includes external and internal fraud events.

In case of such events happen the incidents must be registered in the database for operational risks (and in the case of real losses and when losses avoided) by specially created categories:

- External fraud: Theft and Fraud, System Security External − Wilful Damage;
- Internal fraud: Unauthorized Activity, Internal Theft and Fraud, System Security Internal − Wilful Damage.

To minimize such risks, depending on their nature, appropriate actions are taken (i.e. centralization, implementation additional control, separation of functions, changes of process, changes in procedures, implementation of technological solutions, insurance, reduced deductibles, etc.).

Functions of control OR management carries out Operational Risk Controlling Group (ORCG) and Fraud Risk Management Group (FRMG), which are functionally independent from the business unit. From an organizational point of view ORCG and FRMG are included in the Integrated Risk Management Division, which reports directly to the Head of the Directorate of Risk Management (Chief Risk Officer).

The area of ORCG and FRMG responsibility includes the implementation and maintenance of process management and control of operational risk in the Bank, including the risks of internal and external fraud. Operational Risk Committee was organized and it functions.

The aim of the organization and function of the Committee is to review the operational risks, including legal risk and excluding strategic, to develop and approval of the main directions of the Bank's strategy to protect against fraudulent manifestations. The Committee's activity is an integral part of the risk management process and tool for resolving the most difficult issues in the operational risk area.

34 Financial Risk Management (Continued)

Operational risk (continued)

Thus, the management of operational risk is based on the monitoring process which enables identify and correct weaknesses in the policies, procedures and processes. It helps to reduce the potential frequency and impact from significant event that could lead to real losses. Monitoring of key parameters and potential impacts of operational risk is carried out on an ongoing basis. The system of constant reporting for Bank management provides preventive operational risk management, which has been included in the concept of “good practices” (“sound practices”) by Basel Committee.

Macroeconomic risk

Measures taken by the Bank in the current economic environment

In 2020 Russia’s GDP has declined by 3,1% amid measures to combat the spread of COVID-19 and a fall in global oil prices. The Central Bank of Russia estimates the subsequent recovery growth of 3-4% in 2021, the Bank estimates a more moderate dynamic of 2,3% in 2021 and 1,3% in 2022. According to the Central Bank of Russia, peak of the crisis was passed in May, leading to 9,5-10% GDP slump in second quarter. However, Russia as well as other countries are currently facing second wave of COVID-19, for which the possible impact is not estimated yet. The largest negative consequences of the COVID-19 pandemic will be faced by small and medium-sized businesses operating in the services sector and without access to government support programs. The Bank estimates that such sectors as air transportation, tourism, retail, hotel and restaurant businesses will be the most affected. Households will also suffer due to a sharp increase in unemployment and a decline in income of the population. Given the economic structure of large cities, up to 30% of households may face employment problems, which will negatively affect demand and ability to service debt. A fall in consumer demand will keep inflation low that will support historically low key rate level of 4,25%. Such key rate will lead to an increase in both corporate borrowers and households’ demand for refinancing of existing loans. Nevertheless, increased credit risks will be a serious limitation for lending in the medium term.

The government has adopted the national plan of economic recovery in 2020-2021, estimating to spend a total of 6.4 trillion Roubles on economic support measures. Anti-crisis measures already implemented by the government include payment holidays, soft loans, state subsidies, tax deferrals, deferred rental payments and state guarantees for borrowers for affected sectors of the economy, including small and medium-sized businesses.

The source of financing support measures will be funds of the National Welfare Fund (12% of GDP) and loans. The expected reduction in budget revenues taking into account the necessity to maintain expenditures at a high level bears the risks of fiscal stability (the expected budget deficit is up to 5% of GDP).

In addition, a negative factor for the Russian economy is a drop in oil prices (according to the Central Bank of Russia, the average oil price of Urals will be $41 per barrel in 2020) and a record decline in oil production and export starting from May 2020 under the OPEC+ agreement (25% production cut in May-June, followed by the first phase of restrictions easing in July 2020, and the second one in early 2021 for the whole year). Other possible risks include new round of restrictive measures and the severity of second wave of the epidemic.

Bank has a strong position from liquidity risk point of view, no liquidity stress has been observed since the beginning of COVID-19. Nevertheless, taking into account current market uncertainty and general economic situation the Bank monitors liquidity position thoroughly and conducts regular forecasting of its balance sheet development. Monitoring of liquidity position is implemented on daily basis with extended set of triggers including comparison of actual Bank position vs the forecasted one. Due to its strong liquidity position and large liquidity buffer, the forecasts show that Bank has more than sufficient volume of liquidity in order to fulfill regulatory ratios and meet its own obligations.

The Group controls all material types of risk by setting target, warning and limit levels within the Risk Appetite Framework.

34 Financial Risk Management (Continued)

Macroeconomic risk (continued)

The credit concentration risk is monitored using the following indicators: regional concentration (in relation to geographic zones), industrial concentration, maximum risk exposure ratio per borrower or group of related borrowers (N6, N6.1), exposures to top 20 GCC and Entropy Concentration Index (ECI). During 2020 no significant changes occurred in the results of credit concentration risk estimation within Risk Appetite Framework, the relevant Risk Appetite indicators were within the target levels.

35 Contingencies and Commitments

Legal proceedings

From time to time and in the normal course of business, claims against the Group may be received on the basis of its own estimates and internal professional advice, management is of the opinion that certain losses could be incurred in respect of claims and accordingly has made provisions for the legal cases in these consolidated financial statements.

Tax contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities, even those that have not been challenged in the past. As a result, additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm’s length. It is possible, with the evolution of the interpretation of the transfer pricing rules, that application of the transaction prices as transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated.

Adoption of new norms as well as other Russian tax legislation interpretations in combination with the latest trends in law enforcement could lead to potential possibility of increase in tax paid and tax penalties driven by rigid position of tax authorities and courts concerning tax legislation interpretations. At the same time the potential impact cannot be reliable estimated, as well as the probability of an unfavorable outcome in the case of claims of the Russian tax authorities.

Starting from 1 January 2015 the concepts of taxation of undistributed profit of controlled foreign companies were introduced into the Russian tax legislation, as well as the concept of determining the tax residency of organizations and the beneficial owner of income. The practice for application of these concepts is currently being developed, and the respective provisions of the Russian Tax Code undergo frequent revisions and are subject to varying interpretations by the tax authorities. Since 1 January 2017 the provisions of the Russian Tax Code regulating tax agent function execution in view of payments on certain types of income in favor of foreign recipients oblige tax agents to perform additional steps and collect documentary ground to ensure that the foreign company which receives income from the Bank has an actual right to such income (is a beneficial owner of income). The adoption of the above concepts and provisions in its entirety leads to an increase in the administrative and, in some cases, tax burden on Russian taxpayers engaged in transactions with foreign companies.

In 2017, the “unjustified tax benefit” concept was effectively introduced directly into the Russian Tax Code. Previously unjustified tax benefit concept was introduced only in the Russian court practice. The new provisions of the Russian Tax Code establish conditions to qualify the transactions of taxpayers as transactions aimed at unjustified decrease of tax obligations. No assurance can currently be given as to what exact effect the above law may have on the Bank.

35 Contingencies and Commitments (Continued)

Tax contingencies (continued)

Management of the Group believes that as at 31 December 2020 and 31 December 2019 the provisions of the Russian tax laws applicable to the Group, were interpreted appropriately.

On 18 July 2017, the “unjustified tax benefit” concept was effectively introduced directly into the Russian Tax Code. Previously unjustified tax benefit concept was introduced only in the Russian court practice. The provisions of this article establish limits for possibility to qualify the transactions of taxpayers as transactions aimed at unjustified decrease of tax obligations. No assurance can currently be given as to what exact effect the above law may have on the Bank.

Capital expenditure commitments

At 31 December 2020 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 3 million (2019: RR 142 million). The Group believes that future net income and funding will be sufficient to cover these and any similar such commitments.

Credit related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit the Group is potentially exposed to loss in an amount equal to the total unused commitments. However the likely amount of credit risk exposure will be less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**2020**	**2019**
Undrawn credit lines and Overdraft facilities (revocable)	477 129	445 954
Guarantees issued (irrevocable)	95 525	68 558
Other guarantees under IFRS 9 scope	12 947	28 327
Undrawn credit lines and Overdraft facilities (irrevocable)	37 252	38 422
Import letters of credit (irrevocable)	22 650	17 624
Undrawn commitments to issue documentary instruments (revocable)	10 202	8 327
Undrawn commitments to issue documentary instruments (irrevocable)	10 091	7 098
Export letters of credit (irrevocable)	2 077	2 968
Credit related commitments before provision	**667 873**	**617 278**
Performance non-financial guarantees issued (irrevocable)	88 993	81 348
Credit related commitments and performance guarantees before provision	**756 866**	**698 626**
Less: provision for credit related commitments and performance guarantees (21)	(2 461)	(2 542)
Total credit related commitments and performance guarantees	**754 405**	**696 084**

35 Contingencies and Commitments (Continued)

Credit related commitments (continued)

As at 31 December 2020 the Group segregates Other guarantees under IFRS 9 scope which amount to RR 12 947 million (2019: RR 28 327 million), these guarantees were earlier comprised in financial Guarantees issued (irrevocable).

An analysis of changes in the ECLs (excluding ECLs for performance non-financial guarantees) during the 12 months period ended 31 December 2020 is, as follows:

Undrawn loan commitments, financial guarantees and letters of credit	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECLs as at 1 January 2020	**469**	**995**	**219**	**1 683**
Transfers to Stage 1	242	(229)	(13)	**–**
Transfers to Stage 2	(47)	50	(3)	**–**
Transfers to Stage 3	(6)	(9)	15	**–**
Net remeasurement of loss allowance	128	303	(104)	**327**
Foreign exchange adjustments	22	103	217	**342**
At 31 December 2020	**808**	**1 213**	**331**	**2 352**

An analysis of changes in the ECLs during the 12 months period ended 31 December 2019 is, as follows:

Undrawn loan commitments, financial guarantees and letters of credit	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECLs as at 1 January 2019	**348**	**878**	**410**	**1 636**
Transfers to Stage 1	115	(69)	(46)	**–**
Transfers to Stage 2	(18)	58	(40)	**–**
Transfers to Stage 3	(3)	(6)	9	**–**
Net remeasurement of loss allowance	34	213	(72)	**175**
Changes to models and inputs used for ECL calculations	–	(22)	(39)	**(61)**
Foreign exchange adjustments	(7)	(57)	(3)	**(67)**
At 31 December 2019	**469**	**995**	**219**	**1 683**

In addition to credit related commitments the Group issues performance non-financial guarantees. Performance guarantees are guarantees that provide compensation if another party fails to perform a contractual obligation. Such guarantees do not transfer credit risk. The risk under performance guarantee is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such guarantees relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the guarantee matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests. At 31 December 2020 provision for performance non-financial guarantees amount to RR 108 million (2019: RR 859 million).

35 Contingencies and Commitments (Continued)

Credit related commitments (continued)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of guarantee contracts was RR 166 million at 31 December 2020 (2019: RR 140 million).

In millions of Russian Roubles	**2020**	**2019**
Russian Roubles	570 482	541 560
Euro	100 028	73 447
US Dollars	85 357	82 082
Other	999	1 537
Total credit related commitments before provision	**756 866**	**698 626**

35 Contingencies and Commitments (Continued)

Credit related commitments (continued)

Outstanding credit related commitments by segments as of 31 December 2020 are as follows:

In millions of Russian Roubles	Credit lines, overdraft facilities and commitments to issue documentary instruments Stage 1	Stage 2	Stage 3	Financial guarantees and letters of credit Stage 1	Stage 2	Stage 3	Performance non-financial guarantees	Total contingencies and commitments
Credit related commitments to credit institutions	34 986	60	–	7 990	477	–	4 640	**48 153**
Credit related commitments to corporate customers (Corporate business)	297 074	90 104	–	66 534	38 105	–	54 800	**546 617**
Credit related commitments to individuals (Retail business)	40 509	6 926	370	6 903	–	–	–	**54 708**
Credit related commitments to medium entities (Middle business)	51 764	5 176	39	11 061	1 666	–	29 298	**99 004**
Credit related commitments to small and micro entities (SME business)	6 568	1 097	1	392	71	–	255	**8 384**
Credit related commitments and performance guarantees before provision	**430 901**	**103 363**	**410**	**92 880**	**40 319**	**–**	**88 993**	**756 866**
Provision for credit related commitments and performance guarantees	(725)	(1 091)	(332)	(83)	(122)	–	(108)	**(2 461)**
Total contingencies and commitments	**430 176**	**102 272**	**78**	**92 797**	**40 197**	**–**	**88 885**	**754 405**

35 Contingencies and Commitments (Continued)

Credit related commitments (continued)

Outstanding credit related commitments by segments as of 31 December 2019 are as follows:

In millions of Russian Roubles	**Credit lines, overdraft facilities and commitments to issue documentary instruments** Stage 1	Stage 2	Stage 3	**Financial guarantees and letters of credit** Stage 1	Stage 2	Stage 3	**Performance non-financial guarantees**	**Total contingencies and commitments**
Credit related commitments to credit institutions	32 808	10	–	5 911	162	–	4 047	**42 938**
Credit related commitments to corporate customers (Corporate business)	293 291	65 881	48	62 144	20 129	81	59 574	**501 148**
Credit related commitments to individuals (Retail business)	40 080	7 369	203	6 793	–	–	–	**54 445**
Credit related commitments to medium entities (Middle business)	51 050	299	10	20 982	806	–	17 360	**90 507**
Credit related commitments to small and micro entities (SME business)	8 470	272	11	435	33	–	367	**9 588**
Credit related commitments and performance guarantees before provision	**425 699**	**73 831**	**272**	**96 265**	**21 130**	**81**	**81 348**	**698 626**
Provision for credit related commitments and performance guarantees	(418)	(942)	(177)	(51)	(52)	(41)	(861)	**(2 542)**
Total contingencies and commitments	**425 281**	**72 889**	**95**	**96 214**	**21 078**	**40**	**80 487**	**696 084**

35 Contingencies and Commitments (Continued)

Assets pledged and restricted

As at 31 December 2020 estimated fair value of securities purchased under reverse sale and repurchase agreements (Note 6) which the Group has the right to sell or repledge in the absence of default of the counterparty was RR 42 916 million (31 December 2019: RR 80 151 million). As at 31 December 2020 fair value of such securities repledged under direct sale and repurchase agreements with other banks amounted to RR nil million (31 December 2019: RR 18 192 million). Refer to Note 17.

Mandatory cash balances with the Bank of Russia in the amount of RR 11 982 million (31 December 2019: RR 9 886 million) represent mandatory reserve deposits which are not available to finance the Group's day-to-day operations.

The Group had assets pledged as collateral with the following carrying value:

		31 December 2020		31 December 2019	
In millions of Russian Roubles	**Note**	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Repurchase receivables related to trading securities	7, 17	–	–	1 981	1 842
Total		**–**	**–**	**1 981**	**1 842**

As at 31 December 2020 fair value of securities pledged under direct sale and repurchase agreements with other banks amounted to RR nil million (31 December 2019: RR 1 981 million). Refer to Note 7.

36 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements include cash equivalents in the amount of RR 39 476 million (31 December 2019: RR 74 292 million) effectively collateralized by securities purchased under reverse securities sale and repurchase agreements with a fair value of RR 42 916 million (31 December 2019: RR 80 151 million). The liability to transfer securities is not recognized in consolidated statement of financial position as at 31 December 2020.

Financial instruments subject to offsetting also include Derivatives and Other Financial Assets in the amount of RR 18 083 million (31 December 2019: RR 10 211 million) which are collateralized by margin deposits in amount of RR 6 909 million (31 December 2019: RR 4 540 million).

Financial instruments subject to offsetting also include Derivatives and Other Financial Liabilities in the amount of RR 15 930 million (31 December 2019: RR 9 695 million) which are collateralized by margin deposits in amount of RR 5 510 million (31 December 2019: RR 5 629 million).

36 Offsetting Financial Assets and Financial Liabilities (Continued)

The table below summarizes assets and liabilities subject to offsetting as at 31 December 2020:

In millions of Russian Roubles	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c) – (d) – (e)
Assets						
Cash and cash equivalents						
- Reverse securities sale and repurchase agreements with other banks with original maturities less than three months	39 476	–	39 476	39 476	–	–
Margin deposits	5 510	–	5 510	5 510	–	–
Derivatives and other financial assets						
- Fair value of currency and interest rate based financial derivatives	18 083	–	18 083	–	6 909	11 174
Total assets subject to offsetting, master netting and similar arrangement	**63 069**	**–**	**63 069**	**44 986**	**6 909**	**11 174**
Liabilities						
Margin placements	6 909	–	6 909	6 909	–	–
Derivatives and other financial liabilities						
- Fair value of currency and interest rate based financial derivatives	15 930	–	15 930	–	5 510	10 420
Total liabilities subject to offsetting, master netting and similar arrangement	**22 839**	**–**	**22 839**	**6 909**	**5 510**	**10 420**

The table below summarizes assets and liabilities subject to offsetting as at 31 December 2019:

In millions of Russian Roubles	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c) – (d) – (e)
Assets						
Cash and cash equivalents						
- Reverse securities sale and repurchase agreements with other banks with original maturities less than three months	74 292	–	74 292	74 292	–	–
Margin deposits	5 629	–	5 629	5 629	–	–
Derivatives and other financial assets						
- Fair value of currency and interest rate based financial derivatives	10 211	–	10 211	–	4 540	5 671
Total assets subject to offsetting, master netting and similar arrangement	**90 132**	**–**	**90 132**	**79 921**	**4 540**	**5 671**
Liabilities						
Due to other banks						
- Direct sale and repurchase agreements with securities with the CBRF and other banks and other financial institutions	18 451	–	18 451	18 451	–	–
Margin placements	4 540	–	4 540	4 540	–	–
Derivatives and other financial liabilities						
- Fair value of currency and interest rate based financial derivatives	9 695	–	9 695	–	5 629	4 066
Total liabilities subject to offsetting, master netting and similar arrangement	**32 686**	**–**	**32 686**	**22 991**	**5 629**	**4 066**

37 Transfers of Financial Assets

Transfers that did not qualify for derecognition of the financial asset in its entirety

The Group transferred financial assets in transactions that did not qualify for derecognition in the current and prior periods.

Sale and repurchase transactions

At 31 December 2020, the Group has no securities that are subject to obligation to repurchase the securities for a fixed pre-determined price. At 31 December 2019, the Group had Trading securities at fair value through profit or loss represented by Federal loan bonds (OFZ) of RR 1 981 million (Note 7) that are subject to obligation to repurchase the securities for a fixed pre-determined price. Refer to Note 17 for the carrying value of obligations from these sale and repurchase transactions.

Transfers that qualified for derecognition of the financial asset in its entirety

Cession

During the years 2020 and 2019 the Bank disposed loans to customers under cession and other agreements (Refer to Note 9). The Group does not have any continuing involvement in the assets, no risks or rewards are retained.

The Group transferred financial assets in transactions that qualified for de-recognition in the current and prior periods and to which the Group retained exposed to a certain extent.

38 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

38 Derivative Financial Instruments (Continued)

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

In millions of Russian Roubles	Note	2020 Contracts with positive fair value	2020 Contracts with negative fair value	2019 Contracts with positive fair value	2019 Contracts with negative fair value
Foreign exchange spot contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		12 957	29 508	26 218	28 035
- USD payable on settlement (-)		(28 675)	(23 280)	(24 210)	(16 941)
- Euros receivable on settlement (+)		9 735	19 762	12 293	3 296
- Euros payable on settlement (-)		(4 822)	(5 507)	(7 086)	(15 792)
- RR receivable on settlement (+)		19 606	4 707	13 921	16 026
- RR payable on settlement (-)		(8 657)	(25 638)	(21 150)	(15 061)
- Other currencies receivable on settlement (+)		326	359	112	491
- Other currencies payable on settlement (-)		(278)	(143)	(33)	(117)
Net fair value of foreign exchange spot contracts	14, 21	**192**	**(232)**	**65**	**(63)**
Foreign exchange forward and swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		82 543	180 939	77 629	239 676
- USD payable on settlement (-)		(146 472)	(43 792)	(153 202)	(107 417)
- Euros receivable on settlement (+)		47 604	29 290	83 363	92 543
- Euros payable on settlement (-)		(46 734)	(130 480)	(68 518)	(107 173)
- RR receivable on settlement (+)		121 012	19 216	91 749	35 371
- RR payable on settlement (-)		(49 090)	(68 681)	(29 034)	(168 203)
- Other currencies receivable on settlement (+)		4 732	13 605	10 501	11 712
- Other currencies payable on settlement (-)		(7 014)	(3 556)	(8 891)	(2 882)
Net fair value of foreign exchange forward and swap contracts	14, 21	**6 581**	**(3 459)**	**3 597**	**(6 373)**
Interest rate swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		2 836	675	2 565	2 927
- USD payable on settlement (-)		(691)	(3 247)	(1 495)	(4 123)
- Euros receivable on settlement (+)		(39)	(606)	(2)	(10)
- Euros payable on settlement (-)		519	546	331	6
- RR receivable on settlement (+)		20 666	14 435	15 674	16 314
- RR payable on settlement (-)		(15 298)	(21 947)	(11 148)	(22 910)
- Other currencies receivable on settlement (+)		42	(53)	–	–
- Other currencies payable on settlement (-)		(4)	42	–	–
Net fair value of interest rate swap contracts	14, 21	**8 031**	**(10 155)**	**5 925**	**(7 796)**

In millions of Russian Roubles	Note	2020 Contracts with positive fair value	2020 Contracts with negative fair value	2019 Contracts with positive fair value	2019 Contracts with negative fair value
Cross-currency interest rate swap contracts: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		21 841	22 227	6 202	54 388
- USD payable on settlement (-)		(14 899)	(26 587)	(28 020)	(6 222)
- Euros receivable on settlement (+)		5 564	–	5 455	6 389
- Euros payable on settlement (-)		–	–	(1 152)	(5 631)
- RR receivable on settlement (+)		15 442	25 132	32 344	11 230
- RR payable on settlement (-)		(24 764)	(22 738)	(10 841)	(66 079)
Net fair value of cross-currency interest rate swap contracts	14, 21	**3 184**	**(1 966)**	**3 988**	**(5 925)**
Net fair value of foreign exchange options	14, 21	**90**	**(114)**	**230**	**(157)**
Net fair value of interest rate options	14, 21	**5**	**(5)**	**–**	**–**
Total net fair value of derivative financial instruments		**18 083**	**(15 931)**	**13 805**	**(20 314)**

38 Derivative Financial Instruments (Continued)

As at 31 December 2020 positive fair value of foreign exchange options was RR 90 million (31 December 2019: RR 230 million) and negative fair value amounted to RR 114 million (31 December 2019: RR 157 million).

As at 31 December 2020 total of net positive fair values of the derivative financial instruments in the amount of RR 18 083 million (31 December 2019: RR 13 805 million) was recorded within derivatives and other financial assets (Note 14). Total of net negative fair values of the derivative financial instruments in the amount of RR 15 931 million (31 December 2019: RR 20 314 million) was recorded within derivatives and other financial liabilities (Note 21).

To protect itself against changes in the fair value of financial assets due to movements in interest rates, the Group enters into portfolio fair value hedge relationships and portfolio cash flow hedge relationships as described in Note 3 Accounting Policies as well as accounting treatment.

As at 31 December 2020 the positive fair values of the derivative financial instruments included in both Portfolio Fair Value and Cash Flow hedge accounting was 1 538 million Roubles and the notional amount was 74 770 million Roubles. As at 31 December 2020 the negative fair values of the hedging derivative financial instruments was 2 931 million Roubles and the notional amount was 93 050 million Roubles (Note 14 and Note 21).

As at 31 December 2020 the amount of changes in fair value of hedging derivatives included in Portfolio Fair Value hedge relationships was 398 million Roubles. As at 31 March 2020 the amount of the negative fair value adjustment attributable to the hedged risk and recorded in the balance of the loans to customers, which were being hedged within Portfolio Fair Value, amounted to loss of 438 million Roubles.

As at 31 December 2020 gain from the effective part of the Portfolio Cash Flow hedge relationship in the amount of RR 82 million is reported within other comprehensive income. Gain from the ineffective part of the hedge relationship in amount of RR 22 million is reported within "Ineffectiveness from hedge accounting and amortization of hedge accounting adjustment".

The information regarding the hedging derivative financial instruments is disclosed in Note 14 and Note 21. The information regarding the hedged items is disclosed in Note 9.

39 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgment in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

39 Fair Value of Financial Instruments (Continued)

(a) Recurring fair value measurements (continued)

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorized are as follows:

	31 December 2020				31 December 2019			
In millions of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique not based on observable market data technique (Level 3)**	**Total**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique not based on observable market data technique (Level 3)**	**Total**
Assets at fair value								
Financial assets								
Trading securities								
- Federal loan bonds (OFZ)	21 565	–	–	**21 565**	11 796	–	–	**11 796**
- Corporate bonds	5 382	11	–	**5 393**	3 958	–	–	**3 958**
- Corporate eurobonds	4 822	–	–	**4 822**	2 479	–	–	**2 479**
- Russian Federation Eurobonds	687	–	–	**687**	200	–	–	**200**
Trading securities pledged under repurchase agreements								
- Federal loan bonds (OFZ)	–	–	–	**–**	1 981	–	–	**1 981**
Debt securities at FVtPL								
- Federal loan bonds (OFZ)	15 991	–	–	**15 991**	11 310	–	–	**11 310**
Debt securities at FVOCI	159	–	–	**159**	158	–	2 966	**3 124**
Equity securities at FVOCI	–	–	108	**108**	–	–	131	**131**
Derivatives and other financial assets carried at fair value								
- Fair value of currency rate based financial derivatives	–	10 047	–	**10 047**	–	7 880	–	**7 880**
- Fair value of interest rate based financial derivatives	–	8 036	–	**8 036**	–	5 925	–	**5 925**
Total assets recurring fair value measurements	**48 606**	**18 094**	**108**	**66 808**	**31 882**	**13 805**	**3 097**	**48 784**

39 Fair Value of Financial Instruments (Continued)

(a) Recurring fair value measurements (continued)

In millions of Russian Roubles	**31 December 2020**				**31 December 2019**			
	Quoted price in an active market (Level 1)	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique not based on observable market data technique (Level 3)**	**Total**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique not based on observable market data technique (Level 3)**	**Total**
Liabilities carried at fair value								
Financial liabilities								
Derivatives and other financial liabilities								
- Fair value of currency rate based financial derivatives	–	5 771	–	**5 771**	–	12 518	–	**12 518**
- Fair value of interest rate based financial derivatives	–	10 160	–	**10 160**	–	7 796	–	**7 796**
- Shortselling of trading assets	5 378	–	–	**5 378**	6 094	–	–	**6 094**
Debt securities in issue	–	252	–	**252**	–	–	–	**–**
Total liabilities recurring fair value measurements	**5 378**	**16 183**	**–**	**21 561**	**6 094**	**20 314**	**–**	**26 408**

39 Fair Value of Financial Instruments (Continued)

(a) Recurring fair value measurements (continued)

The valuation technique based on discounted cash flows is used in the fair value measurement for level 2 measurements at 31 December 2020. The following main inputs are relevant:

- ***Spot and Forward currency exchange rates.*** Cash Rate, Interest Rate Futures quotes and IRS quotes are used for foreign currencies, implied RUB rates are derived from foreign exchange forward contracts.
- ***Cross currency interest rate swaps (CCIRS) curves.*** CCIRS are used for discounting and projection of cash flows and are derived from Cash Rate quotes, Futures quotes and Interest Rate Swap quotes available from Chicago Merchandile (for futures) and contributors which quote these instruments on over the counter market.
- ***Adjustment for credit risk.*** The Bank has the Credit Value Adjustment (also known as Credit Risk Adjustment or Default Risk Adjustment) which reflects the probability of default of the counterparty and Debit Value Adjustment which reflects the possibility of our default. Credit Value Adjustment (CVA) is an adjustment to the price of derivatives reflecting expected losses arising from the possible default of the counterparty both by counterparty and by instrument.
- CVA is calculated with a Monte-Carlo methodology simulating both expected exposure coming from derivative positions with counterparty (estimated with Group market risk calculation approach) and the default event coming from counterparty Default Probability and Recovery Rate. CVA itself is calculated for each counterparty by calculating Bank's expected losses on the event of having positive derivative position revaluation with defaulted counterparty adjusted by the recovery rate. The adjustment is calculated based on observable market inputs.
- ***Shortselling of trading assets*** are selling deals of bond securities that the Group has obtained as collaterals in reverse repo agreements or currently does not keep in its own securities' portfolio.

The fair value of shares is determined by multiplying the number of shares by the market price as the share of the shareholding is immaterial.

Movements in level 3 financial instruments measured at fair value

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

In millions of Russian Roubles	**At 1 January 2020**	**Total gain/(loss) recorded in profit or loss**	**Total gains/(losses) recorded in other comprehensive income**	**Disposals**	**At 31 December 2020**
Financial assets					
Investment securities − debt securities at FVOCI	2 966	23	−	(2 989)	−
Investment securities − equity securities at FVOCI	131	−	(23)	−	108
Total level 3 financial assets	**3 097**	**23**	**(23)**	**(2 989)**	**108**

In millions of Russian Roubles	**At 1 January 2019**	**Total gain/(loss) recorded in profit or loss**	**Total gains/(losses) recorded in other comprehensive income**	**Disposals**	**At 31 December 2019**
Financial assets					
Investment securities − debt securities at FVOCI	4 494	373	−	(1 901)	2 966
Investment securities − equity securities at FVOCI	133	−	(2)	−	131
Total level 3 financial assets	**4 627**	**373**	**(2)**	**(1 901)**	**3 097**

39 Fair Value of Financial Instruments (Continued)

(a) Recurring fair value measurements (continued)

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	Year ended 31 December 2020			Year ended 31 December 2019		
In millions of Russian Roubles	Realised gains/ (losses)	Unrealised gains/ (losses)	Total	Realised gains/ (losses)	Unrealised gains/ (losses)	Total
Total gains or (losses) included in the profit or loss for the year	23	–	**23**	373	–	**373**

Valuation of ACRA Securities with investments of RR 108 million is based on valuation technique using observable market input and information from ACRA business plan and publicly available financial statements. Examples of observables inputs are price to sales and price to earnings of peers, volatility of RUB equity indexes (for DLOM estimation), and income statement from official reporting, while such unobservable inputs as projected growth from business plan and professional judgment on its cap are used for projection of future revenues and earnings.

Transfers between level 1 and 2

The following table show transfers between level 1 and level 2 of the fair value hierarchy for financial assets measured at fair value on a recurring basis and liabilities which are recorded at fair value during the year ended 31 December 2020 and 31 December 2019:

In millions of Russian Roubles	Transfers from level 1 to level 2 year ended 31 December 2020	Transfers from level 1 to level 2 year ended 31 December 2019
Financial assets	**11**	**–**
Trading securities	11	–
Financial liabilities	**–**	**–**

The above financial instruments were transferred from level 1 to level 2 as fair values were determined using valuation model with market observable inputs.

Financial instruments were not transferred from level 2 to level 1 during the year ended 31 December 2020 and during the year ended 31 December 2019.

39 Fair Value of Financial Instruments (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value during the year ended 31 December 2020 are as follows:

	31 December 2020				
In millions of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique not based on observable market data technique (Level 3)**	**Total fair value**	**Carrying value**
Financial assets carried at amortized cost					
Cash and cash equivalents	73 717	280 020	–	**353 737**	353 737
Due from Other Banks	–	–	5 450	**5 450**	5 428
Loans and advances to customers	–	–	844 690	**844 690**	828 322
- Loans to corporate customers (Corporate loans)	–	–	427 080	**427 080**	421 560
- Loans to individuals (Retail loans)	–	–	316 403	**316 403**	305 630
- Loans to medium entities (Middle business)	–	–	73 382	**73 382**	73 537
- Loans to small and micro entities (SME loans)	–	–	27 825	**27 825**	27 595
Debt securities at amortized cost	145 115	245	–	**145 360**	144 328
Financial liabilities carried at amortized cost					
Due to Other Banks	–	–	52 748	**52 748**	52 342
Customer accounts	–	–	1 128 842	**1 128 842**	1 130 091
- Legal entities	–	–	491 269	**491 269**	492 130
- Individuals	–	–	635 868	**635 868**	636 256
- State and public organisations	–	–	1 705	**1 705**	1 705
Term borrowings from the Parent Bank	–	–	37 430	**37 430**	38 941

39 Fair Value of Financial Instruments (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed (continued)

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value during the year ended 31 December 2019 are as follows:

	31 December 2019				
In millions of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique not based on observable market data technique (Level 3)**	**Total fair value**	**Carrying value**
Financial assets carried at amortized cost					
Cash and cash equivalents	31 073	225 550	−	**256 623**	256 623
Due from Other Banks	−	−	4 003	**4 003**	3 986
Loans and advances to customers	−	−	809 451	**809 451**	786 853
- Loans to corporate customers (Corporate loans)	−	−	385 307	**385 307**	383 946
- Loans to individuals (Retail loans)	−	−	320 229	**320 229**	300 331
- Loans to medium entities (Middle business)	−	−	76 598	**76 598**	76 196
- Loans to small and micro entities (SME loans)	−	−	27 318	**27 318**	26 380
Debt securities at amortized cost	127 956	2 899	−	**130 855**	130 078
Financial liabilities carried at amortized cost					
Due to Other Banks	−	−	61 059	**61 059**	61 631
Customer accounts	−	−	954 092	**954 092**	955 082
- Legal entities	−	−	445 703	**445 703**	446 464
- Individuals	−	−	480 539	**480 539**	480 739
- State and public organisations	−	−	27 850	**27 850**	27 879
Term borrowings from the Parent Bank	−	−	34 271	**34 271**	32 701

39 Fair Value of Financial Instruments (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed (continued)

Fair value is calculated using discounted cash flow-method, meaning the future cash flows of the transaction is generated and is discounted with an appropriate discount rate, which reflects the current market environment.

For the following financial instruments, carrying value is considered to be equal to fair value:

- Transactions with maturities up to 3 months;
- Other assets and other liabilities;
- Credit cards, current accounts and saving accounts.

Future cash flows are calculated for instruments with fixed and floating rate. Cash flows for instruments with floating rates are calculated using forward rates.

Discount rate is calculated to reflect current market environment and risk add-ons specific to the financial instrument.

40 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2020, the outstanding balances with related parties were as follows:

In millions of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associates**	**Members of the Managing Board**	**Other related parties**
Correspondent accounts and overnight placements with other banks (contractual interest rate: 0,00-4,7% p.a.)	31 345	49	–	–	–
Placements with other banks with original maturities of less than three months (contractual interest rate: -0,77-2,00% p.a.)	136 899	49	–	–	–
Due from other banks (contractual interest rate: -0.68% p.a.)	3 330	–	–	–	–
Gross amount of loans and advances to customers (contractual interest rate: 6,79-8,3% p.a.)	–	–	–	233	–
Derivatives and other financial assets	5 128	44	–	–	–
Investments in associate	–	–	1 290	–	–
Fair value of interest rate based financial derivatives in hedge accounting	1 422	–	–	–	–
Due to other banks (contractual interest rate: 0,00% p.a.)	391	85	–	–	26
Customer accounts (contractual interest rate: 0,00-3,39% p.a.)	–	–	293	–	–
Term borrowings from the Parent Bank (contractual interest rate: 5,48-9,24% p.a.)	38 941	–	–	–	–
Derivatives and other financial liabilities	7 598	5	–	–	–
Other liabilities	380	–	–	614	210
Fair value of interest rate based financial derivatives in fair value hedge accounting	1 750	–	–	–	–

40 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2020 were as follows:

In millions of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associates**	**Members of the Managing Board**	**Other related parties**
Interest income calculated using effective interest rate	865	24	−	18	5
Other interest income	10 505	69	−	−	−
Interest expense	(14 074)	(24)	(6)	−	−
Provision for impairment of loans to customers and amounts due from other banks	−	6	−	−	−
Fee and commission income	75	67	14	−	−
Fee and commission expense	(201)	−	−	−	−
Gains less losses / (losses less gains) from trading in foreign currencies	3 307	(194)	−	−	−
Realized gains less losses from financial derivatives	52	(22)	−	−	−
Unrealized gains less losses from financial derivatives	4 395	36	−	−	−
Administrative and other operating expenses	(494)	(31)	−	(537)	(100)
Other operating income	3	−	6	−	−
Share of profit of associate	−	−	382	−	−
Ineffectiveness from hedge accounting and amortization of hedge accounting adjustment	(437)	−	−	−	−

At 31 December 2020, other rights and obligations with related parties were as follows:

In millions of Russian Roubles	**Parent bank**	**Subsidiaries of the Parent Bank**	**Associates**	**Other related parties**
Guarantees issued by the Group at the year end	2 048	120	−	−
Guarantees received by the Group at the year end	818	−	−	180
Letters of credit issued by the Group	−	36	−	−
Undrawn credit lines	7 700	7 570	−	950
Interest rate swap agreements − notional amount as at the year end	213 887	−	−	−
Interest rate swap agreements − fair values as at the year end	(2 558)	−	−	−
Cross currency interest rate swap agreements − notional amount receivable as at the year end	38 403	−	−	−
Cross currency interest rate swap agreements − notional amount payable as at the year end	37 468	−	−	−
Cross currency interest rate swap agreements − fair values as at the year end	527	−	−	−
Foreign currency derivative financial instruments − principal amount purchased	231 585	4 702	−	−
Foreign currency derivative financial instruments − principal amount sold	231 523	4 661	−	−
Foreign currency derivative financial instruments − fair value	(427)	39	−	−
Currency Options purchased – notional amount	1 024	−	−	−
Currency Options purchased – fair value	26	−	−	−
Currency Options sold – notional amount	1 034	−	−	−
Currency Options sold – fair value	(38)	−	−	−

40 Related Party Transactions (Continued)

At 31 December 2019, the outstanding balances with related parties were as follows:

In millions of Russian Roubles	Parent bank	Subsidiaries of the Parent Bank	Associates	Members of the Managing Board	Other related parties
Correspondent accounts and overnight placements with other banks (contractual interest rate: 0,00-1,65% p.a.)	42 108	11	–	–	–
Placements with other banks with original maturities of less than three months (contractual interest rate: 0,65-6,9% p.a.)	52 119	1 732	–	–	–
Due from other banks (contractual interest rate: 1,45% p.a.)	–	1 942	–	–	–
Gross amount of loans and advances to customers (contractual interest rate: 7,90-8,30% p.a.)	–	–	–	222	–
Derivatives and other financial assets	3 613	1	–	–	–
Investments in associate	–	–	972	–	–
Due to other banks (contractual interest rate: 0,00-2,65% p.a.)	678	117	–	–	40
Customer accounts (contractual interest rate: 0,00-6,62% p.a.)	–	–	578	–	–
Term borrowings from the Parent Bank (contractual interest rate: 7,26-11,15% p.a.)	32 701	–	–	–	–
Derivatives and other financial liabilities	10 602	–	–	–	–
Other liabilities	191	–	–	651	209

The income and expense items with related parties for the year 2019 were as follows:

In millions of Russian Roubles	Parent bank	Subsidiaries of the Parent Bank	Associates	Members of the Managing Board	Other related parties
Interest income calculated using effective interest rate	1 742	27	–	20	279
Other interest income	17 816	87	–	–	–
Interest expense	(20 959)	(24)	(29)	–	–
Provision for impairment of loans to customers and amounts due from other banks	450	(189)	–	–	16
Fee and commission income	81	119	11	–	–
Fee and commission expense	(176)	–	–	–	–
Gains less losses / (losses less gains) from trading in foreign currencies	815	(160)	–	–	–
Realized gains less losses from financial derivatives	6	5	–	–	–
Unrealized gains less losses from financial derivatives	(1 916)	–	–	–	–
Administrative and other operating expenses	(483)	–	–	(549)	(110)
Other operating income	–	–	3	–	–
Share of profit of associate	–	–	284	–	–

40 Related Party Transactions (Continued)

At 31 December 2019, other rights and obligations with related parties were as follows:

In millions of Russian Roubles	Parent bank	Subsidiaries of the Parent Bank	Associates	Other related parties
Guarantees issued by the Group at the year end	2 292	1 222	−	−
Guarantees received by the Group at the year end	1 073	−	−	180
Letters of credit issued by the Group	−	24	−	−
Undrawn credit lines	7 760	7 570	−	950
Interest rate swap agreements − notional amount as at the year end	267 911	−	−	−
Interest rate swap agreements − fair values as at the year end	(2 464)	−	−	−
Cross currency interest rate swap agreements − notional amount receivable as at the year end	46 989	−	−	−
Cross currency interest rate swap agreements − notional amount payable as at the year end	48 630	−	−	−
Cross currency interest rate swap agreements − fair values as at the year end	(2 809)	−	−	−
Foreign currency derivative financial instruments − principal amount purchased	282 115	842	−	−
Foreign currency derivative financial instruments − principal amount sold	283 939	841	−	−
Foreign currency derivative financial instruments − fair value	(1 732)	1	−	−
Currency Options purchased – notional amount	1 120	−	−	−
Currency Options purchased – fair value	12	−	−	−

The Bank’s immediate parent is Raiffeisen CIS Region Holding GmbH (2019: Raiffeisen CIS Region Holding GmbH). The Bank is ultimately controlled by Raiffeisen Bank International AG (2019: Raiffeisen Bank International AG).

Key management compensation, included in Staff costs (Note 29 Administrative and Other Operating Expenses) is presented below:

In millions of Russian Roubles	2020	2019
Short-term benefits		
- Salaries	372	402
- Short-term bonuses	165	147
- Social obligatory expense	68	67
- Supervisory Board payment	100	110
Total	**705**	**726**

Short-term bonuses fall due within twelve months after the end of the period in which Management rendered the related services.