One Bank, One Team, One UniCredit.

Capital and balance sheet management
Transform
Enhanced service model
Ethics and Respect
Team 23
Compliance
Grow and strengthen client franchise
Process optimisation
Sustainable results
Sustainability
Paperless bank
Growth engines
Customer experience
Disciplined risk management
"Go-to" bank for SMEs
"Do the right thing!"

2019
Annual Report

Banking that matters. | UniCredit Bank

One Bank, One UniCredit.

Our strategy is clear and long-term: UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise.

Financial Highlights

	2019	2018	change 2019-2018
ASSETS AT THE END OF THE YEAR, RUB million			
Total assets, including	**1 226 449**	**1 362 616**	**-10.0%**
Loans to customers	733 771	863 151	-15.0%
Securities	139 006	52 506	164.7%
LIABILITIES AT THE END OF THE YEAR, RUB million			
Total liabilities, including	**1 013 220**	**1 166 853**	**-13.2%**
Amounts due to customers	861 627	1 015 641	-15.2%
Amounts due to credit institutions	96 509	87 970	9.7%
Total Equity	**213 229**	**195 762**	**8.9%**
CAPITAL (CB RF) AT THE END OF THE YEAR, RUB million			
Total capital	**221 018**	**216 682**	**2.0%**
CAPITAL (BASEL II AND BASEL III) AT THE END OF THE YEAR, RUB million			
Total capital	**220 164**	**208 829**	**5.4%**
PROFIT FOR THE YEAR, RUB million			
Net interest income	41 074	41 048	0.1%
Non-interest income	10 330	8 189	26.1%
Operating income	**51 404**	**49 237**	**4.4%**
Impairment	-10 798	-10 312	4.7%
Net income from financial activities	**40 606**	**38 926**	**4.3%**
Operating costs	-19 815	-19 023	4.2%
Share of gains of associate	1 263	955	32.3%
Gains on disposal of fixed assets	5	4	22.9%
Profit before income tax expense	**22 059**	**20 861**	**5.7%**
Income tax expense	-4 358	-4 157	4.8%
Total profit for the year	**17 701**	**16 704**	**6.0%**
KEY PERFORMANCE INDICATORS			
Return on average equity (ROE)	8.7%	8.4%	
Return on average assets (ROA)	1.4%	1.3%	
Total capital ratio (Basel II and Basel III)	20.0%	18.9%	
Central Bank of Russia N1 capital adequacy ratio	18.0%	16.1%	
Cost/income ratio	38.5%	38.6%	
STAFF			
Number	4 085	4 066	0.5%
GEOGRAPHY			
Branches in Moscow	38	38	0%
Regional branches	52	52	0%
RepOffices	10	10	0%
Offices in CIS	1	1	0%
Total Number of Offices	**101**	**101**	**0%**

Team 23

Our new plan is called Team 23, in recognition of the outstanding work done together for Transform 2019. Team 23 is based on four strategic pillars:

- Grow and strengthen client franchise
- Transform and maximise productivity
- Disciplined risk management & controls
- Capital and balance sheet management

Contents

Chief Executive Officer’s message

> “We always favour long-term sustainable outcomes over short-term solutions. This is a key pillar of our new plan, Team 23, which will deliver €16bn of value creation.”

Jean Pierre Mustier
Chief Executive Officer

Dear Shareholders,

2019 was a very important milestone for UniCredit, although tinged with sadness for all of us in the Group. Our chairman Fabrizio Saccomanni, who was integral to the success of the Group, suddenly passed away this summer. Fabrizio was a friend of great intelligence and humanity, highly competent with a fine sense of culture and wit. His premature death was a great loss for us all and he is much missed. In September Cesare Bisoni was elected chairman and I am extremely grateful to him for leading the continuing constructive work of the board.

We successfully concluded our three year strategic plan, Transform 2019, launched in 2016, exceeding many of our initial targets. This success is thanks to the drive and unwavering commitment from all our team members and the support you, our shareholders, have shown us throughout the plan. This is a great achievement and I am proud of the results and the truly transformative work that has been done. To share our success and show appreciation to our shareholders, we are pleased to propose an increased capital distribution for 2019, returning 40 per cent – 30 per cent as a cash dividend and 10 per cent through a proposed share buyback.
This is double the target we set ourselves in 2016. We have shown that, no matter what, at UniCredit we say what we do and do what we say. We will apply the same mindset and dedication to our new plan, Team 23.

Although Transform 2019 was based on conservative assumptions, there were some challenges faced by the financial services sector over the past few years that could not have been foreseen.
Headwinds from unexpected geopolitical tensions, macroeconomic volatility and higher regulatory pressure added to an already testing environment.

At UniCredit, we took a series of decisive actions to counter these unforeseen events, enabling us to successfully execute our business strategy, delivering on our key targets.

2016-2019 headwinds

- Interest rate impact
- Slowdown of economic growth
- BTP-Bund spread volatility
- Deterioration of economic environment in Turkey
- Regulatory headwinds
- US sanctions

Decisive actions

Acceleration of balance sheet de-risking

- Acceleration of Non Core run-off
- BTP portfolio reduction
- Intragroup exposure decrease

Additional cost optimisation

- Further cost reduction vs initial 2019 target

Strong capital position

- Trasparent disclosure of regulatory impacts
- Disposal of non-strategic assets*

* Fineco, Mediobanca, Ocean Breeze, selected real estate.

Transform 2019: a strategic plan delivered as promised

Transform 2019 was about restructuring and reshaping the Group, with an emphasis on strengthening capital and improving asset quality. We also strengthened our corporate governance in line with best-in-class European companies. We are the only large listed Italian company where the board of directors presents its own list of candidates. We also lifted voting restrictions and converted savings shares into common shares.

Our hard work was acknowledged by the ECB that, at the end of 2019, lowered our SREP **pillar 2 requirement by a further 25 basis points, to 175**. This is 75 basis points lower than in 2016, an achievement we are very proud of and another recognition of the outstanding work done by the team over these last three years.

SIGNIFICANT DE-RISKING

Gross NPEs down by more than **€50bn** since 2015, to

€25bn

with an end 2019
Gross NPE ratio of 5.0 per cent
and a **Net NPE ratio 1.8 per cent**

MATERIAL COST REDUCTION

€2.3bn

net cost reduction
since 2015 with C/I ratio reduced by more than
7 percentage points
to 52.7 per cent in 2019

IMPROVED ROTE

More than doubled our profitability with
underlying RoTE in 2019 of

9.2 per cent

up from 4 per cent in 2015

STRONG CAPITAL POSITION

Pro forma[1] CET1 ratio of

13.1 per cent

as at the end of 2019, equivalent to a pro forma[1] **MDA buffer** of **300 basis points**, **above** our **200 to 250 basis point** target range

[1] Pro forma 2019 CET1 ratio and MDA buffer including deduction of share buyback of €467m, subject to supervisory and AGM approval.

Team 23: a new strategic plan, further building on our pan European strengths

While Transform 2019 represented a strong cost efficiency and de-risking effort, Team 23 focuses on strengthening and growing our customer base. All our key strategic initiatives focus on customer experience, which we will monitor precisely while making sure we increase our process optimisation. We will also continue to manage the business with tight cost discipline, focusing on high asset quality and ensuring we maintain a very strong capital level at all times. We work on this from a position of strength, thanks to Transform 2019. We will deliver a recurring dividend with a mix of cash and share buybacks.

Grow and strengthen client franchise

Transform and maximise productivity

Disciplined risk management & controls

Capital and balance sheet management

Our strategy remains unchanged

UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in Corporate & Investment Banking (CIB), delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise

As "One Bank, One UniCredit" we will continue to build on our existing competitive advantages

Truly local with **13 leading commercial banks*** and a unique reach through our fully plugged in CIB and international branch network

Provide "banking that matters" for all our 16 million clients across Europe. UniCredit is:

- Supporting our individual clients and the European mid-market corporate clients, that are the backbone of the European economy, as the second largest corporate lender in Continental Europe
- Ranked in the top three by assets in Italy, Germany and Austria and first by assets in CEE, on a consolidated basis
- We have a well-diversified business with a third of our lending coming from Italy, a third from Germany and Austria, and a third from CEE and CIB

A fully plugged-in CIB business, **focused on supporting the Group's clients**, with top of the league tables rankings, demonstrates our strong product offer and our ability to create significant cross-selling and synergies across the Bank

* Assuming full regulatory deconsolidation of Yapi.

Unique network: pan European footprint

Commercial banks

International branches and representative offices*

* Including UC Luxembourg and UC Ireland. Other International branches and representative offices In Asia and Oceania, North and South America, Middle East and Africa.

"Banking that matters" for our clients

16 m clients

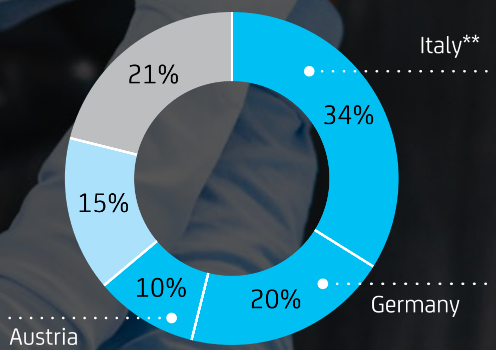
#2 for loans to corporates in Europe

#3 ranking for assets in IGA

#1 by total assets in CEE

Well-diversified business

>430 Commercial loans, bn



Western Europe | CEE | CIB

** Italy including Non Core and Group Corporate Centre.

Market-leading CIB

- **Most active player in EUR Bonds** since 2013 (cumulative)
- **#1** in EUR Bonds in Italy, Germany, Austria
- **#1 All Covered Bonds in EUR**
- **#1** EMEA Corporate Loans EUR denominated
- **#1** Syndicated Loans in Italy, Austria and CEE; #2 in Germany

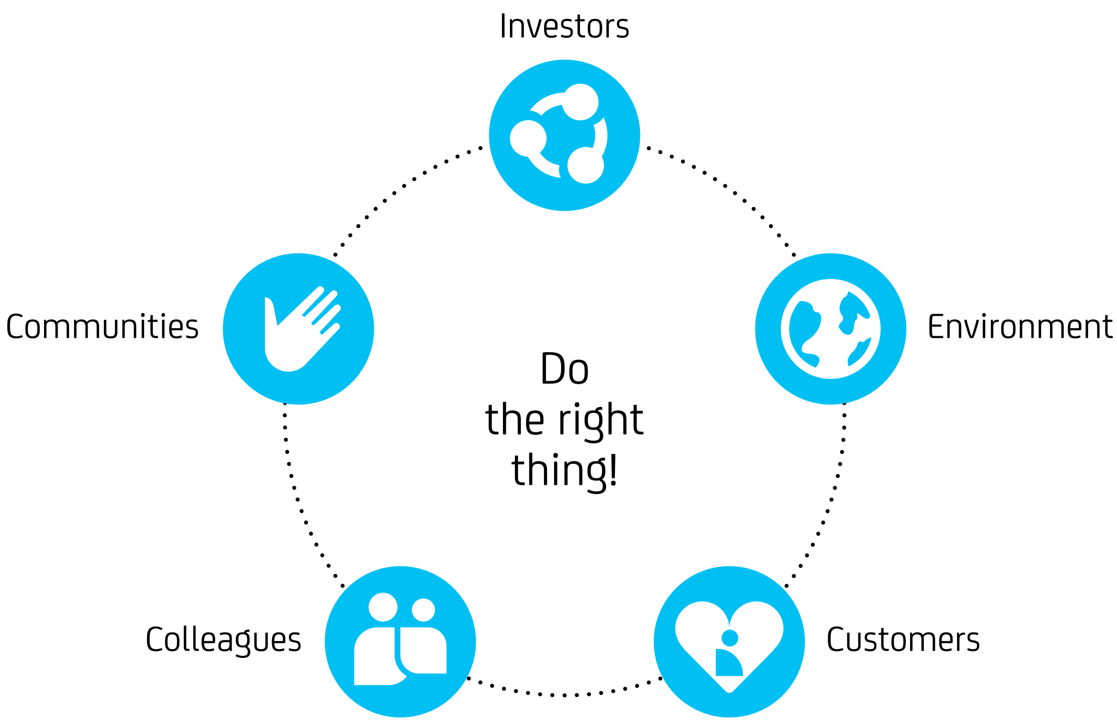
Source: Dealogic, period: 1 Jan-31 Dec 2019.

How we achieve results in UniCredit: Do the right thing!

At UniCredit, our ***corporate*** culture is based on two core values: Ethics and Respect. Our commitment to always "Do the right thing!" is our guiding principle for interactions with all our stakeholders: investors, customers, colleagues and communities.

In the fourth quarter of 2019, we announced new ESG targets as part of our long-term commitment to sustainability – part of our Group's DNA and a key component of our business model. Building a sustainable future is an important challenge for both people and businesses. Every company has to do more than 'business as usual' – it is time to act and make an impact.

"Do the right thing!" to generate sustainable results



We adhere to the highest standards and principles with external monitoring and recognition. This include the Task Force on Climate-Related Financial Disclosures, Principles for Responsible Banking and OECD Business for Inclusive Growth Coalition. Our commitment to ESG places us in the 99th percentile of the FTSE Russell ESG ratings, a constituent of the FTSE4Good Index Series. Standard Ethics identified us as the only bank in Italy with an EE+ rating, strong compliance and the ability to manage key reputational risks.

UniCredit Leadership Team Meeting, Millennial Board presentation, Dec 2019

Environment

Every team member of UniCredit is committed to protect the environment: the entire UniCredit team was involved in “Climate day” on Friday September 20th, submitting more than 1,200 new ideas on what UniCredit can do concretely. All these suggestions will be implemented, under the leadership of the Group “millennial board”, made of 10 millennial team members, who bring a tremendous energy and vision to our Group to “Do the right thing!”. We are committed to reducing our direct environmental impact by further cutting greenhouse gas emissions. By 2023 all electricity consumption in Western Europe will come from renewable energy sources, by when we will also remove all single-use plastic from all our headquarters. We are working to make an ever bigger difference through our indirect emissions, partnering with our customers in the shift to a low carbon economy. As already announced, we will fully exit thermal coal mining projects by 2023 and not finance any new projects in thermal coal mining or coal fired power generation. We will increase our renewable energy sector exposure, granting more energy efficiency loans to our customers.

Social

We have committed € 1 billion to Social Impact Banking (SIB) initiatives throughout the Group between now and end 2023. This builds on our success in Italy, where we have already disbursed over 100 million euros. The programme is now being rolled out in 10 more markets. Art4Future is supporting SIB with the sale of a limited number of expensive pieces to provide the capital to extend more social loans and buy art pieces of young artists from our different countries.
In addition, we will continue to promote culture through important associations and our UniCredit Foundation will carry on addressing important social needs, while supporting study and research.

Governance

All companies looking to grow and thrive must also focus on diversity and inclusion. Different perspectives help improve processes and behaviours, bringing more sustainable organisations. Creating a positive and inclusive workplace is key to innovation and growth. This is why UniCredit is working on different initiatives to ensure diversity and inclusion is at the forefront throughout the Group, to increase the active participation by women and minorities at all levels of the bank.

The future: what lies ahead

UniCredit clearly shows that pan European banking is the future for our industry to support the growth of our clients, and of Europe. We are passionate Europeans, "One Bank, One UniCredit" across all our countries, combining central support and local excellence.

With Transform 2019, we have shown we always favour long-term sustainable outcomes over short-term solutions, and this is also one of the key pillars of Team 23. This is how we will deliver €16bn of value creation during our new plan, €8bn via capital distribution and €8bn from increased tangible equity. Beyond purely economic goals serving our shareholders, we will continue to “Do the right thing!” for all our other stakeholders, from our clients, our team members, to our communities and the environment.

Let me conclude by reiterating how immensely proud I am of all my UniCredit colleagues who work so hard to achieve the success of our Group, making sure we can continue to support the real economy, serve our clients, encourage growth across all our markets, transform our Group, and deliver recurring value to all our stakeholders.

Thank you!

Jean Pierre Mustier
Chief Executive Officer
UniCredit S.p.A.

“I am immensely proud of all my UniCredit colleagues, who work so hard to achieve the success of our Group.”

Jean Pierre Mustier
Chief Executive Officer

Message from the Chairman of the Supervisory Board

> “In 2019, UniCredit Group successfully completed the implementation of the Transform 2019 strategic plan. This achievement was a merit of all the Group’s subdivisions, and the Russian UniCredit Bank played a major role in the weighty contribution of CEE Division to overall excellent results.”

Marco Radice
Chairman of the Supervisory Board

Ladies and Gentlemen, Dear Shareholders, Customers, Colleagues and Friends,

I am proud to present the 2019 Annual Report of UniCredit Bank on behalf of the Supervisory Board.

In 2019, UniCredit Group successfully completed the implementation of the Transform 2019 strategic plan. This achievement was a merit of all the Group’s subdivisions, and the Russian UniCredit Bank played a major role in the weighty contribution of CEE (Central and Eastern Europe) Division to overall excellent results. For instance, in 2019, Russia was again ranked among the countries whose performance became the strongest driver of the overall excellent achievements of CEE Division that exceeded the profit targets outlined in the final year of the strategic plan.

In 2019, the Bank's top priorities were to increase operational efficiency and asset quality while keeping up reliability and improving customer experience. Despite a number of unfavourable trends in the market, the Bank managed to achieve its targets mostly due to a balanced business model, high-end customer base, and commitment of the team.

At year-end 2019, UniCredit Bank contributed over RUB 17.7 bln worth of net profit to the Group's aggregate financials while preserving the cost-to-income ratio at a stable level of 38.5% and improving the profit margins of its equity and assets. The Bank continued actively developing IT systems which resulted in the adoption of a new IT strategy for the next four years. UniCredit Bank achieved a significant success in maintaining high profitability of both corporate and retail business and successfully applied the best practices of UniCredit Group to improve its business processes. Many similar projects in Russia were highly appreciated at the Group level.

In 2019, UniCredit Bank celebrated its 30th Anniversary remaining one of the largest and most successful Russian banks. In the new Team 23 strategic plan, CEE Division – and, therefore, the Russian UniCredit Bank – still has an important role to play in achieving the key targets of the plan. The targets include strengthening the leading position in the CEE area, improving the service quality for customers, tight control over operational risks, and enhanced control over and management of business processes throughout the Group.

I would like to thank the Management Board members and all UniCredit Bank employees for their excellent performance in 2019. In 2020, the Bank is consistently committed to the implementation of the Group's strategic plan relying on its own vast experience and capabilities under the assistance of UniCredit Group.

We will strictly follow UniCredit Group's key values and 'Do the Right Thing!' fundamental principle in the interests of shareholders, customers, and all stakeholders.

Marco Radice,
Chairman of the Supervisory Board
of UniCredit Bank

About UniCredit Bank

AO UniCredit Bank is a Russian commercial bank, operating in Russia since 1989. Ranked 11th by total assets based on 2019 results (Interfax-100 ranking), UniCredit Bank is one of the largest banks in Russia. UniCredit Bank is fully owned (100%) by UniCredit Group (UniCredit S.p.A.).

The Bank benefits from its strong position in the large Russian corporate finance market and sustainable retail banking business. Since 2015 the Bank is included in the list of systemically important credit institutions of Russia*.

General information

- Until 20 December 2007, the Bank was called International Moscow Bank, registered by the State Bank of the USSR on 20 October 1989.
- Since 1991, the Bank has operated under General License No.1 for banking operations.
- The first bank in Russia with majority foreign ownership.
- On 20 December 2007, International Moscow Bank officially changed its name to UniCredit Bank.

Data as of 31.12.2019

Total assets
₽ 1,226.5 billion

Total Equity
₽ 213.2 billion

Loans to customers
₽ 733.8 billion

Customers deposits
₽ 861.6 billion

Employees
Around 4 000

* In accordance with the statement issued by the Press Service of the Bank of Russia.

UniCredit Bank Celebrates its 30th Anniversary in the Russian Market of Financial Services

UniCredit Bank was founded in Moscow on October 19 as International Moscow Bank.

On the occasion of the anniversary, the Bank held a number of events for customers, partners, and employees over the course of 2019. The list of these events included sports competitions, lectures, expositions of paintings from the Bank's art collection, and an anniversary concert by the Bank choir.

RALLY 30

Car marathon on the route from Moscow to the headquarters of UniCredit in Milan "Rally 30" was the result of the initiative of the employees of the Bank. It covered 6,900 km and 7 countries where the Group's banks are present: Belarus*, the Czech Republic, Austria, Slovakia, Hungary, Croatia and Italy. The "Rally 30" team, consisting of 53 employees of the Bank and their immediate relatives, traveled in 22 private cars.

The marathon's agenda included meetings with colleagues from UniCredit banks in other countries in each city of the route exchanging best practices and ending up in Milan visiting the headquarter of the Group at UniCredit Tower.

CHARITY RACE

On 28 September 2019, UniCredit Bank and Life as a Miracle Charity Foundation hosted the Running for a Miracle Charity race at the VDNKh (Exhibition of Achievements of National Economy) to support children with serious liver disorders. About 1500 participants and supporters attended the race. The participants, including the youngest one who was only 1 year old, covered distances from 400m to 10km along the renovated site of the VDNKh. The racers' check-in fees and guests' donations amounted to RUB 3 350 469. UniCredit Bank contributed a further RUB 2.5 million to the cause. This money would be used to treat children suffering from serious liver disorders under the care of Life as a Miracle Charity Foundation. All participants of the race earned a medal to remember the event and the young athletes were also offered a rich entertainment programme: master classes, games, illusionist show, etc.

ANNIVERSARY CONCERT

On 7 November 2019, UniCredit Bank invited its customers, partners, and employees to a gala concert in the Moscow concert hall "Zaryadye". The official part of the event was opened by Anton Siluanov, First Deputy Prime Minister of the Russian Federation – Minister of Finance of the Russian Federation. He congratulated the Bank staff, customers, and partners on the anniversary and solemnly presented the medal of the Order for Services to the Fatherland, second degree, to Mikhail Alekseev, Chairman of the Management Board of the Bank, that was awarded to him pursuant to the Decree of the President of the Russian Federation. Opera, church, and instrumental music by Wolfgang Amadeus Mozart was performed at the concert for the guests of the Bank.

* Representative Office of AO UniCredit Bank in the Republic of Belarus.

Grow and strengthen client franchise.

Team 23 focuses on strengthening and growing our client franchise across all segments: SMEs, individuals and corporates.
Our strategic initiatives focus on the customer experience, to improve customer satisfaction and service quality. This is how we will increase our Net Promoter Score at Group-level.

Strategy and Results in 2019

Message from the Chairman of the Management Board

“In 2019, the Bank’s net profit amounted to RUB 17.7 billion, while the Bank managed to raise both the return on equity and the return on assets. The success of 2019 allowed the Bank to meet 2020 with a sufficient margin of safety that will help it to survive during challenging periods in the economy.”

Mikhail Alekseev
Chairman of the Management Board

Ladies and Gentlemen, Dear Customers, Partners and Colleagues,

2019 was the completion year of the UniCredit Transform 2019 Strategic Plan aimed at making the Group one of the most successful European banks. The Group successfully implemented a three-year plan, and the Russian UniCredit Bank contributed to this overall success. In late 2019, UniCredit Group announced its new strategic plan entitled Team 23 to govern the Group’s development for the next four years and to support the Group on its path to change. UniCredit Bank will continue its work in accordance with the new strategy.

2019 was a year of relative stability and moderate growth for the Russian banking system. For UniCredit Bank, it was the 30th anniversary of the Bank’s establishment. We held a series of festive events for our customers, partners and employees – all of those who contributed to the Bank's status as one of the largest and most reliable banks in Russia for three decades. One of the main focuses of UniCredit Group's new strategy is to strengthen and expand its customer base, including through various initiatives aimed at improving the quality of products and services. UniCredit Bank has been focused primarily on improving the quality of customer service throughout its entire history, so the Bank will continue improving it following the Group's strategy.

In 2019, the Bank's net profit amounted to RUB 17.7 billion, while the Bank managed to raise both the return on equity and the return on assets. UniCredit Bank consistently holds the status of one of Russia's systemically important credit institutions according to the list published by the Bank of Russia in 2019. The success of 2019 allowed the Bank to meet 2020 with a sufficient margin of safety.

Strict risk control and asset quality improvement have been among the priorities of the Bank's strategy under the Group's strategic plan for three years. In 2019, the Bank continued its efforts to improve the quality of both the existing portfolio and the loans to be issued. Thanks to its active work on the portfolio quality improvement, the share of non-performing loans (NPL) in 2019 dropped down to 5.6%.

Keeping up the capital level subject to strict and even excessive compliance with all the standards established by the regulatory authority has been consistently one of the key priorities for the Bank. At year-end, the Bank's capital exceeded RUB 213 billion, while statutory capital ratio N1 rose materially and reached 18%, providing good evidence of the Bank's high reliability.

In 2019, within the framework of the operational model improvement, the IT strategy of the Bank for 2020-2023 was updated based on the results achieved, internal and external business context, as well as the Group's IT strategy for 2020-2023. Furthermore, a data management strategy for 2020-2023 was adopted and a key project in the field of data management entitled "DWH – Single Source of Truth" was successfully launched. The Bank also pays great attention to process automation and remains one of the leading UniCredit Group banks in this area. The Bank was strongly focused on the information security and efforts to strengthen it, as well as strict cost control to maintain an optimal cost-to-income ratio throughout the year.

The Bank continued investing in the development of its people – a key asset of our financial institution – throughout the year. The Well-Being programme joined by roughly 1,500 employees of the Bank was successfully launched. At the same time, the Bank continued implementing projects under the programme of corporate social responsibility and sustainable business operations. Together with the Life as a Miracle Charitable Foundation, the Bank arranged for a charity run called "Run for a Miracle" dedicated to its anniversary, which collected over RUB 3.35 million for the treatment of children with severe liver diseases under the care of the foundation.

In line with UniCredit Group's culture and arts policy, UniCredit Bank consistently supported exciting projects in this area throughout 2019. For instance, the Bank supported the exhibition of Massimo Sestini "Horizons of Italy. View from Police Helicopters" that was a great success at the Multimedia Art Museum, Moscow (MAMM).

A number of negative factors may affect the overall situation of 2020. The Russian economy, as well as the global economy will face a recession. According to our forecast, the global downturn will be quite severe but not longstanding, so we are sure that the accumulated safety margin will help UniCredit Bank survive during this troubled period.

On behalf of the Management Board, I would like to thank all employees of UniCredit Bank for their huge contribution to our strong performance. Our joined efforts helped UniCredit Group to overachieve the objectives of Transform 2019. In 2020, we will open up a new strategic cycle and continue our successful work supporting the real economy and following the key values and principle of the Group for the benefit of society, our shareholder, and our customers.

Mikhail Alekseev,
Chairman of the Management
Board of UniCredit Bank

Main Achievements in 2019

"In 2019, UniCredit Bank has confirmed its solid market position, strong financial performance and sound capital structure. These are fundamentals on which we will leverage in order to remain a reliable banking partner through the next economic cycle."

Andrea Diamanti
Executive Vice-President

UniCredit Bank Earns the Top Employer-2020 Certificate

UniCredit Group and AO UniCredit Bank received the official Top Employer Certificates awarded annually for high human resource management standards by the Top Employers Institute. It is the eighth time that the Bank is awarded the Top Employer Certificate.

UniCredit Bank Ranks Second in the List of the Most Reliable Banks in Russia According to Forbes

The Russian Forbes economic magazine published its traditional "100 Most Reliable Russian Banks – 2020" ranking at year-end 2019. It is the 12th time in a row that UniCredit Bank has been included in the list of the most reliable Russian banks.

Mikhail Alekseev, Chairman of the Management Board of UniCredit Bank, Awarded Medal of Order for Services to Fatherland, II Degree
According to the Russian Federation Presidential Decree No. 337, dated 17 July 2019, M. Yu. Alekseev was awarded for his commitment and dedication in professional endeavors as well as his community service.

UniCredit Bank Holds a Moscow-Milano Automarathon Dedicated to its 30th Anniversary
"Rally 30" based on the initiative of UniCredit Bank's employees covered 6,900 km and 7 countries within the Group's geographic presence: Belarus, Czech Republic, Austria, Slovakia, Hungary, Croatia, and Italy. The "Rally 30" team consisting of 53 employees of the Bank and their families was driving 22 personal cars.

To celebrate its 30th anniversary, UniCredit Bank, together with the "Life as a Miracle" charitable foundation, arranged a charity race called "Running for a Miracle"
The participants – the youngest of them just 1 year old – covered distances from 400 m to 10 km along the renovated site of the VDNKh. The amount of RUB 3 350 469 collected thanks to the race, including RUB 2.5 million donated by the Bank, was used to treat the children suffering from serious liver disorders under the care of the foundation.

UniCredit Bank Joins the Faster Payments System
In late May, UniCredit Bank provided its customers with the opportunity to receive and send money using the Faster Payments System based on the phone number. It is enough to know the recipient's phone number to use the service, so that the money is credited to the recipient's account almost instantly.

UniCredit Bank Earns the 2018 Visa Global Service Quality Award
The Bank earned the first award in the category for the Highest Authorization Approval Rate – Cross-Border Consumer Point Of Sale, and the second – for the Emerging Payment Adoption: Contactless.

UniCredit Bank Launches Samsung Pay for its Card Holders
This will enable customers to choose the best method of payment, alongside with other contactless payment services already available to the Bank's customers.

UniCredit Bank Earns the "Elite Quality Recognition Award" from JPMorgan Chase Bank for the 11th Time
The exceptional quality of outgoing commercial payment orders in USD (99.81% of STP payments) was recognised by the Award. It happened after 7 consecutive years when the Bank's commercial payments had earned the "Quality Recognition Award".

UniCredit Bank Becomes an Accredited Partner of the Industrial Development Fund
AO UniCredit Bank and the Industrial Development Fund (IDF) signed an agreement on cooperation as part of the State Program "Industry Development and Competitiveness Improvement". The Bank became one of the six accredited partners selected to open borrowers' current accounts for the purpose of maintaining a separate accounting of funds provided by IDF as a special purpose loan.

UniCredit Bank Wins the Award and Receives High Appreciation from the Jury of CX WORLD AWARDS
The award annually brings out and rewards the most interesting and successful projects in the customer experience industry. The Bank became a finalist in two categories – "Best Practice of Customer Intelligence and Feedback" and "Best Team of Customer Experience".

Report on the Bank's Activities

Macroeconomics and the Russian Banking Sector in 2019

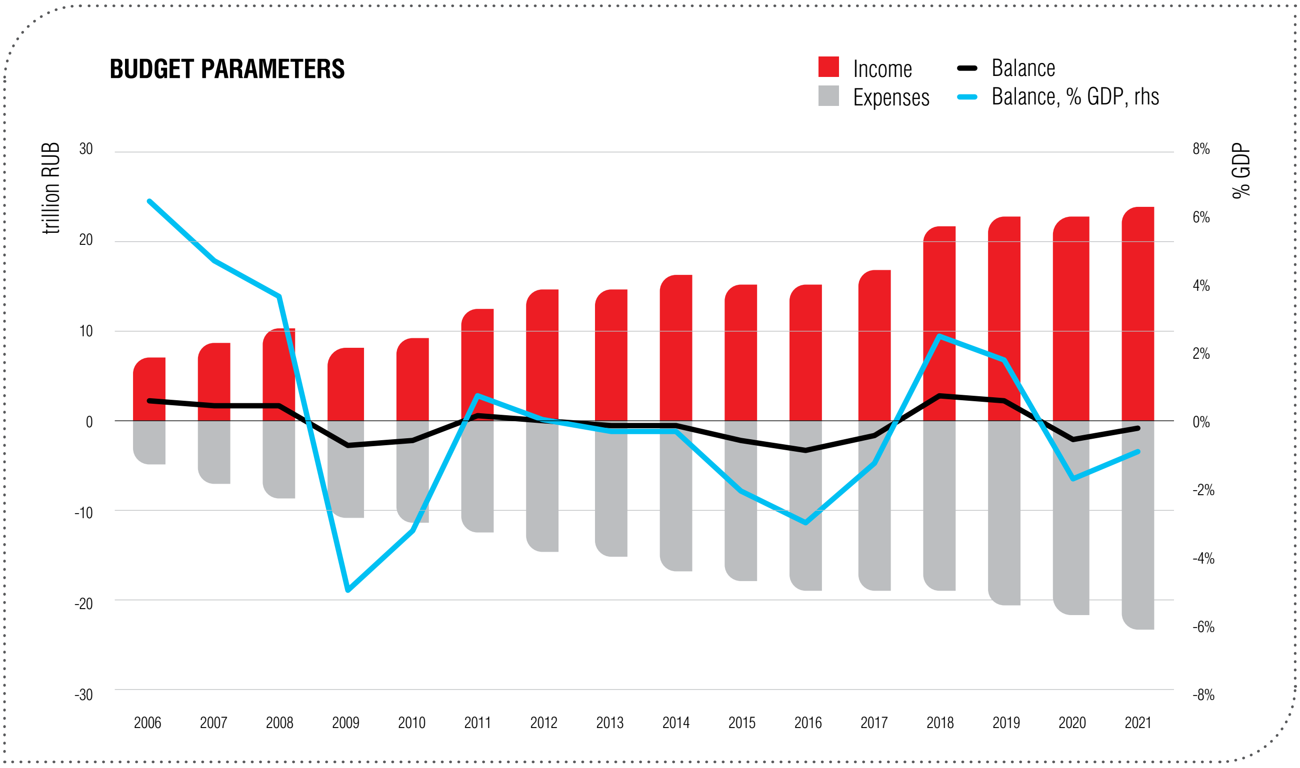
Macroeconomics

The Russian economy slowed down sharply in 2019: according to the first official estimate, GDP grew by 1.3% compared to 2.5% year ago. The slowdown was mostly driven by one-off factors. Final consumption growth decelerated from 2.8% to 2.4% as a result of 2pp VAT hike in January 2019. Exports declined by 2.1% after growing by 5.5% in 2018 due to oil shipment disruptions caused by Druzhba oil pipeline pollution and generally lower world GDP growth rates (and, therefore, lower demand for Russian goods abroad). However, investment spending accelerated in 2019 (1.4% after 0.1% year ago) despite delays in public spending on the implementation of National Projects.

As a result of oil price fall in 2020 and lockdowns to stop the outbreak of COVID-19, the Russian economy will face a recession – like other economies. For the world economy, this recession will be the most severe at least since 1950s. According to estimates, the slump will be rather deep, but V-shaped; and Russian GDP might contract in 2020 by about 5% with a decent recovery in 2021.

After several years of a very conservative fiscal policy, planned 2019 budget assumed a more active use of public spending to support economic growth and households' welfare. These plans were only partially implemented: though public spending indeed increased from 16.0% to 16.7% GDP, actual-to-planned spending ratio was only 94.2% in 2019 – 5 year minimum. The budget revenue, in turn, was almost unchanged as a percentage of GDP (18.5% in 2019 against 18.6% year ago): non-oil & gas revenue growth due to VAT hike and overall improvement in tax collection ratios compensated for a fall in oil & gas revenue due to the fall in oil prices from USD 71.2 to 64.0 per barrel. As a result, the Russian budget is getting less and less dependent on oil: non-oil & gas budget deficit shrank to 5.4% GDP in 2019, the lowest level over more than 10 years; the share of oil & gas revenues in total budget income declined to below 40%. An overall budget position remains very strong: the budget is in surplus for 2 years in a row, 1.8% GDP in 2019 against 2.6% in 2018. A high budget stability level was acknowledged by international rating agencies: in February 2019, the sovereign credit rating of Russia was upgraded by Moody's (from Ba1 to Baa3), in August – by Fitch (from BBB- to BBB). Russia has an investment-grade rating from all major agencies.

Lower budget dependency on oil prices is largely the result of budget rule implementation. The budget rule sets a cap on fiscal spending: only non-oil revenues plus oil & gas revenues at a base oil price (USD40 per barrel as of 2017, indexed by 2% a year, 42.6 USD/bbl in 2019) can be used to finance spending. Oil prices were rather volatile in 2019, fluctuating in a wide range of USD 50-75 per bbl, mainly driven by US-China trade war developments and geopolitical tensions in the Middle East, yet they were sustainably above the base oil price. All extra oil & gas



revenues, resulting from oil price above base price are used to purchase foreign exchange (in the local FX market), which is later transferred to the National Wealth Fund (NWF). Extra oil & gas revenues for 2018 (about 4 trillion in ruble equivalent) were transferred to NWF in June 2019. In 2019 the Ministry of Finance purchased over USD 54 bn. This money was transferred to NWF in March 2020.

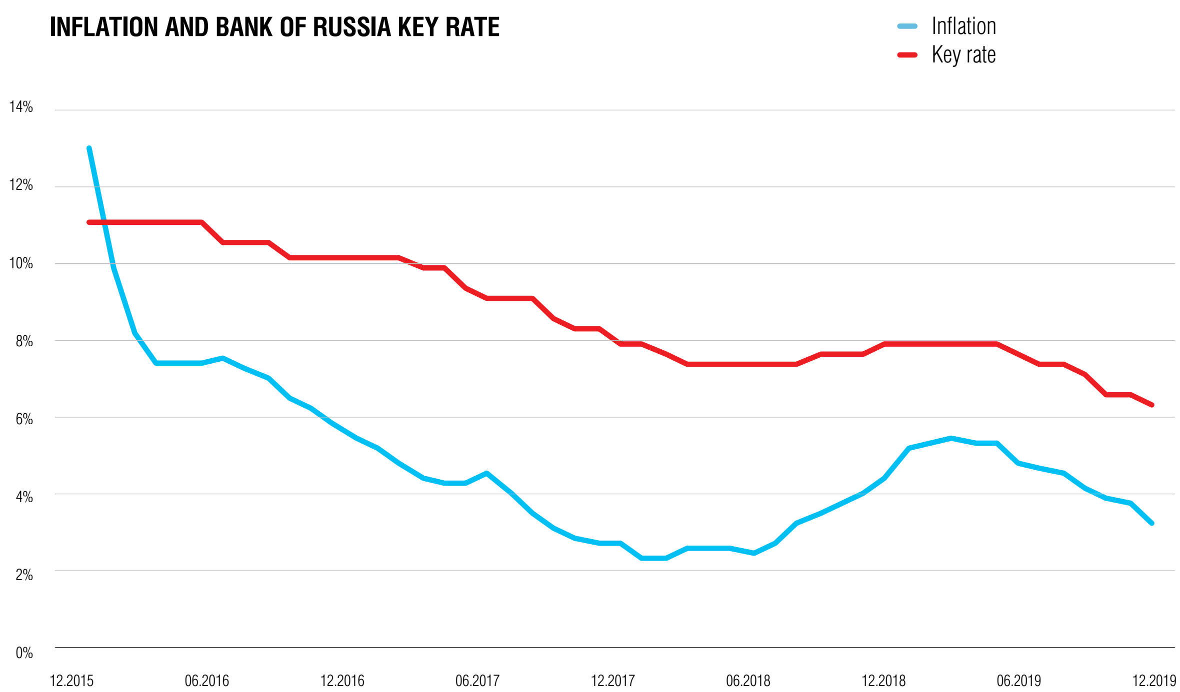
In 1H2020, the oil market entered a period of disequilibrium with substantial amounts of surplus, so the oil prices will fall below the base level, and hence the Ministry of Finance will sell hard currency from the NWF in accordance with the budget rule. Lower oil prices and additional spending to contain pandemic will result in a budget deficit in 2020 at ca. 2-3% of GDP, however, the overall Russian fiscal situation will stay solid. The budget deficit will sharply improve as soon as economic conditions normalize.

Due to the Ministry of Finance FX purchases under the budget rule, oil price fluctuations had a very limited impact on ruble exchange rate dynamics, so international capital flows are the key drivers of ruble. Through the whole 2019 non-residents' demand for ruble and ruble-denominated assets was high. Public debt market saw the largest on record inflow of non-residents' money – about USD 20 bn, the share of non-residents in ruble-denominated government debt increased from 24.4% to 32.2%. On top of that, growth in external liabilities (FDI, loans) of Russian non-financial sector was the largest since 2013 – over USD 25 bn. Even new sanctions against Russia, introduced in August 2019 did not interrupt capital inflow – market reaction was muted. Under such circumstances, the ruble has been appreciating through most of 2019 (although average rate still remained somewhat weaker than in 2018: 64,73 rub/USD compared to 62,71 rub/USD). The current account balance declined compared to 2018, but still remained comfortably high: USD 71 bn, or over 4% GDP. Lower oil prices and capital outflows from EMs resulted in a noticeable RUB depreciation in 1H2020. Yet some appreciation is likely when the economic situation improves, and strains in commodity and financial markets ease.

Ruble stability and weak domestic demand in 2019 resulted in a much faster inflation slowdown after an initial VAT hike-driven rise, than expected by market participants and the Bank of Russia. CPI growth rate reached 5.3% yoy in March 2019 but fell to just 3.0% yoy by end-2019, much lower than the CBR target. Fast inflation slowdown urged the Bank of Russia to switch to active policy easing: from May 2019 to February 2020 the key rate was cut from 7.75% to 6.25%. A pass-through effect from the RUB depreciation will result in prices jump, but inflation acceleration will be short-lived, and the Bank of Russia would return to policy easing when the market stabilizes.

The balance of all growth factors points to a likely recession and weaker RUB in 2020. However, we expect economy to recover in 2021.

INFLATION AND BANK OF RUSSIA KEY RATE



Report on the Bank's Activities (Continued)

Macroeconomics and the Russian Banking Sector in 2019 (Continued)

Banking Sector

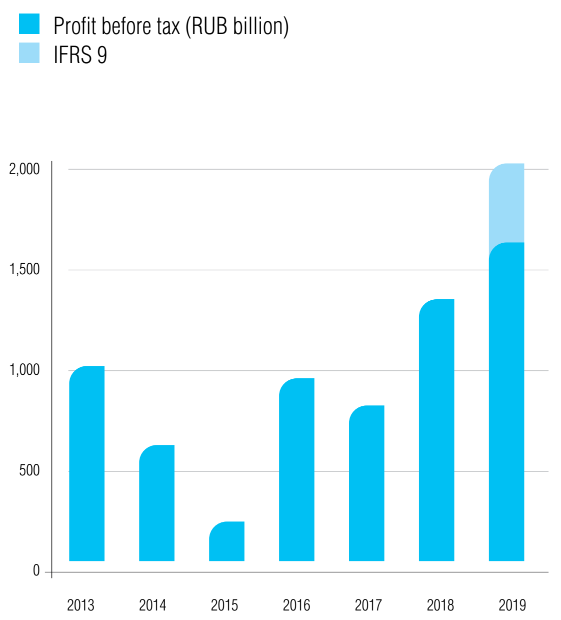
In 2019, the profit of the Russian banking system exceeded RUB 2 trillion (RUB 2,037 billion) – 50% higher than in 2018 (RUB 1,345 billion). Such a positive result is largely due to a one-off factor – the introduction of IFRS 9. Without adjustments related to the introduction of the new standard, profit before tax amounted to RUB 1.6 trillion. Despite the fact that the largest bank still generates more than 50% of the banking sector's profit, in 2019 the concentration of profits has slightly decreased, which indicates smoothing of the banks' performance.

The growth of banking sector assets slowed down compared to the previous year and amounted to 2.7% year-on-year; excluding FX revaluation effect, the growth was at the level of 5% year-on-year. In early 2019, the size of assets fell due to changes in accounting rules. Despite that, corporate lending throughout 2019 had been growing, albeit at a more restrained pace. The portfolio growth amounted to 1.2% year-on-year (or 4.3% excluding currency revaluation), reaching RUB 33.8 trillion at the end of the year, while the share of foreign currency loans decreased from 29% to 25%. The quality of the portfolio of this segment is quite stable: in January 2019, as a result of accounting changes, there was a technical increase in the level of overdue debt to 7.8%, which remained unchanged until the end of 2019.

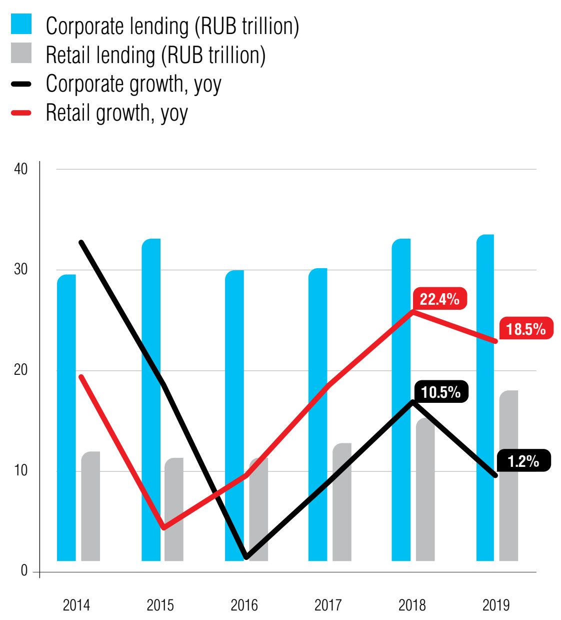
The volume of retail lending at the end of 2019 amounted to RUB 17.7 trillion (+18.5% year-on-year), despite the high growth rate of the retail portfolio, overall the dynamics was less active than a year earlier (+22.4% in 2018) as a result of Bank of Russia's measures to cool unsecured consumer lending The share of loans overdue in the retail segment in 2019 decreased by 0.8 percentage points to 4.3%, which is largely due to active scaling of the portfolio. We expect that the portfolio quality will deteriorate in 2020 due to main two reasons: firstly, portfolio aging, and secondly, likely decline in the payment discipline of borrowers.

The volume of deposits of individuals in 2019 increased by 7.3% year-on-year (to RUB 30.5 trillion), which, taking into account a significant reduction in rates, is just slightly below the dynamics of the previous year (+9.5% year-on-year). As a result of low foreign exchange rates, at the end of 2019 there was a trend towards a decrease in the share of foreign currency savings of individuals: deposits denominated in foreign currency decreased by 2.2% year-on-year, and their

SECTOR'S PROFIT EXCEEDED RUB 2 TRILLION IN 2019



CORPORATE LENDING HAS SLOWED, RETAIL GROWTH RATES REMAINED HIGH



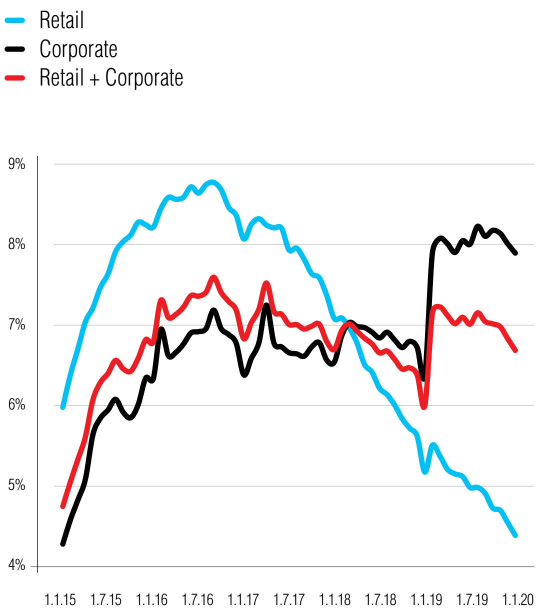
share amounted 19.6%, against 21.5% a year earlier. For the second year in a row, individuals act as net borrowers; in 2019, deposits inflow amounted to RUB 2.1 trillion, while loans issued grew by RUB 2.7 trillion.

The banking system's capital grew by 6.9% year-on-year and reached almost RUB 11 trillion. The capital adequacy of the banking sector changed insignificantly from 12.2% to 12.3%. In 2020, the level of capital adequacy of the banking sector will be under pressure due to higher loan loss provisioning as portfolio quality would deteriorate, mostly in the SME segment. A positive initiative to differentiate investment-class SME clients from all others would not have a major impact on bank capital due to a small number of such clients.

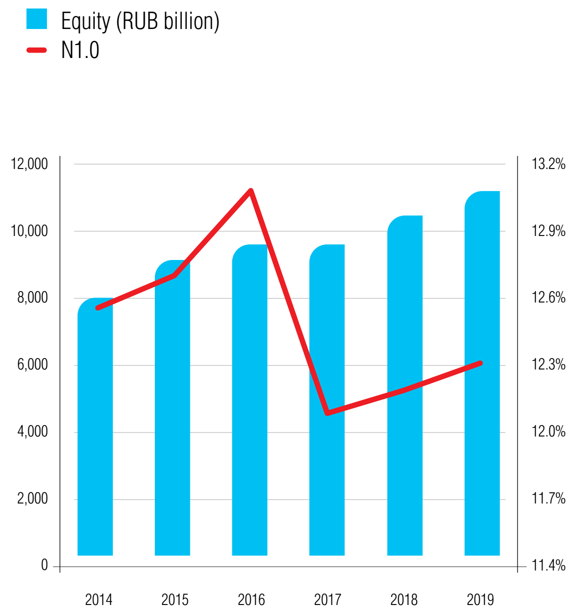
In 2020, the corporate segment will be affected by economic recession because of lockdowns and deterioration in financials of SME clients. While borrowers might be willing to attract money, banks are likely to stay cautious. The growth of the retail segment is expected to be higher than the corporate one, nevertheless, pressure will be exerted by increased risk ratios for unsecured consumption loans to borrowers with high level of debt burden, as well as natural limits to consumption demand coming from quarantine.

The sector looks quite stable in terms of liquidity and capital position, however, during the year the sector liquidity might start drying up. The bottom line of the PnL and capital adequacy might be impacted by worsening asset quality. Nevertheless, the stability of each individual bank will, as usual, be determined by the efficiency of its business model and the quality of risk management.

THE QUALITY OF BOTH CORPORATE AND RETAIL LOANS WERE STABLE



EQUITY AND CAPITAL ADEQUACY WERE GROWING IN 2019



Financial Results of 2019

“In 2019, AO Unicredit Bank further reinforced its solid position within Russian banking system with growing financial results, while further strengthening its capital position and reducing NPLs.”

Stefano Santini
Member of the Management Board

Dividends Payment

According to the resolution of the sole shareholder dated April 8, 2019, it was decided to pay dividends in the amount of RUB 8,121 million out of IFRS net profit after tax of RUB 16,704 million generated in 2018. It was also decided to transfer the remaining part of 2018 net profit of RUB 8 583 million to the retained earnings.

Major Transactions

Under the Russian Federal Law “On Joint Stock Companies”, a major transaction is one with value in excess of 25 percent of the company’s total assets. For AO UniCredit Bank a major transaction would therefore be the transaction worth more than RUB 302,017 million (under 2019 RAS accounting statements). In 2019, the Bank did not undertake any transactions with this magnitude.

Related Parties Transactions

In 2019, the Bank did not enter into any transactions in which the Bank's directors, top managers or other parties listed in the Federal Law "On Joint Stock Companies" had an interest. Further information about related parties transactions is given in AO UniCredit Bank audited consolidated financial statements. Footnote 29 of the consolidated financial statements lists transactions with related parties made in the normal course of business in accordance with the requirements of IAS 24 "Related Party Disclosures".

Net profit

According to IFRS, AO UniCredit Bank Russia reported net profit of RUB 17,701 million in 2019, which is 6.0% higher than in 2018 and confirms high effectiveness of the Bank's business model. The Bank further improved its profitability with return on equity (ROE) of 8.7% (8.4% in 2018) and return on assets (ROA) of 1.4% (1.3% in 2018).

Net Interest Income

The overall UniCredit Bank's net interest income totaled RUB 41,074 million and in line with 2018 (or +0.1%) supported by effective assets and liabilities management despite the lack of market growth in corporate lending.

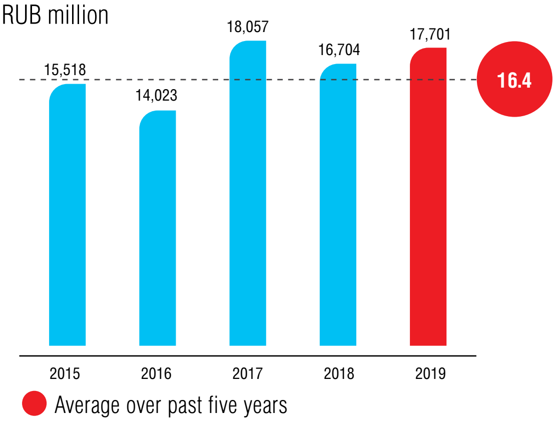
Net Fee Income

Net fee and commission income amounted to RUB 8,956 million and is higher than in 2018 by RUB 222 million (+2.5% Y-o-Y) supported by strong commercial performance in Retail banking.

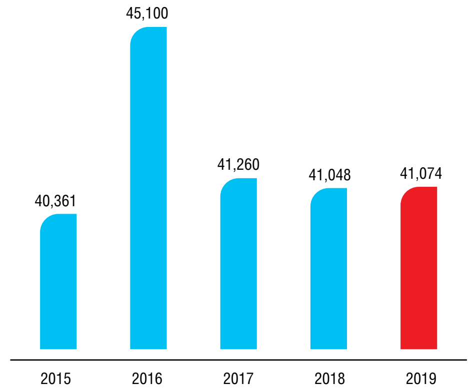
Loan Impairment

The total allowances for loan impairment composed RUB 44,120 million at the end of 2019, that decreased by RUB 16,617 million from RUB 60,737 million in 2018. Asset quality metrics under control: the weight of the impaired loans in total loan portfolio decreased to 5.6% (7.4% in 2018) and overall impaired loans coverage ratio composed 79.3% (72.8% in 2018). The loan impairment allowances to total portfolio coverage ratio amounted to 5.7% in 2019 (compared to 6.6% in 2018). The loan impairment charge was RUB 10,396 million in 2019, by RUB 2,212 million lower compared to 2018.

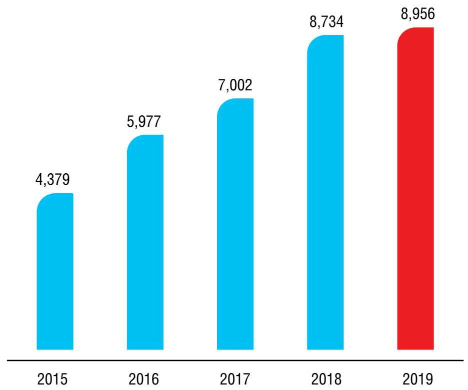
NET PROFIT AFTER TAX,
RUB million



NET INTEREST INCOME,
RUB million



NET FEE INCOME,
RUB million



Report on the Bank's Activities (Continued)

Operating Costs

In 2019, total operating costs amounted to RUB 19,815 million (4.2% higher compared to the previous year). Disciplined cost management procedures allowed to maintain cost/income ratio at good level of 38.5%.

Assets

The value of total assets decreased by 10.0% and amounted to RUB 1,226,449 million. The gross loans to customers totaled RUB 777,891 million (decreased by RUB 145,997 million compared to the last year (o/w -RUB 40,347 million due to FX effect)). Retail portfolio (gross, including SME) increased to the level of RUB 197,028 million (+RUB 35,170 million, +21.7% Y/Y). Total gross loans to corporate customers (including reverse repurchase agreements and lease receivables) decreased to RUB 580 863 million (-RUB 181,167 million, -23.8% Y/Y) impacted by market environment.

Available-for-sale portfolio increased from RUB 47,196 million in 2018 to RUB 139,006 million in 2019.

Liabilities

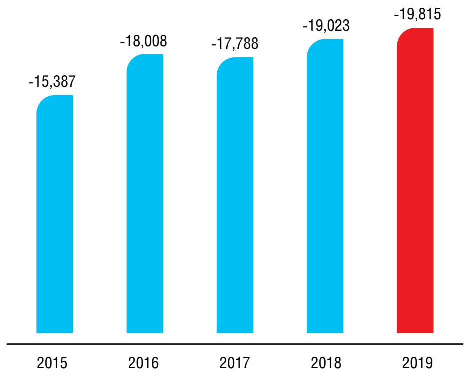
In 2019, UniCredit Bank continued to maintain well-diversified funding base. The client deposits base decreased by 15.2% or by RUB 154,014 million compared to the last year (o/w -RUB 51,689 million due to FX effect), down to RUB 861,627 million at 2019 year end following the liquidity needs with improved diversification. Corporate deposits, representing 63% of total customer funds, reached the level of RUB 539,150 million, while Retail and Private deposits amounted to RUB 321,089 million, Lease liabilities under IFRS 16 composed RUB 1,387 million as of 2019 year end.

Shareholders' Equity

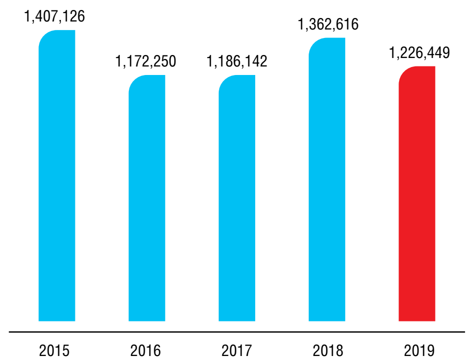
Total Equity increased by 8.9% compared to 2018 to the level of RUB 213,229 million as of the end of 2019.

The N1 capital adequacy ratio (under CBR methodology) kept at high level equal to 18.0% at the end of 2019, which is significantly above the CBR limit.

OPERATING COSTS,
RUB million

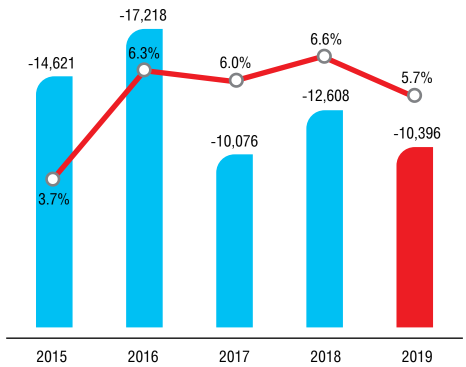


TOTAL ASSETS,
RUB million



PROVISIONS CHARGE FOR LOANS IMPAIRMENT,
RUB million

COVERAGE RATIO



Asset and Liability Management

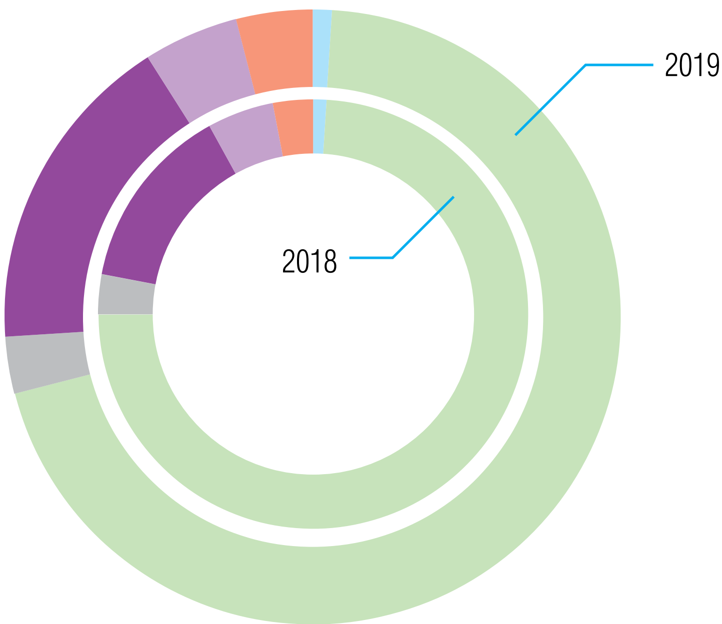
In 2019, UniCredit Bank further pursued its funding base optimisation strategy in order to improve its net interest income. Throughout the year, the Bank successfully raised customer funds in order to substitute the most expensive funding sources – bonds and cross-currency swaps – reserving the latter as potential response measures in the event of complicated liquidity situation in the banking system. The Bank also significantly reduced the concentration of funding sources and plans to adhere to this strategy in 2020 in order to most effectively satisfy customers' needs for financial products.

In 2019, liquidity was managed in line with UniCredit Group's guidelines which imply more stringent requirements to liquidity ratios compared to the regulatory requirements. The regulatory liquidity requirements (N2, N3, N4, N26 and N28 liquidity ratios) were complied with safe cushion throughout the year. Moreover, the Bank further maintained a consistently high level of credit claims eligible for pledge to Bank of Russia under Directive No.4801-U providing the possibility of raising funds against the pledge of non-marketable assets.

As part of the interest rate risk management strategy, the Bank took steps aimed at stabilising the Bank's net interest income in 2019. In particular, the free funds investment was completed, which will allow the Bank to stably meet the profitability targets set by the shareholder.

Thanks to the Bank's strong capitalisation and liquidity position, as well as the high quality of assets, the rating agencies keep the Bank among the highest rating groups on the Russian banking market which allows the Bank, for instance, to raise funds from a wide range of both corporate and retail customers

STRUCTURE OF LIABILITIES AS OF DECEMBER 31, *%*



	2019	2018
Intragroup Funding	1.0%	1.2%
Due to Customers	70.3%	74.5%
Subordinated Debt	2.4%	2.5%
Capital	17.4%	14.4%
Other Liabilities	4.4%	4.6%
Due to Banks	4.5%	2.8%

Corporate and Investment Banking

"Actively using digital technologies and implementing new banking products, UniCredit Bank stays among the leaders of the Russian market and over many years keeps providing financial solutions to the leading Russian and international corporate clients."

Kirill Zhukov-Emelyanov
Member of the Management Board

In 2019, UniCredit Bank's corporate business continued the implementation of innovative products and processes, which allowed to improve business efficiency and to support high level of customer service. A bundled offer of flexible financial solutions based on modern technologies helped the Bank to preserve its status of a major player in corporate banking sector.

At year-end, the corporate loan portfolio reached RUB 550 bn., the deposit portfolio reached RUB 540 bn. The total income of corporate banking amounted to RUB 27.3 bn, while profit before tax reached RUB 15.6 bn. A balanced approach to risk assessment enabled the Bank to preserve its leading positions in the market in terms of the loan portfolio quality. The share of non-performing loans at year-end 2019 was equal to 5.5% compared to an average of 7.8% for the banking system as a whole.

UniCredit Bank confirms its position as one of the leading players in regional markets and expands its customer base in the large and medium business segment. Its strong product expertise and technological solutions allow new products to improve the customers' business efficiency in managing working capital, as well as in foreign economic activities. The Bank provides active financial support to its customers implementing investment projects, for instance through various state business support programmes. The high level of customer satisfaction shows that the Bank keeps the status of their reliable long-term and strategic partner.

In 2019, the Bank remained a leader in the syndicated loan market, ranking among the top five market players in terms of the quantity and the volume of financing in Russia[1], despite tough competition from both global and Russian banks for Tier-1 borrowers. The 2019 focus was made on dual-currency loans and transactions in the field of "green" finance. Besides, the corporate liquidity management product range was significantly expanded and finalized. At the same time, the main priority is the further development of electronic channels.

Last year, a new product was successfully introduced – a special account for transactions requiring confirmation of the intended use of funds by the lender as part of the Bank's successful cooperation with the Industry Development Fund (IDF). UniCredit Bank is currently the only foreign bank accredited by IDF to open special accounts under the "Industry Development and Competitiveness Improvement" programme.

The market players showed their high interest in working capital finance products using synergy of various products, such as factoring and trade finance. One of the important events of 2019 in response to market needs was the Bank's successful implementation of a customer working capital finance solution aimed at further mutually beneficial cooperation with key accounts, global and corporate customers.

The reporting year proved to be highly favourable for the corporate bond market. UniCredit Bank continues to arrange successful bond issues of Russian and foreign companies and banks. Moreover, the Bank acted as an Agent for structuring "green" bonds, bookrunner and roadshow coordinator throughout the entire transaction for the Russian Railways company.

The Bank continues using innovative technologies to analyse the activities of existing and prospective customers in order to discover business opportunities and develop targeted offers. In 2019, the interface of the customer relations management system was renewed substantially, providing for simplification and efficiency improvement of the relationship managers' work. The Bank launched a new module designed to analyse the structure of international groups of companies, as well as to identify and prioritise cooperation with prospective customers.

1 According to Dealogic for the period from 01/01/2019 to 31/12/2019.

In 2019, Corporate Lending Workflow (CLW) platform was further developed to improve the performance of the entire lending process – regional lending process with corporate customers was added to the system functionality. Besides, a number of significant improvements were also introduced to the remote banking system in terms of currency control, conversion transactions, etc., improving the functionality and convenience of the system for customers. Next year, the key focus will be made on the working capital finance automation using a new technological platform.

International Center

In 2019 UniCredit Bank both confirmed its leadership position in market servicing of international companies, and achieved its goals.

The Bank has not violated its tradition of annual business growth in this demanding customer segment. Continuing the commercial strategy of diversifying its client base, UniCredit Bank attracted a significant number of new international companies for servicing. In close cooperation with colleagues from UniCredit Group, several events were held to attract customers not only from Europe, but also from other regions of the World. One of the significant events of the year was the successful implementation of working capital finance solution, which is in great demand among international companies.

Due to the global model of servicing international clients, the Bank maintains its position as the main partner for major international clients. Stable growth and diversification of the client portfolio confirm the correctness of the development strategy, the high qualification of employees, as well as the high quality customer support with a flexible service model, which UniCredit Bank constantly adapts to the needs of international customers and the market.

In 2020 the main strategic goals of working with international companies will remain the growth of the loan portfolio, the further diversification of the client base, the increasing customer satisfaction, while the particular attention will be paid to the implementation of new products demanded by the specific segment.

Structured and Project Finance

In 2019, the total syndicated lending volumes in Russia demonstrated a slight increase versus 2018, mainly due to loans to financial institutions. Other aspects of the market situation remained similar to those observed in the previous year – high level of liquidity, competition among global and Russian banks for Tier-1 borrowers, and continuing reduction in interest rates as a result.

Report on the Bank's Activities (Continued)

Corporate and Investment Banking (Continued)

So, the Bank faced the challenge of achieving its objectives under the toughening of external competition and internal approach to lending in several segments in 2019. Nevertheless, the Bank successfully dealt with the challenge keeping up its leading position in the syndicated loan market[1] and ranking among the top five banks in terms of the quantity and volume of organised financing in Russia. The Bank also played the role of a coordinator in several transactions and strengthened its status of a leading financial partner for Russian corporate customers.

As a new trend of 2019, the borrowers' interest in dual-currency loans, usually in euros and US dollars, grew as a result of further costs and borrowings optimisation. UniCredit Bank took part in two club deals of this kind, one of which was implemented with the engagement of the Group's global team of industry experts.

"Green" financing attracted by some customers deserve special attention. For instance, in 2019, the largest aluminium manufacturer of Russia raised a syndicated loan worth USD 1 bn, where UniCredit Bank acted as the leading authorised organiser. The cost of borrowing under that loan was linked to individual performance indicators of the borrower. This kind of sustainable development finance will be relevant in 2020, evidencing the global aspect of the "green" agenda.

In 2020, UniCredit Bank aims to strengthen its position in the Russian syndicated and structured finance segment by expanding the range of loan products, including "green" financing, based on the expertise of UniCredit Group in favour of its customers.

Cash management

The key corporate liquidity management priorities of 2019 were to expand the range of proposed products and further develop electronic channels in order to improve the efficiency and convenience of customers' interaction with the Bank.

A new product was successfully launched for customers raising loans with the Industry Development Fund (IDF) under the Russian state "Industry Development and Competitiveness Improvement" programme – a special account for transactions requiring confirmation of the intended use of funds by the lender. As of late 2019, UniCredit Bank was the only foreign bank on the list of the seven banks authorised by IDF to open settlement accounts.

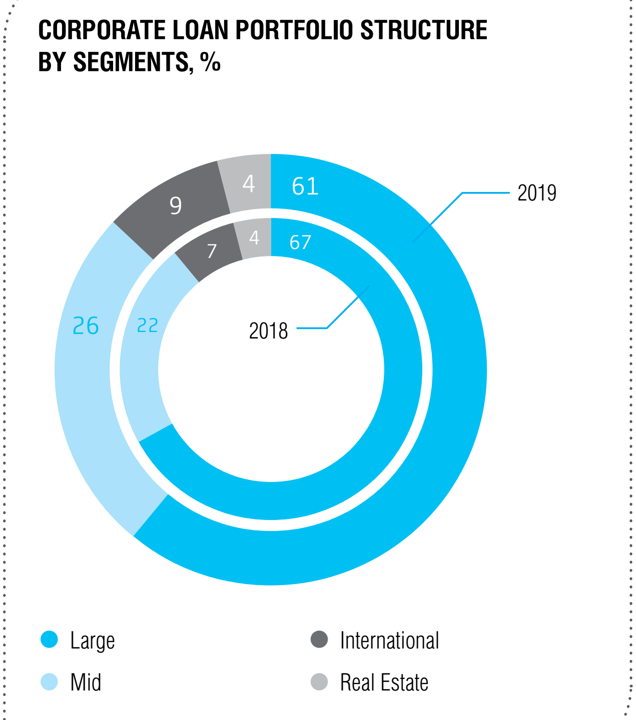
There was further improvement of the solution for consolidating corporate cash on a single account (Cash Pooling): an opportunity to fund FX transactions was added to the existing mechanism of automatic account confirmation.

CORPORATE PORTFOLIO STRUCTURE

Chemicals, pharma, healthcare	17.94%
Food and beverage	14.32%
Non-ferrous metals and mining (excl. precious metals)	9.64%
Mining of precious metals	7.43%
Automotive	7.13%
Energy (waste management)	6.68%
Other machinery, metals	5.58%
Telecom, IT	5.05%
Financial institutions & insurance	4.44%
Real estate	3.99%
Steel/metal production	3.63%
Media, paper	3.21%
Transport, travel	3.12%
Construction, wood	2.79%
Consumer goods	2.66%
Agriculture, forestry	1.47%
Textiles	0.41%
Services	0.38%
Tourism	0.10%
Electronics	0.04%

The range of corporate cards offered by the Bank was supplemented with Mastercard Business World with OneTwoTrip loyalty programme that enables customers to accumulate bonuses for purchases and use them to buy air and train tickets, make hotel reservations, which helps reduce corporate business travel expenses, simplify the management and accounting of business trips.

A great focus was made on expanding the functionality of electronic communication channels. First of all, the improvements covered



Host-to-Host systems of the Bank. Now, it is possible to use different combinations of signatures for different types of documents and the structured forms of currency control documents, deposit applications, and payment recalls have been added.

In 2020, the Bank will continue optimising its product offers and developing electronic communication channels with the focus on advanced innovative solutions that best meet the current customer needs.

Correspondent Banking

UniCredit Bank ranks number two among the Russian banks in terms of turnovers on RUB accounts of non-resident banks[2]. Its extensive network of LORO accounts with foreign banks enables it to take advantage of payments within the Bank in favour of respondent banks.

Tailor-made approach to customers needs, flexibility, reliability, proactive and highly professional staff are highly appreciated by the leading global banks cooperating with UniCredit Bank as their main clearing agent for RUB settlements.

2 According to the accounts of reporting forms 0409101 published by the Central Bank of the Russian Federation, as of 31.12.2019.

Trade Finance and Factoring/Receivables Finance

Trade finance has always been one of the key priorities among the product lines of the Bank and UniCredit Group. In 2019, the Bank once again confirmed its position in the trade finance market being ranked number one in Russia in the "Market Leader" category according to the annual Euromoney Trade Finance Survey 2020.

The key market development trend of 2019 was high interest of players in working capital finance products using synergy of various products, such as factoring and trade finance. Working capital finance products are among the most technologically advanced products in the market and require state-of-the-art IT infrastructure. In 2019, the Bank made a lot of efforts aimed at analysing technical solutions to optimize processes and reduce operational and credit risks. In 2020, this work will be continued, in particular, it is planned to update operating systems for working capital finance products.

Conventional guarantees and letters of credit (with or without financing) under cross-border transactions in foreign currency were still in demand in several customer segments such as consumer goods, pharmaceuticals and food.

The Bank is actively operating in the field of global documentary business, offering customers optimal solutions that are implemented thanks to a high level of professional expertise, an extensive network of partner banks, as well as a wide global presence and strong support of the UniCredit Group banks.

In 2019, the most dynamic development was observed in the trade flow finance under domestic supply contracts for goods and services. One of the most successful products was the discounting of letters of credit/invoices under Russian and international contracts. The total amount of such finance exceeded RUB 20 bn in 2019. The solutions offered by the Bank in this field were in demand by customers, which significantly increased the portfolio of such transactions.

Structured Trade and Export Finance

In 2019, long-term related finance covered by foreign Export-Credit Agencies (ECAs) remained one of the top business priorities for UniCredit Group. Thanks to its historically strong position in the European market, the Group cooperates with all the leading European ECAs, and is ready to support the finance of capital-intensive import from Asia.

In general, 2019 showed a steady interest of corporate customers in ECA-covered finance. This product remains the most acceptable and

Report on the Bank's Activities (Continued)

affordable tool of long-term finance for companies implementing their investment projects. For instance, in 2019, the Group banks obtained a number of new mandates from key clients for transactions to be covered by several European ECAs (BPI, France; EGAP, Czech Republic; Euler Hermes, Germany; etc.).

Besides, export finance included further cooperation with many key clients of the Bank in the chemical and pulp & paper industries, petrochemical, energy, telecommunications and metallurgical sectors.

UniCredit Bank plans to continue supporting its customers by offering the best loan solutions in accordance with the customer needs and market environment.

Global Securities Services

The Global Securities Service (GSS) renders conventional custody and related services. In terms of the product, it is part of UniCredit Group's Global Securities Services (GSS) providing custody services in 11 markets of Central and Eastern Europe (CEE), including Russia. GSS has many year of experience in the Russian securities market and provides services to the leading international financial institutions, including global custodians and key clients. GSS uses the best international practices and unified standards of customer service ensuring high service quality both in Russia and in CEE countries.

Alongside with the customer service quality improvement, in 2019 the Custodian continued optimising its business processes and internal regulations, both for the purposes of compliance in the changing regulatory environment and in order to achieve higher operational efficiency.

UniCredit Bank plays an active role in the financial market through its membership in National Financial Association (NFA) and by means of participation in a variety of committees and workshops of the National Settlement Depositary (NSD) – the GSS representatives in NFA and NSD workshops and committees are fully engaged in the proactive efforts to improve the legislation and the securities market infrastructure. In 2019, aspects of the GSS function as a tax agent and disagreements with senior depositories became an important issue of collaboration between market players and infrastructure providers. GSS Representatives also participated in NSD workshops regarding the impact of legislative changes introduced by Law 514-FZ on the custodians' activities.

Financial Markets

Financial markets are traditionally sensitive to major economic trends. For instance, last year the relatively low investment activity of companies and propensity for accumulation influenced the Bank's business. As an example, the Bank managed to significantly diversify its customer base in terms of raising liabilities and increase the efficiency of deposit management, which had a certain effect on the financial results. Furthermore, despite the low activity of customers in general, it managed to ramp up FX operations in all customer segments, which happened both due to the development of relations with current customers and the attraction of new ones.

In the reporting year, the Bank continued expanding its range of derivative products. A special focus was made on the management of commodity and interest risks for corporate customers, to provide more comprehensive services, enhancement of the bank product penetration, and reduction of credit risks through hedging the financial risks of companies. The Bank continues responding promptly to changes in the corporate sector and plans further steps to launch new derivative products in 2020.

2019 proved to be very favourable for the Russian corporate bond market. Throughout the year, the Bank took further active work with leading issuers of the debt market and successfully placed issues of Russian and foreign companies and banks such as: Toyota Bank, Volkswagen Bank, EDB, RN Bank, DOM.RF, EuroChem, Acron, Lenta, and others.

Corporate Finance Advisory and Capital Markets

In 2019, the Bank's high performance in the corporate finance advisory and capital markets area extended and resulted in three M&A deals in Russia, as well as in four issues of Eurobonds of Russian issuers abroad. The Russian and global teams of the Bank continued their effective collaboration in the process of strengthening relations with existing customers and attracting new ones, to execute ongoing mandates and involving the Bank in new projects.

In 2019, the Bank acted as a financial consultant in the field of mergers and acquisitions under the following projects that ended up in successful transactions: consulting services to a shareholder of MOSITALMED Group regarding the buyout of 45% of shares from the insurance company MAKS (January 2019), consulting services to RESO-Garantia regarding the acquisition of the ERGO Group property insurance business in Russia (June 2019), and consulting services to the shareholder of the Pyatigorsk Dairy Plant on buyout of a 50% stake in the company and a 50% stake in the Voroshilova Village Agrofirm from a financial investor (October 2019). The joint efforts were made within 2019 to provide a wide range of Bank products and services to the current regional customers, as well as to keep up an active dialogue with key accounts resulted in a major portfolio of prospective transactions that the Bank plans to implement in the coming years.

UniCredit Bank is among the most active leaders of the Russian bond market. The Bank's strong relations and expertise make it a key expert partner for Russian key clients. This enabled the Bank to act as a joint lead manager and/or joint bookrunner in the following placements: Eurobonds of EuroChem (USD 700 mln, March 2019), "green" Eurobonds of Russian Railways (EUR 500 mln, May 2019), Eurobonds of NLMK (USD 500 mln, May 2019), as well as Eurobonds of Uralkali (USD 500 mln, October 2019). Russian Railways became the first issuer of "green" bonds in Russia and the CIS and opened up the market for future placements. UniCredit Bank acted as an agent for structuring "green" bonds, bookrunner and road show coordinator in that placement and provided support for the company from early preparation up to successful completion of the transaction. Comprehensive preparation of the transaction provided for good perception of the ESG (Environmental, Social and Governance) information by the market and community of investors in "green" bonds. The Bank continued building up relations with Russian companies for better understanding of their needs, which will enable it to go on with successful activities in this field subject to positive market trends and favourable conditions.

UniCredit Leasing

2019 was another year of stable and dynamic growth of the key business indicators for UniCredit Leasing. The company held its market position and even improved it in some aspects. At the year end, UniCredit Leasing showed a sustainable positive trend in all the performance indicators at a level above the market average.

The leasing portfolio of UniCredit Leasing grew by 23% in RUB equivalent, while the growth of new business amounted to 27% year-on-year. Over 3,660 leasing contracts were executed. Moreover, the growth rate of operating income was 11.7%, while operating costs increased by 9.9%. Thus, the net profit of UniCredit Leasing after tax in 2019 was 20% higher than that of the previous year.

Qualitative performance indicators of the company were also under the scrutiny of the UniCredit Leasing management. In 2019, the company implemented a number of initiatives aimed at optimising its business processes and expenses. The cost/income ratio of 24.8% was achieved as a result.

A balanced approach to financing new leasing projects was kept up in risk management, and operational efforts were made with regard to problem-bearing leasing transactions. As a result, the leasing portfolio quality remained consistently higher than the market averages.

UniCredit Leasing continued the successful development of joint vendor projects with leading global manufacturers of various specialty vehicles. For instance, the volume of new business under the JCB Finance programme grew by 26% year-on-year. As many as 1,300 new JCB vehicles received finance. A joint leasing programme with BOBCAT was actively progressing.

In February 2019, the Ministry of Industry of Belarus and UniCredit Leasing LLC extended the agreement on the company's participation in the subsidy programme for specialty vehicles of Belarusian enterprises, which allowed UniCredit Leasing customers to raise leasing finance at a rate reduced by 2/3 of the key rate of the Russian Central Bank. By late 2019, UniCredit Leasing had provided leasing finance to its customers with RUB 2.84 bn of subsidies from the Republic of Belarus, and thus significantly increased the figure year-on-year.

In 2019, UniCredit Leasing actively integrated electronic document flow management processes and significantly increased the list of documents that may be signed with partners in electronic form. By late 2019, about half of UniCredit Leasing's current partners joined the EDFM system. The number of documents signed and transmitted through the EDFM system over two years of its operation exceeded 200,000 pcs.

In 2020, as part of the current strategy, the main priorities for UniCredit Leasing will be to continue the stable organic growth in the business volumes and customer base subject to keeping up high quality indicators. UniCredit Leasing believes that further development of business with the UniCredit Bank's customers, development of joint leasing programmes with global manufacturers of specialty vehicles and equipment, attraction of new customers, alongside with participation in state leasing subsidy programmes, are important components of the next year's plans. Besides, further efforts will be made to improve business processes, optimise leasing services, as well as develop information and IT systems of the company.

Private Banking

As at the end of 2019, UniCredit Private Banking Russia demonstrated an increase in the average volume of assets per household by 26% versus 2018. As a result of successful collaboration between the Corporate and Investment Banking Unit and UniCredit Private Banking, the volume of customer TFA (total financial assets) and the number of customers also grew significantly.

Report on the Bank's Activities (Continued)

Corporate and Investment Banking (Continued)

The Bank's customers trust the professional approach of UniCredit Private Banking to the investment strategy development and capital expansion. On 7 October 2019, AO UniCredit Bank was included in the Unified Register of Investment Advisers maintained by the Central Bank of Russia. UniCredit Private Banking has developed the Terms and Conditions for investment consulting so that customers can profit from individual investment recommendations in accordance with the investment profile.

UniCredit Group's global investment strategy, expertise, and in-depth analysis enable UniCredit Private Banking to cooperate with the following major global partners in the long term: Amundi Asset Management, Franklin Templeton Investments, Schroders Investment Management, and JP Morgan Asset Management.

UniCredit Bank earned the Russian Private Banking Award 2019 by Frank Research Group in the Best Private Banking Customer Service in Russia category for the second time.

Besides, UniCredit Private Banking was ranked among the TOP 5 Russian banks for wealthy customers according to the Forbes Russia magazine for the first time in 2019 .

At the annual Spear's Russia 2019 Award Ceremony, Igor Ryabov, Head of UniCredit Private Banking in Russia, was awarded in the Gentleman of the Private Banking and Wealth Management Industry category held by the Spear's Russia specialised edition.

UniCredit Private Banking considers enlightening in the field of private finance, business and capital succession as one of its major challenges, and regularly provides customers with the opportunity to participate in events and conferences dedicated to the main trends and vectors of the market development, investment ideas, and overviews of the tax and legal aspects of legislative changes.

UniCredit Private Banking also keeps up the tradition of attracting customers' attention to the important events of cultural life both in Russia and abroad. In 2019, a new project was launched in collaboration with Mastercard and the Arzamas educational website devoted to the bright events in the world of art. Throughout 2019, monthly podcasts were released specifically for World Elite Mastercard holders of AO UniCredit Bank dedicated to the topical exhibitions of 2019 in Russia and abroad. The "Why did I see this?" podcast series climbed up to the first line among podcasts in the Podcasts app of the iOS operating system several times during 2019, which proves the high demand for this product. Furthermore, customers had the opportunity to visit the Arena di Verona festival in Verona, the Pushkin State Museum of Fine Arts, and the State Academic Mariinsky Theatre in 2019. The traditional autumn event of UniCredit Private Banking in the building of the Bank's long-time partner – Pushkin Museum of Fine Arts – and exclusive tours to the "Shchukin. Biography of a Collection" exhibition, as usual, aroused keen interest of the Bank's customers.

The open rehearsal of the SOUND UP symphony orchestra conducted by Robert Ames, held in the Zaryadye Concert Hall, Moscow, specifically for UniCredit Private Banking customers dedicated to the presentation of AO UniCredit Bank's new Visa Infinite card to be launched in 2020 turned out a perfect final chord of the year.

Capital and balance sheet management.

We will continue to take decisive actions to increase our flexibility, with a proactive approach to capital allocation, both top down and bottom up. In Team 23, one key commitment is to maintain a CET1 MDA buffer between 200 to 250 basis points.

Retail Banking

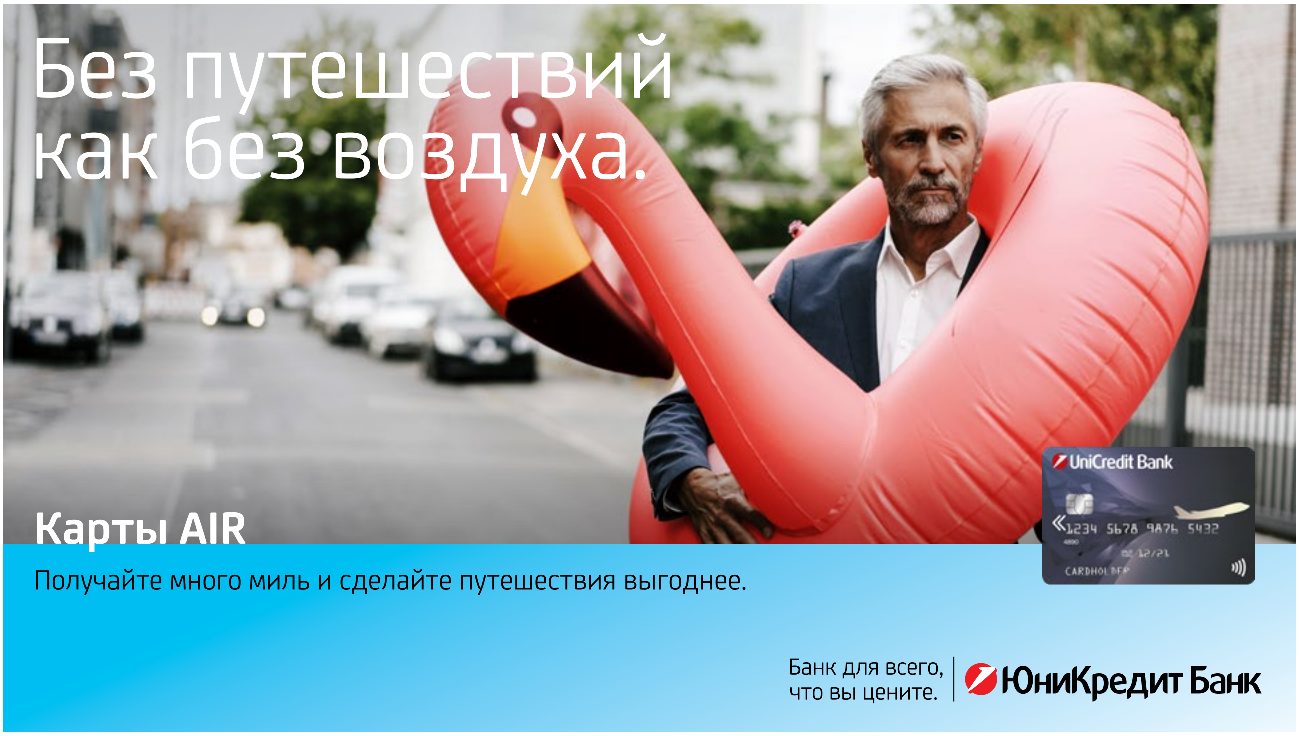
> “The key directions of the Bank’s retail business development are to increase its active customer base, keep up the market share in lending, develop remote service channels, and create a sustainable financial model with the proper risk level.”

Mikhail Povaliy
Member of the Management Board

2019 was a successful year full of important events for retail of UniCredit Bank:

- The targets were achieved in terms of income, number of active mobile customers, loan portfolio, and liabilities portfolio
- The focus on attracting customers helped increase the customer base by 6% year-on-year – the number of private customers at the year end reached 2.3 mln people, and the number of customers – small and medium businesses – grew up to 25 thousand
- The Bank showed the historic high volume of mortgage and consumer loans
- The customer base growth and sales results increased the retail share in the Bank’s income structure from 34% up to 35.4%.

The most important event of 2019 was the launch of a new customer-oriented retail model. Changes in the organisational structure made the retail switch to a flatter (matrix) management model, which will significantly accelerate the processes of decision-making and responding to market changes. Besides, strategic segments – small and medium businesses and wealthy customer segment – were strengthened.



In 2019, the Bank's mortgage product earned the Banki.ru award in the Mortgage Loan of the Year category for its offer Apartment Loan. The purpose of this financial award is to identify Russia's best financial institutions at calendar year-end, provide customers with accurate and unbiased information so that they could choose a reliable corporate partner, and business — with benchmarks for continuous development.

In addition, the Bank ranked second in the list of TOP-10 banks giving the best advice via the online chat. The survey was carried out by BancRF.ru portal. The banks were rated by reference to the advice quality (precision, comprehensiveness, and conciseness) and response speed. The time spent to obtain advice, in particular, the connection time, was rated as an additional criterion. In the end, UniCredit Bank earned 19 points out of 20 for the quality of advice via the online chat.

2019 was the final year of the UniCredit Transform 2019 strategic plan implementation. At the year end, UniCredit Group presented its new Team 23 strategy that served the basis for a new retail strategy till 2023. The key directions of the Bank's retail business development are to increase its active customer base, keep up the market share in lending, develop remote service channels, and create a sustainable financial model with the proper risk level.

Bank Cards

In 2019, when developing the range of debit and credit cards, special attention was paid to improving the offer for two customer profiles widely represented in the market: active travellers and car owners. In order to keep up the high competitiveness of products, the key price parameters of upgraded cards were set out, and the terms and conditions of the loyalty programme and reward system for card transactions that directly influence the customer transactional activity were completely revised:

- Rare market options were added to AIR cards: purchases abroad at the Central Bank rate and 30% miles cashback in Duty Free shops. As combined with the new travel.unicredit.ru platform for buying air and rail tickets, booking hotels with miles or RUB, the card became more attractive for those who like to earn miles and travel
- AutoCard is now interesting not only for owners of private cars, but also for modern city residents who use taxis, car sharing, and public transport. AutoCard holders now get cashback up to 10%, including for expenditures in these transport categories.

As a result, active customers started using the Bank's cards several times more actively.

The development of credit cards was aimed at simplifying the process of obtaining the product: the process of getting a card at the branch

Report on the Bank's Activities (Continued)

was optimised for those who have already raised a consumer or car loan – now, they can get instant approval and immediately pick up a card. Customers highly appreciated the improvements, which enabled the Bank to increase sales of credit cards by over 20% versus 2018. The Bank will continue improving the credit card obtaining processes and plans to provide its current customers with the opportunity to get a card without a visit to the Bank's office in 2020.

Pursuing further development of fast and convenient money transfer mechanisms, UniCredit Bank joined the Bank of Russia's Faster Payments System (FPS) in 2019. Now the Bank's customers have a simple way to make or receive an instant transfer in RUB using the phone number only as details. In 2020, further to transfers between individuals, it will be possible to pay for goods and services through the FPS.

Credit Products

Consumer Loans

2019 witnessed record-high sales of consumer loans in the Bank's history to date. As compared to last year, consumer lending gained 3%, with 94% of sales accounted for by cross sales reaching a total of RUB 35 bn.

Mortgage

As for mortgage lending, 2019 turned out the most successful year for the entire history of the Bank in the mortgage market.

In 2019, about 11.5 thousand mortgage loans were issued, which is 36% more than in 2018. The volume of loans extended in monetary terms amounted to RUB 30.9 bn, which is a record-high indicator for the Bank.

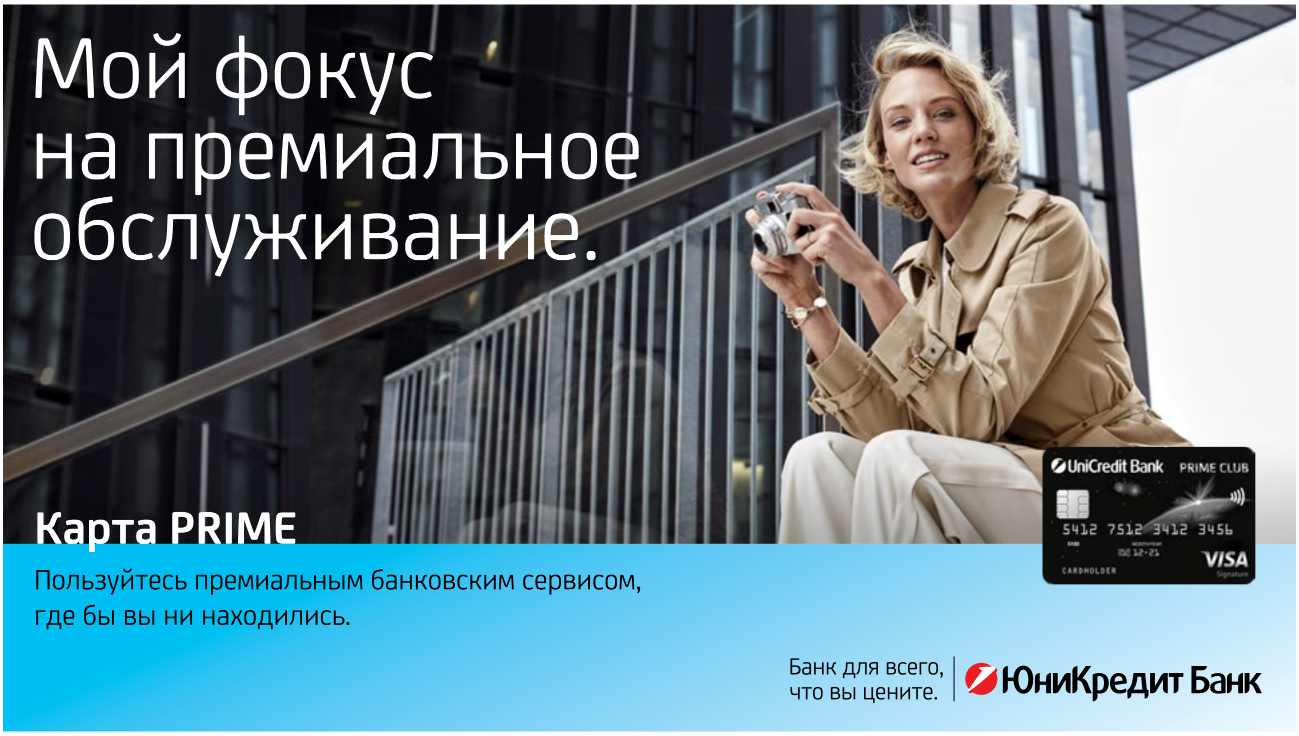
In 2019, the course was focused on the development of lending in the primary market. The share of such loans amounted to 17.6% of the total volume of loans extended. The list of lending programmes was also significantly reduced and the rate matrix was simplified, which made the product range more convenient and understandable for customers.

Car Loans

In 2019, UniCredit Bank extended 32 thousand car loans worth RUB 43.6 bn. The total portfolio of car loans grew up to RUB 61.7 bn.

Key achievements of the year are as follows:

- start of cooperation in Russia with global auto manufacturers – Cadillac, Chevrolet NAV, Haval and JAC – almost 90% of the customers attracted thanks to these partner relations became new customers of the Bank
- the Subscription Project implemented together with VOLVO that supported the current trend
- integration with the Pension Fund of Russia and providing customers with a reduced interest rate subject to the income and employment confirmed online – the first among banks in the car loan market
- issue of electronic vehicle certificates of title
- participation in the First Car and Family Car state support programmes.



Savings, Investments, and Insurance

Throughout 2019, the market continued to decline in interest rates not only for loan products, but also for basic savings products: deposits and savings accounts. However, even in such economic situation, UniCredit Bank showed a more active growth of the liability portfolio of individuals compared to the average of the banking sector. The Bank's liabilities growth for the year amounted to 9.11%, mainly driven by the growth of the term deposit portfolio (by 12%). The "Growing Together" deposit dedicated to the Bank's 30th anniversary was offered to current customers and new investors throughout the year. The deposit was promoted not only on the main Internet platforms with banking products, but also on billboards in Moscow, St. Petersburg, and other cities within the Bank's geographic reach. The strategically developed marketing campaign provided for 33% more new customers at a lower cost of attraction than in 2018.

In view of the higher customers' interest in programmes including regular health checks and treatment of critical diseases in 2019, such product sales grew by 10% versus 2018. The increased interest in such programmes urged the Bank to offer another product – #Health – at an affordable price to its customers.

In 2019, current investment strategies were updated and new ones were launched within the life insurance programmes, which are expected to provide customers with a higher level of return on investment.

Besides, in response to the customer wishes, UniCredit Bank has been offering one of the best exchange rates for USD and EUR in the Enter.UniCredit online banking and Mobile.UniCredit mobile app to the PRIME and EXTRA holders since December 2019.

Strategy and Results in 2019 (Continued)

Retail Banking (Continued)

Small and Medium Enterprises

2019 was the year aimed at improving processes, products, and services for customers of small and medium businesses. The loan portfolio of the segment remained stable both in volume and in quality.

In the first half of 2019, a new corporate card with bonuses from OneTwoTrip was launched and the range of financial bundled services was substantially updated, which fully meets the needs of small and medium business customers.

Major improvements were made in the management of foreign currency settlements:

- customers' payment orders in USD or EUR submitted to the Bank within banking hours are performed on the same day
- prolonged banking day for payments in foreign currencies and RUB in favour of non-residents.

In July 2019, the Bank launched a new pre-approved pilot offer for existing customers – a one-time loan without collateral for up to RUB 4 mln.

The customers who had requested for commercial realty acquisition enjoyed a campaign to raise a loan at the rate of 9.5% p.a. in late 2019. In general, the sales of the Commercial Mortgage product to SME customers grew by 87% in 2019 versus 2018.

In terms of price conditions, the commission fee for issuing unsecured bank guarantees was cancelled and the rates on lending products were reduced in accordance with the market trends and dynamics of the key rate in 2019.

Besides, the list of SME Support Funds whose guarantees are valid for UniCredit Bank loans was increased – the list now includes SME Lending Support Fund, a microcredit institution (St. Petersburg) providing guarantees up to 50% of the loan amount.

In 2020, the Bank will continue improving products and processes. It plans to revise the current range of bundled services and introduce functionality for crediting cash to a settlement account through ATMs. A special focus will be made on the SME customer satisfaction and product offer improvement in accordance with the needs and expectations of customers.

One of the important improvements planned for 2020 is the longer banking day for payments in foreign currency.

Mobile and Internet Bank

Preparation for implementing a full-scale system of digital sales of banking products using remote channels and further improving the customer satisfaction with remote banking services were the main priorities for 2019.

In 2019, the Bank provided customers with the opportunity to receive personal offers of products and services directly in the mobile app and in the Internet bank. These features were launched in March 2019 and in less than a year customers received over 19 mln personal offers. Right in the app, one can respond to the offer and fill out a preliminary application for a consumer loan, car loan, mortgage or credit card, followed by signing lending documentation at the Bank's office. One can also refuse to receive offers. The plans for 2020 include an opportunity for customers to get a loan without visiting the Bank, through one click in the mobile app and signing contractual documentation with electronic signature.

The Bank started notifying its customers of the need to update personal data as per the Federal Law on Countering Legalisation (Laundering) of Criminal Proceeds and Financing of Terrorism, in advance through remote services, within the framework of the know your customer (KYC) process. Now, a customer can use the internet bank to update some personal data unless the ID document is changed. In the future, the Bank plans to provide customers with the opportunity to remotely confirm changes related to the ID documents too.

As at the end of 2019, the number of active users of the mobile app grew by almost 79 thousand, while the active customer base penetration rate of the mobile app reached 46%. As a gratitude to customers for using the app, at the end of the year the Bank held the traditional New Year campaign in the mobile app with game mechanics and big prises. Over 11 thousand users took part in the campaign.

In 2020, the Bank will make further efforts to increase the number of users both in absolute terms and in terms to the share of "mobile active" users within the customer base.

Call Centre

In 2019, the Call Centre processed over 2 mln requests from customers: phone calls, chat messages, emails, and internet bank requests.

The Call Centre as a share of the total retail sales of the Bank showed the following results for 2019:

- over 50% for consumer loans
- over 20% for SME bundled services.

The following projects were implemented to simplify the processes for customers:

- remote filing of a mortgage application – now the customer needs to visit the Bank's office only for the deal
- manager's visit to the customer to conclude an agreement for settlement and cash services in the SME segment.

Besides, 2019 was dedicated to strengthening the team of the Call Centre aimed at improving the customer service quality, so the HR outflow from CC was reduced by 41%.

The key focuses of 2020 are to expand the functionality and improve the remote services.

Retail Network

In 2019, a queue management system was installed in 52 branches of the Bank in Moscow and St. Petersburg, which helped improve the quality of customer service, as well as to receive advanced analytics on the customer flow and customer behaviour in the branches. The plans for 2020 include spreading the system to distant regions.

Service Quality & Customer Satisfaction

High quality of service is one of our key priorities. The Bank constantly monitors the customer satisfaction and responds to enquiries through various channels including open sources. In 2019, the average response time for customer complaints was 3 days for the affluent customers and 7 days for customers in other segments, while 50% of complaints were processed within 3 or less days.

In 2019, the Bank kept up consistently high customer satisfaction indicators both for retail and corporate customers. The Bank's Net Promoter Score (NPS) in the retail segment reached +58% at year-end 2019, exceeding the market averages.

In 2019, the Bank continuously developed the customer feedback monitoring process that makes it possible to respond to the instances of dissatisfaction with the service quality promptly. Thus, in 2019, the Bank processed over 100,000 comments provided by customers and used this feedback to further optimise the Bank's processes, products, and services.

Risk Management

> “Commitment to UniCredit Group’s values, high risk culture of the whole team of the Bank as well as “Do the Right Thing!” guiding principle are shaped into a solid foundation for the Bank’s sustainable business strategy that is reliably backed by an advanced and integrated risk management system.”

Svetlana Zolotareva
Member of the Management Board

The Bank’s strategic mission is mainly focused on sustainable income through maximum productivity to be achieved by means of more efficient business processes complemented by the proven discipline in risk management and capital allocation. The Bank’s stable, sustainable, and competitive business rests on a flexible business model and systemic approach to managing all material risks. The Bank has been consistently improving the efficiency of its risk and capital management system, covering all its internal processes. In 2019, the Bank strictly complied with the high standards of UniCredit Group in terms of the economic capital assessment models for all material risks and stress testing methods to verify the risk taking capability. The Bank’s Internal Capital Adequacy Assessment Process (ICAAP) is in full conformity with the requirements of the Central Bank of the Russian Federation (Regulation No. 3624-U), the Basel Committee (Basel II, Pillar 2), and the standards of UniCredit Group. The high quality of the ICAAP implementation was confirmed by the Bank of Russia. The Bank carried out its annual verification of the map of material risks and their coverage by economic capital taking into account the new EBA guidelines, alongside with routine stress tests of the regulatory capital adequacy (in particular, using the method of the Central Bank of the Russian Federation), and the internal capital adequacy, which demonstrated the Bank's high stability under stress. Identification of the major units/authorised persons assuming risks, and the risk- return analysis for the business units were performed based on the quantitative methods of economic capital allocation. In the course of the IT infrastructure consistent improvement, the Bank continued developing its new risk platform.

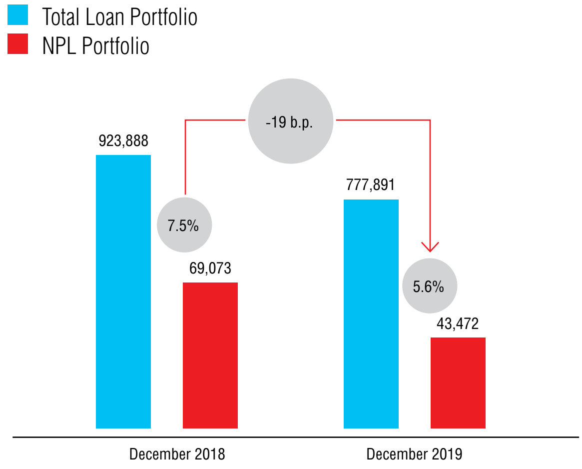
Commitment to UniCredit Group's values, high risk culture of the whole team of the Bank as well as "Do the Right Thing!" guiding principle are shaped into a solid foundation for the Bank's sustainable business strategy that is reliably backed by an advanced and integrated risk management system. The Bank's risk management policies and procedures are intended for the identification and adequate analysis of all material risks, and the determination of target, warning, and maximum acceptable levels of risk that can be assumed by the Bank to implement the business strategy, alongside with their continuous monitoring in the Bank's day-to-day activity. To properly manage the business models and strategic plans when choosing the desired risk-return profile, the Bank sets out the risk appetite framework integrated with the budgeting process and aligned with the target levels of the multi-year plan. Regular validation ensures an independent evaluation of the key models, systems, and processes in terms of performance and further improvement. This comprehensive approach enables the Bank to take timely remedial actions for all material risks and ensure the required levels of regulatory and internal capital adequacy to protect the interests of its customers, employees, and shareholders.

The Bank has been actively managing non-performing loans using the best Russian and European practices for more efficient management of the NPL portfolio and early identification of distressed assets. In 2019, the NPL share was reduced by 19 b.p. till 5.6% (with the level of the NPL portfolio coverage by provisions remaining stably high at 79.37%).

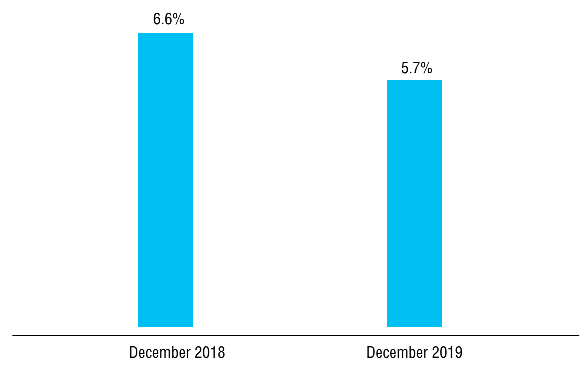
The Recovery and Resolution Plan of AO UniCredit Bank fully conforms to the requirements of the Bank of Russia, UniCredit Group, as well as to the international standards. In 2019, the Bank completed the annual update of the Plan taking into account Regulation No. 653-P of the Bank of Russia. The updated Recovery and Resolution Plan was timely provided to the Bank of Russia and accepted for information by the Bank of Russia's Committee on Banking Supervision. As part of the principles for effective risk data aggregation and reporting, the follow-through work aimed at keeping up the Bank's conformity to the Basel Committee's requirements (BCBS 239) at the local level within the UniCredit Group's project is successfully under way.

In 2019, the Bank continued to strictly adhere to the risk and capital management standards set by the Central Bank of the Russian Federation and the Basel Committee on Banking Supervision. All the

SHARE OF NPL PORTFOLIO IN THE BANK'S TOTAL LOAN PORTFOLIO,
RUB million



RATIOS OF LOAN PORTFOLIO COVERAGE BY PROVISIONS (IFRS) IN 2018-2019



Bank's key units are involved in the implementation and application of advanced risk management standards. The Bank's risk management policies are continuously reviewed and updated to reflect changes in the market context, products and services, as well as new and improved risk management methods. For instance, in 2019, the Bank implemented new policies of UniCredit Group with regard to certification and quality control of the data to be used in the economic capital assessment models for all the material risks and stress testing methods to verify the risk taking capability.

As the Bank continued to develop the risk mitigation tools, it revised its Collateral Management Strategy taking into account its recent experience.

Report on the Bank's Activities (Continued)

Within the assistance of the new competent body - the Risk Committee established in May 2017 - the Bank continued monthly regular coverage of the issues concerning the current risk profile, its correspondence to the risk appetite and risk strategy approved by the Supervisory Board to make operating decisions aimed at meeting the performance targets. The materials discussed during the retail and corporate sessions at the meetings of the Risk Committee made it possible for the Bank management to respond promptly, make effective decisions, and correct the business strategy so as to enhance the risk management quality in the Bank within the limits set out by the special rules and procedures of AO UniCredit Bank.

In 2020, the Bank will go on with a step-by-step development of the loan portfolio quality assessment models as part of the switchover to credit risk and regulatory capital adequacy assessment based on the borrower's Internal Ratings-Based Approach (IRB Approach). In order to improve the ICAAP, efforts will be continued to implement the new requirements of the Bank of Russia in terms of the Bank's portfolio interest risk management. The objectives concerning the improvement of the IT infrastructure and maintaining the high quality of data in the Bank's information systems in line with the principles of effective risk data aggregation and reporting are still relevant.

The Validation Unit performs independent audits of the Bank's various business areas such as credit and market risk assessment, as well as risk assessment under the IFRS9 framework. In 2019 the first in-depth validation of models, processes, and data in accordance with IFRS9 framework was performed. Further expansion of the analysis with retail focus is planned for 2020. Since 2019, the Bank has also been validating the Group Credit Portfolio Model and market risk VaR model on local portfolio, which allows to confirm the applicability of the Group's models to local data.

Expanding the scope of validation activities enables the Bank to perform internal independent assessment of the quality of the existing risk assessment approaches and systems and those being implemented, as well as to ensure more widespread compliance with the European and Russian risk management standards. Since late 2018, the validations have been carried out in collaboration with the Group Internal Validation. Co-signature of the final report at local and Group levels ensures compliance of the validation criteria with the global standards and best practices.

Corporate Credit Risks

To assess the risk in the corporate segment, the Bank carries out a comprehensive analysis of the borrowers' financial and qualitative parameters in order to obtain a full picture of the customer's activities and enable the competent bodies to make informed decisions. To assess the probability of corporate customers' default, the Bank makes use of the rating models developed for their sub-segments and referenced to their specifics. Customers are rated on a quarterly basis using all available information. These rating models and relevant rating processes have been developed in accordance with the requirements of Basel II standards for calculating capital requirements based on internal ratings.

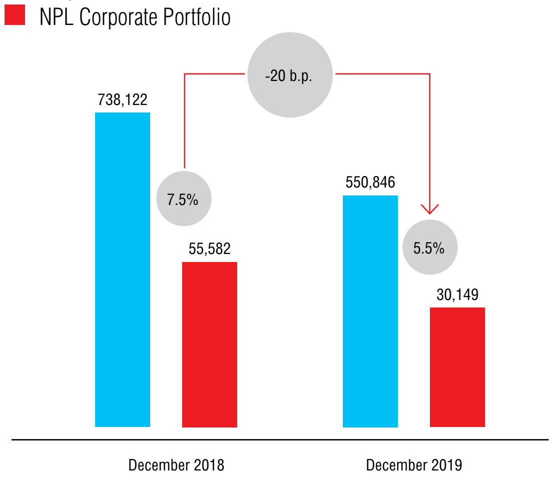
The rating models are updated and validated periodically, which ensures a better ranking of the borrowers by risk exposure, and therefore, making the lending decisions based on a more accurate assessment of the customer's creditworthiness.

To ensure more effective risk management in terms of the corporate loan portfolio, the Bank implemented a risk management industry specialisation model and established units, each of them charged with analysing the risks of specific industries/segments. This enables the Bank to analyse changes in individual industries quickly and accurately, adjust the strategies, and make informed decisions. Alongside with the industry-based approach, effective portfolio management is facilitated by the system of regional risk managers who are able to collect and analyse information on the situation in the key regions of the Bank's geographic reach and effectively manage the loan portfolio both by industry and by region.

Relying on UniCredit Group's common approaches to corporate portfolio management, the Bank annually adopts industry-specific risk strategies that guide the lending business in the current year. The goal is to maintain an industry-balanced structure of the loan portfolio with due regard to the macroeconomic forecast, relevant industry/segment development prospects, and assessment of the borrowers' creditworthiness (probability of default (PD) and expected loss (EL)). In 2019, all the set credit risk appetite portfolio parameters were fully complied with.

To ensure maximum performance, the Bank has implemented a decision-making system for the corporate segment loan transactions in accordance with the levels of the competent lending decision-making bodies depending on the requested loan limit and the customer's/customer group's risk level (probability of default). In 2019, almost all types of corporate loan transactions were still considered only by collegial bodies (Credit Committees), except for minor limits up to RUB 100 mln.

In 2019, the Russian economy showed just a slight growth, lower than in 2018. The situation of companies in almost all sectors has been rather complicated. Under these circumstances, the Bank has to



follow the policy implying quite a precautionary approach to lending, especially in relation to new customers. New lending customers were selected with great caution, while further relations with existing borrowers were traditionally subject to special attention. Alongside with thorough credit risk assessment, collaterals are a top priority as one of the major tools for reducing the Bank's losses in case the borrowers face financial problems. The practice of elaborating collateral strategies, primarily in relation to the customers having low credit ratings, was further developed in 2019. Collateral Management Unit developed a schedule of visits for 2019 to the borrowers/ collateral providers in order to inspect the collaterals, assess the Bank's collateral position, and draw up recommendations to enhance it.

A new Corporate Lending Workflow (CLW) IT platform is under implementation to optimise the corporate lending process, accelerate the lending decision-making, prepare loan documentation, and further generate a common credit file. 2019 was the first year of the CLW full-scale operation. Major corporate accounts are the first to switch to the new IT platform. All the corporate customer segments are to follow to CLW in the future.

Amidst the continued negative impact of geopolitical risks on the global and Russian economies, the growth rate of the Bank's corporate loan portfolio decreased slightly by the end of the year. However, the level of credit risks assumed by the Bank with regard to the procedures implemented by the Monitoring Unit remained the same and even showed a certain positive trend.

The Watch List Documentum Database is still the key tool for automating corporate monitoring processes of the Bank. It provides for the registration and analysis of negative data from various sources, NPL risk-related classification of customers, as well as the determination of a business strategy, and the establishment and follow-up of measures and action plans.

In 2019, the Monitoring Unit implemented a deeper approach to forecasting the prospects of customer migration to the NPL zone implying the development of various scenarios (optimistic, basic, conservative) for the 12-month horizon within the framework of further modernisation of credit risk management processes. The forecast is based on the results of joint discussions of the quarterly statements by all structural units involved in the lending process.

Non-Performing Loan (NPL) Management

Each loan extended is exposed to a certain NPL risk. UniCredit Bank uses all the available tools to mitigate this risk and applies an individual approach in each case if it occurs. Due to a completed range of initiatives aimed at reducing the corporate NPL portfolio in 2019, the NPL level lowered by 20 b.p. down to 5.5%.

Retail Credit Risks

The Bank has been optimising and developing the retail lending in 2019 based on detailed assessment of the changes being implemented and multi-level monitoring of the subsequent behaviour of the loan portfolio both in terms of the anticipated lending volume and the forecast risk level.

The key indicators of the loan portfolio quality are within the limits set out by the retail credit risk strategy.

In 2019, the borrowers' income assessment model was updated, and a new application scoring model for auto lending was developed and scheduled for implementation in 2020. This will allow the Bank to more accurately assess the credit risks assumed in auto lending.

Extra measures were taken to prevent auto lending fraud, so that the quality of auto loans stayed at the target level and the Bank incurred no losses.

Throughout 2019, the Bank was taking measures to improve the loan portfolio quality in the field of unsecured consumer lending subject to restricted high-risk and loss-making segments. At the same time, the lending terms and conditions for highly profitable and reliable segments were improved. Thereby in 2019, the Bank achieved a balance between risk and profitability in the field of consumer lending.

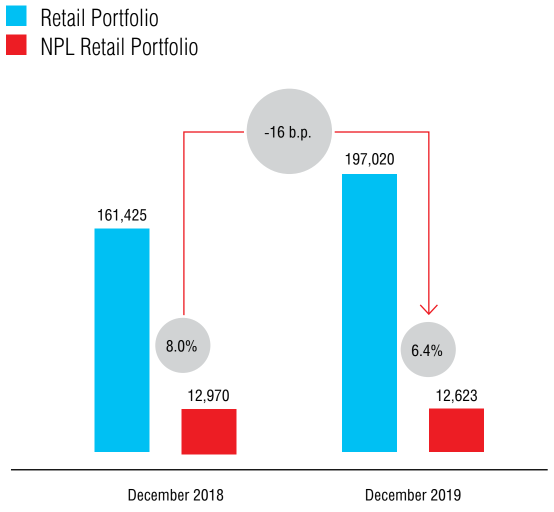
In 2019, the Bank implemented a procedure for DBI (debt burden index) calculation in retail lending as per the requirements of the Bank of Russia.

In 2019, the mortgage lending process and the accreditation process for developers and construction facilities were further optimised.

The process of receiving data on the customers' incomes from external sources was launched. In 2020, it is planned to use the data received under the credit analysis strategy. The data from the Russian Pension Fund (RPF) are already successfully used in the credit analysis process.

Last year, further development of the pre-approved approach to SME lending (the "Pre-Approved Loan" product) was supported by optimisation of the corresponding risk procedures.

SHARE OF THE NPL PORTFOLIO IN THE TERM RETAIL PORTFOLIO,
RUB million



A key development focus of the Bank's loan conveyor is to replace and update the risk decision-making system. The outdated system is currently under replacement with a modern solution. The new system is supposed to speed up the development of new models and the connection of new data sources in 2021.

In 2019, the Monitoring Unit continued implementing the second wave of the credit monitoring automation project in the SME segment pursuant to UniCredit Group's standards. The project work was aimed at filling up the CRM-system user interface with useful features (extended list of registered negative signals), as well as developing and implementing new business processes to manage the SME customers' credit risk, which provide for timely responding to the information of possible issues, and visualizing the NPL-related customer classification information.

In 2019, the Bank went on with the practice of selling NPL portfolios with an extremely low probability of debt collection. Besides, the Bank actively applied the practice of pilot projects to assess various debt collection strategies. As a result, the share of the troubled retail portfolio was reduced by 16 b.p. to 6.4%.

2019 saw further development of analytical approaches to NPL management resulting in the use of modern modelling methods to select the optimal portfolio strategies. Besides, a focus was made on developing the reporting process and strengthening control for the selected strategy implementation.

The Law on Loan Repayment Holidays for mortgage borrowers in force starting 2019 was successfully integrated into the existing processes of the Bank, despite the extremely tight deadlines for its implementation.

In 2020, the Bank will continue improving the retail credit risk management processes by implementing new statistical methods of risk assessment and enhancing the process technological effectiveness to ensure the successful development of retail lending with the target credit risk appetite kept unchanged.

Market Risks and Liquidity Risks

In 2019, the Bank continued improving the market risk and liquidity risk management system. The development of the control methods used by the Bank for these types of risk is based on the best practices of UniCredit Group and ensures the Bank's sustainability and reliability during turmoil in the markets.

The Bank exercises control over both the market risk due to trading operations and the market risks (interest rate and currency risks) arising from the Bank's business in general.

The metrics of sensitivity to certain risk factors, aggregated metrics (VaR, SVaR), as well as stress tests of the market risk and interest rate risk of the Bank Book are used for exercising control. IRC limits were set to ensure additional control over the Bond Trade Book.

Control over the interest rate position of the Bank Book is exercised both in terms of sensitivity of the interest income for a certain time horizon to the interest curve shift, and in terms of sensitivity of the total economic value of the Bank Book to various (including nonparallel) movements of the interest curve. When assessing the Bank Book interest risk, the Bank applies behavioural models for current accounts, early repayment (for the retail portfolio), and the NPL portfolio. All the behavioural models shall be approved by UniCredit Group's dedicated functions, but shall reflect the specifics of the market situation and the Bank's position.

Stress testing of the Bank Book interest rate risk is performed under the general market risk stress testing programme, both using regulatory scenarios (IRRBB standards) and own scenarios (both the Group-wide ones and those reflecting the local specifics).

Further to shifts in the interest rates, the Bank also measures the sensitivity of the Bank Book economic value to the structural liquidity market value (cross-currency basis spread). These data are used to calculate VaR for the total of the Trade Book and the Bank Book (and therefore, to calculate the economic capital adequacy ratios).

The existing wide system of limits, triggers, and metrics of the market risk ensures manageability of positions held by the Bank.

Particular attention is paid to keeping up the data quality by reconciliation of the Bank's information systems. In 2019, the Bank improved the currency position control quality, including as part of intraday management. The liquidity metric calculation tools standardised at the UniCredit Group were integrated to complement the local ones in the Bank. The Bank has been continuously revising the list of risk factors influencing the market risk assessments and analysing the reliability of the market data used. Starting from 2016, the market data reliability monitoring has been carried out within the framework of the Group's IPV process (Independent Price Verification) and is in conformity with the UniCredit Group's best practices.

The Bank's overall strategy towards the market risk and liquidity risk is set by the Bank's Asset and Liability Management Committee composed of representatives of the finance division, business units, and risk management. The Committee is held on a regular basis, weekly as a rule, and is promptly notified of all significant events regarding the market risk and liquidity risk. Any breaches of limits and warning levels at key metrics are also reported to the Bank's Management Board and the Supervisory Board. Alongside with the strategy, the Bank has liquidity and capital management policies and annually develops a Financial Stability Recovery Plan.

The Bank measures and limits the short-term liquidity ratio H26, structural liquidity ratio H28, and a set of internal management metrics (both for the short-term liquidity and structural liquidity). The internal metrics also enable to control over the foreign-currency liquidity situation, and concentration of liquidity sources by maturity and counterparty.

In order to effectively manage the time structure of assets and liabilities, the Bank regularly performs stress testing of short-term liquidity according to the scenarios provided by UniCredit Group and the local methodology developed on the basis of the Russian market specifics. Stress tests make it possible to assess both the total available liquidity and the available foreign-currency liquidity.

The findings of the short-term liquidity analysis, including data obtained through stress testing, provide the basis for the monthly Funding Plan to be approved by the Asset and Liability Management Committee. The Plan development also rests on the evolution forecasts of both management and regulatory liquidity ratios and the relevant limits. The monthly Funding Plan and the annual Financial Plan are subject to verification for risk appetite compliance and the Bank's strategy.

The amount of the liquidity available to the Bank remained quite comfortable and the risk profile met the target throughout the year.

The assessment of market risk economic capital components takes into account all positions of the Bank Book and the Trade Book. The internal model covers:

- general market risk for foreign exchange positions
- general and specific market risk for debt instruments
- risk of credit ratings migration in the Trade Book
- basis risk
- interest risk of the Bank Book
- credit spread risk
- credit valuation adjustment (CVA).

The business process of selling financial derivatives to corporate customers is governed by the internal policy compliant with the Russian laws, requirements of UniCredit Group, and the best European practices. The use of counterparties' credit limits under the derivative transactions is calculated daily using the UniCredit Group's methodology and infrastructure.

Report on the Bank's Activities (Continued)

Operational Risks

The Bank has been making efforts to adapt operational risk management methods to the requirements of the Central Bank of the Russian Federation and Basel Committee for operating capital calculation and application of operational risk management, monitoring, and mitigation tools in accordance with the changes in the approach of UniCredit Group.

The Operational Risk Committee is heavily involved in reviews and decision-making on the operational issues relating to operational risks and their impact on the Bank's business. The development of risk culture in the Bank promotes a wider line-up of the Committee and enables the employees not directly involved in performing the risk management function to participate in the processes of operational risk management. Participation of divisional operational risk managers in the Committee's work ensures an ongoing exchange of important and relevant information between the functional units (divisions) and individual units bearing or assuming the risk.

To improve and maintain the effectiveness of the Bank's operational risk management, a permanent workgroup persistently identifies the most material operational risks and takes the necessary steps to mitigate exposure to such risks in a timely manner. This is achieved by developing the relevant remedial actions and monitoring their implementation based on the professional experience and expertise of the workgroup key members – the Operational Risk Office and the Internal Audit.

Under the Group's strategy, the Operational Risk Office pays special attention to information security and IT-system risks, control procedure violation risks, legal risks, HR risks, customer loss risks, cross-credit events, and other risks managed in close collaboration with the Bank's units involved. With this aim in view, the Bank expands and updates its set of key risk indicators (KRI) related to operational risk, which is a comprehensive tool for risk monitoring and early prevention, and provides the Bank with detailed information on its operational risk profile.

To monitor the Bank's exposure to operational risk, the expected loss from operational risk (ELOR) ratio is used, with its limit and warning values set under the approved operational risk appetite methodology. The metric reflects the ratio between the expected operational loss and the budget income. The values of the expected loss from operational risk are calculated on a quarterly basis at the level of UniCredit Group and provided to the Bank for monitoring. A report on these indicators is quarterly submitted to the Bank's Management Board and Supervisory Board.

Over the year, UniCredit Bank, together with other systemically important banks, was taking part in various conferences related to the plan of the Central Bank of the Russian Federation to introduce the Regulation "On Requirements for the Operational Risk Management System in a Credit Institution and Banking Group" starting from 2022. The document was developed in accordance with the decision of the Basel Committee on Banking Supervision that specified the approach to assessing the operational risk for calculating the statutory capital ratio under the Basel III standard in December 2017. In accordance with the requirements set out by the Regulation, the Bank will have to collect information on losses from operational risk events for at least five years, taking into account the requirements for the system of operational risks and classification of events – from management's errors and regulator's actions to legal costs due to harassment and discrimination against nationality – with the damage to be calculated within the framework of operational risk management.

In 2020, the Operational Risk Office will pay special attention to data collection in accordance with the new requirements of the regulator, and the Bank will enjoy further sustainable development of the operational risk management and control process, as well as its optimisation in terms of sensitivity to internal and external changes.

Reputational Risks

As a part of a leading European Group, the Bank pays particular attention to the credit institution's reputation. In 2019, the Bank proceeded with upgrading the reputational risk management system. The reputational risk occurs during the lending of the Bank's customers if the intended purpose of funds fails to conform to the applicable laws and social conventions. Given the current challenges in today's complicated conditions, the Bank optimised and adjusted both the monitoring mechanisms for the lending process to identify the reputational risk within the Bank's individual transactions, and the reporting system for this type of risk. The Reputational Risk Committee composed of Members of the Management Board made decisions on individual transactions that required a special approach to the assumption of reputational risks.

Disciplined risk management & controls.

We run the business with disciplined origination, enhanced business accountability and in-depth monitoring by control functions. Our reinforced governance and steering ensure targeted actions wherever necessary.
A Group culture driven by the principle: “Do the right thing!” means that each employee is part of the first line of defense.

Global Banking Services

"In 2019, a number of initiatives were implemented aimed at optimising the key IT processes, which ensured a 99.85% stability of IT systems. Significant budget savings were achieved through the introduction and active promotion of the Push technology."

Algimantas Kundrotas
Member of the Management Board

Organisation & Change Management

Following the Global Banking Services transformation in 2018, the Organisation and Change Management Department continued transforming the Bank in 2019. For instance, in order to improve the customer service quality and reduce costs, in 2019 the Bank launched a programme to identify ineffective processes of interaction between units that required regulatory updates, inadequate controls, and excessive activities, i.e. all that could affect partner relations between the Bank and customers. A number of strategic business projects are under way to further develop retail lending services and enhance the functionality of the lending process platform for corporate customers.

In 2019, a range of projects to improve the customer service quality were successfully completed, including the most significant one concerning the connection of the Bank to the Faster Payments System (FPS). That project enabled individuals to make instant transfers to other banks by phone number via the internet bank and mobile bank round the clock.

In the first quarter of 2020, it is planned to connect to the new FPS service for individuals to transfer money in RUB to legal entities online using the service of instant payment for goods and services in retail stores and on the Internet using a QR code.

In 2020, the priority is to successfully complete ongoing business projects and launch the new ones in the field of regulatory demands and security requirements as a prerequisite for successful development of the Bank's products and services.

Information Technology

As part of the leading European UniCredit Group, the Bank pays special attention to the management of IT and information security risks, which was a key focus of the IT Department in 2019. Most of the resources were allocated for upgrading the obsolescent workstations and installing updates timely, enhancing the security of the Bank employees' work processes with external devices and removable media, access to the Bank's resources from an external networks, and in the exchange of information between the information systems of the Bank. Much attention was paid to improving procedures for managing access rights to information systems, as well as ensuring the proper level of security when using email. In order to timely identify security threats, the Bank has implemented a network traffic analysis system.

In 2019, a number of initiatives were implemented aimed at optimising the key IT processes, which ensured a 99.85% stability of IT systems. Significant budget savings were achieved through the introduction and active promotion of the Push technology.

At the year end, the IT strategy for 2020-2023 was updated based on the results achieved, internal and external business context, as well as the Group IT strategy for 2020-2023.

Data Management

In 2019, the Bank launched a key project in the field of data management "DWH – Single Source of Truth", aimed at creating a single centralised source of unambiguously interpreted and reliable data, increasing the productivity of the existing corporate data warehouse, and implementing the ODS (Operational Data Store) to speed up reporting and expand analytics capabilities.

The top priority of the Bank is compliance with the regulators' data goverance requirements. For this purpose, the Chief Data Office Department detailed and agreed end-to-end data quality management processes. Besides, the Bank implemented modern tools to develop a holistic, structured and understandable Business Glossary, and also to ensure the relevance of the data lifecycle and to assign responsibility for data quality.

The Data Strategy for 2020-2023 was adopted in the end of 2019 to become a key priority in the field of the Bank's data management for the next four years.

Banking Operations

In 2019, the Operations Back Office Department continued optimising and automating internal processes. Robot-aided processes have been actively developed since the previous year. The RPA (Robotic Process Automation) Competency Centre at the Operations Back Office Department automated a number of operational processes, mainly in the field of currency control and payment processing. In 2019, the Bank also integrated robot-aided technologies in the full cycle of deposit processing. UniCredit Group pays special attention to robotic process automation too. The Bank is one of the leaders among the Group members and will continue developing robot-aided and small automation technologies to improve efficiency and reduce operating costs.

The Bank continued cooperating with partner banks, providing customers with the opportunity to cash withdraw using ATMs of Raiffeisenbank, Credit Bank of Moscow, Uralsib Bank without commission fees. In 2019, the partner ATM network was expanded due to merger of the partner bank Binbank with Otkritie Bank. Therefore, customers can use over 9,300 ATMs of partner banks in addition to 777 ATMs of the Bank.

The Bank has been developing contactless payment services for its customers' convenience. In 2019, Samsung Pay became available to individuals, while MasterCard cardholders can pay using Garmin Pay. Apple Pay, Google Pay, and Garmin Pay services can now be connected to the Bank's corporate cards. Further to the new payment method for corporate customers, the Bank offers a new MasterCard Business World product – the first business card with the OneTwoTrip loyalty programme distinguished by premium design that emphasises the unique features of the product and status of the owner.

The high service quality and successful development of the Bank's card business are regularly evidenced by awards and prises. In 2019, the Bank earned two Visa Global Quality Awards. The first award was earned for the highest authorization approval rate in cross-border consumer point of sale, the second – for the development of contactless payments.

The Bank also continues meeting high standards of payments as evidenced by another award of JPMorgan Chase Bank N.A., New York, for 2019. The Elite Quality Recognition Award was earned for the high quality of outcoming commercial payment orders in USD (99.81% of STP payments). According to JPMorgan Chase Bank N.A., less than 1% of customers making payments through JPMorgan Chase Bank N.A. earned the award this year. UniCredit Bank has been earning awards for the high quality of payments from JPMorgan Chase Bank N.A. for 18 years in a row.

In 2019, the payroll customer service processes were reviewed for higher efficiency, which allowed to extend the cut off time for dispatch of the payroll files from 4 p.m. to 7p.m. As a result, the number of payroll files from customers has increased significantly.

Support of customers' foreign trade transactions is among the Bank's priorities. The Bank daily helps customers to correctly assess risks, master all the subtleties of the currency legislation and prevent violations. This is especially in demand by SME owners starting foreign economic operations. According to the results of a customer satisfaction survey of the Bank's services in supporting foreign economic activity performance of the Bank's currency controllers in 2019 was highly appreciated by customers, which evidences the active development in this field.

Stock market settlements with customers were optimised thanks to the successful Cash Pooling project implementation. As a result the conversion transactions can now be carried out through transfers from the parent company's account. IT infrastructure development under the Commodities Derivatives project was finalised, so the Bank's corporate customers now can hedge the risks of goods price changes, for instance at OIL-Brent-ICE. Besides, a new Conversion REPO product was launched. The STP rate of MT202 USD interbank payment processing reached 99.44%. Active project work has been carried out for making changes in the securities accounting and meeting the requirements of the Bank of Russia for the internal accounting of professional players in the securities market.

In 2020, the Operations Back Office Department will continue improving the efficiency of internal business processes and keep up the high quality of customer service.

Real Estate and Facility Management

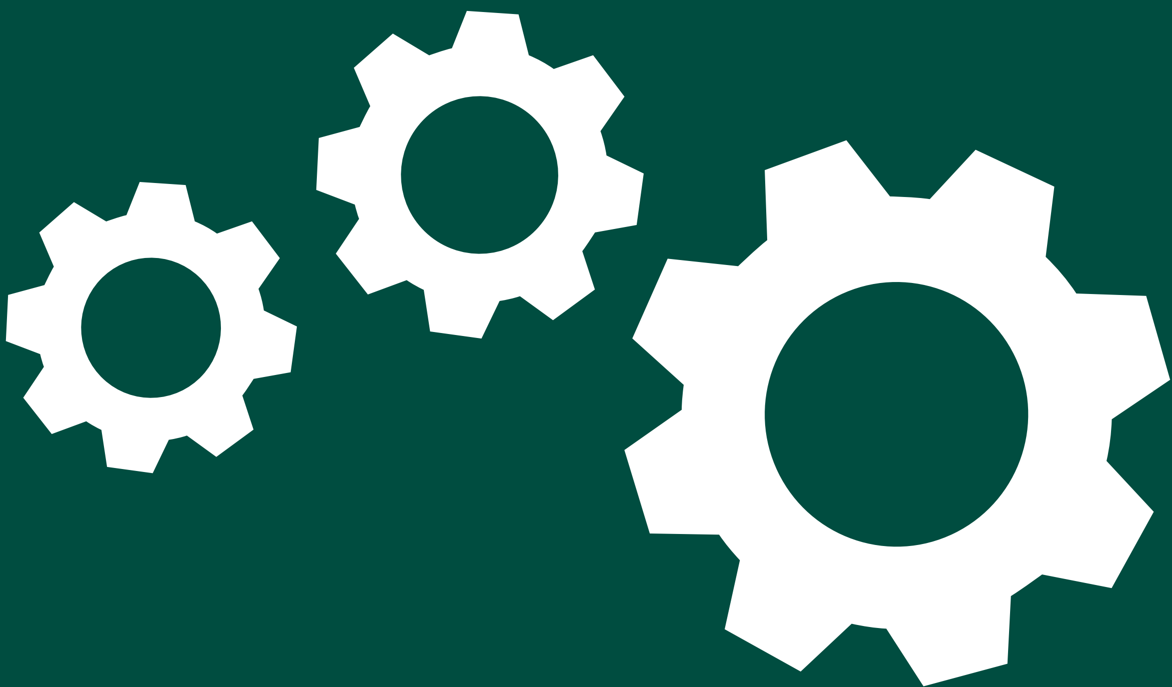
In the reporting period, the Real Estate and Facility Management Department achieved the highest results in improving the quality and efficiency of the Bank's real estate portfolio due to the successful sale of unused offices in Yaroslavl (680.7 m^2), Magnitogorsk (336.5 m^2), and Omsk (97.6 m^2), and the active use of the other vacant premises. For instance, following the new office reconstruction in the Stavropol branch (855.5 m^2) and the Volgograd branch premises, a full-format operational Bank Service Centre was established; a project was launched to relocate the Information Centre from Moscow to the free floor of the Volgograd branch (671.4 m^2) with equipment for over 115 workstations. To implement the UniCredit Group's open rational workspace concept, a project has been started to reorganise office premises of the Bank's main building at Prechistenskaya Embankment in Moscow.

In accordance with the banking network development plan for 2019, an additional Pervomayskaya office was opened at the new address in Moscow, a new Lublino additional office was designed, and the construction of Rogozhskaya Zastava Mortgage Centre is under completion. At the request of retail business to improve the functionality of the points of sale, the offices of Moscow, Nizhny Novgorod, Ekaterinburg, and Krasnodar were reorganised and repaired, plus over 20 facade signboards in regional offices were replaced, and the first stage of the electronic queue system installation in Moscow, the Moscow Region, and St. Petersburg was completed.

Throughout 2019, the Department was implementing the Group's environmental programme to improve the energy efficiency of the Bank's offices, including active participation in environmental and social events, as well as strict compliance with the requirements of the Federal Supervisory Natural Resources Management Service. 24 offices were checked and certified under the World for Everyone programme, and wheelchair ramps were installed at some facilities to ensure physical accessibility for our customers.

The missions of the Department for 2020 include reforming business processes and structures in order to improve the quality of material and technical support of the banking business, implementing a programme to increase the efficiency of office real estate, and improving the economic indicators of the Bank's facility management in accordance with the strategic plan of the Group.

Transform and Maximise Productivity.



Our customer focus drives the right process optimisation, leading to new ways of working. We will continue to maximise productivity across the value chain, improving processes and products while minimising operational risk. A great example of our transformation is the paperless bank, currently being rolled out across our networks.

Sustainability

> “UniCredit Bank uses the best global practices to manage its human capital. We are happy to observe the career development of our employees year after year as the Bank matures and grows.”

Valentin Timakov
Head of Human Resources

UniCredit Bank is a highly qualified team of employees whose development, involvement, and social support is a special focus of the Bank. As a highly efficient modern organisation, the Bank uses best global practices to manage its human capital, which has been many times evidenced by certification of the Top Employers independent institute.

In 2019, UniCredit earned the prestigious TOP Employer Award for the 8th time in Russia and the 3rd time in Europe. Each year, the verification process becomes more complicated because of continuous technological development and new HR standards and practices emerging. Under these circumstances, UniCredit Bank once again proved its high standards of an attractive employer through the provision of exceptional conditions for employees, development of talents at all levels in the organisation, confirmed leadership status in HR environment, and the urge for continuous optimisation of its practices and HR development.

Staff Recruitment and Employer Brand Development

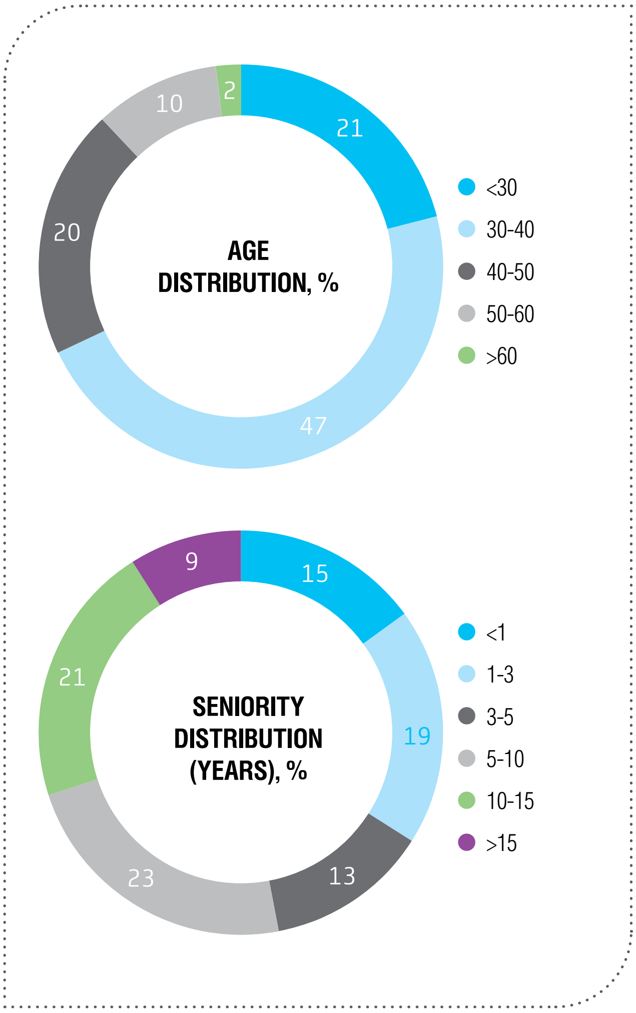
The Bank continues making a special focus on internal development of employees, so that 36% of vacancies are filled through internal transfers. The top priority of internal resources also enhances loyalty. For 2019, the Bank's employees recommended 7% more candidates to vacancies than a year earlier under MGM Referral Program. Over the last years, UniCredit Bank's recruitment rates for outside candidates have also been consistently high – 818 vacant jobs were filled in 2019.

Promotion of the employer's brand and value offer is a key priority of the Bank. In 2019, UniCredit Bank was represented on all major platforms promoting the HR brand: hh.ru, inplace, finexecutive.ru, Banki.ru.

Special attention is paid to attracting young specialists to the Bank. The "Let's start Together" internship programme continues to develop both inside the Bank and on the external market. In 2019, the Bank received 2,500 CVs of young talents willing to be part of the programme. We managed to place 62 interns into 24 departments, where they solving real business challenges and taking part in global projects for six months. As a result of the programme, 63% of the interns were offered full-time jobs with the Bank.

Good results were achieved in expanded cooperation with the Russian leading universities. In 2019, the Bank arranged a Financial Markets learning course for students, held 15 workshops with top managers, and was presented at all the key universities during job fairs.

The Bank follows modern trends and tendencies and became an official sponsor of the Cup Russia case championship for talented students, which had a positive effect on the UniCredit Bank HR brand promotion among young specialists.



Development of Employees

In 2019, the Bank was actively improving and enriching its eco-environment of learning and development with the main focus on digital formats. On-the-job learning, experience-based development, as well as development of talents and future leaders remained the top priorities. The just-in-time mode is now available for all the programmes further to the format of conventional prospective planning under the Goal Setting Process.

In 2019, via blended learning format we provided all employees with thoroughly selected learning materials with regard to the mostly demanded and relevant flexible skills, in line with the Bank's strategy, including time management, stress management, public speaking skills, emotional intelligence, etc. A range of mixed management cycle programmes was launched for managers in the fields of decision-making, effective delegation, team motivation, etc. Each employee has constant access to selection with videos and books that may help to solve a problem. Employees may enrol in an online webinar or a regular learning.

A remarkably good results were achieved though Leadership in Action project-based development approach – another campaign of the Business Leaders Lab leadership development project launched in 2019. The first campaign of the project enabled the launch of a series of business initiatives successfully delivered through cross-functional volunteering projects. Project teams brought up, explored, and implemented innovative ideas relevant for the development of the Bank. These activities were supervised by mentors from amongst the top managers and sponsors representing the Bank's Management Board members and made it possible for the participants to make major improvements in their skills in the field of cooperation, innovation management, decision-making, and problem-solving under uncertainty.

Sustainability (Continued)

Human Capital Management (Continued)

Non-conventional format, participants' proactive attitude, environment conducive to active cooperation beyond job functions and ranks, support on the part of top managers and Management Board members enabled prompt accomplishment of the relevant business tasks with minimum investments. The second campaign provided for creating a new pool of projects to be completed in 2020, which will make it possible to both accomplish additional business tasks and provide a new group of leaders with an opportunity to fulfil their potential, develop the skills relevant for the evolving business environment, contact network, and prove their worth as potential successors.

The 1st Time Managers On-Boarding induction programme for new managers of the Bank has become a tradition. It is based on the flipped classroom model and includes e-learning courses, interactive learning simulators, social learning, and face-to-face sessions. The PEER2PEER internal learning project development continued in an expanded format involving the Bank's partners. The project comprised learning sessions: internal and external experts acted as speakers, while the Bank employees studied peculiarities of various business sectors in Russia and gained experience in product areas. The primary objective of the project is still to accumulate internal experience followed by knowledge sharing between the Bank's employees and engagement of external experts to study the best practices in the market.

In 2019, as part of supporting transformational processes in order to expand the understanding of the modern digital world and possible use of innovative technology both at work and in private life, the Digital Skills educational programme was launched to enhance digital knowledge and skills. The programme identified core competencies necessary for employees, as well as the forms and methods of their development – video tutorials and webinars with participation of leading Russian market experts in the field of digitalisation, panel discussions, project assignments, and learning through expert communities.

Following modern trends in the field of educational activities, in 2019 the Bank launched awareness-building measures, thematic business breakfasts for customers, partners, and the financial and banking community on the topics of human capital development, strategic planning of human resources, and professional learning in the digital transformation era. The events were attended by over 300 participants.

In 2019, sales marathons and other types of modular micro-learning were actively integrated into Retail learnings. A cash-value life insurance (CVLI) sales marathon was held in the summer, when employees were daily, from 10 to 30 minutes, involved into continuous learning process in micro-format – short webinars, various assignments, experience sharing, participation in role-playing sales games – for a whole month. The marathon contributed to an over 20% increase in CVLI sales versus the previous period.

The rework rate reduction project in auto lending segment (-7.75%) also showed excellent results. The learning consisted of regular e-mails with correct and incorrect document formalisation examples and small assessments were used to check knowledge on the topic.

In late 2019, employees gained instant external access to Personal Portal through Internet. External access to portal is expected to increase usage rate and, consequently, overall involvement of employees in the corporate information environment. All improvements and upgrades will help to make Personal Portal one of key channels of internal communications.

37
Average age of employees
vs. 36 in 2018

7.1
Average seniority, years
vs. 6.7 in 2018

18.8%
Total turnover rate
vs. 23.1% average turnover in banking sector*

53%
Business population

48%
Managers are female
47% in 2018

* PwC PayWell survey

Social Programmes and Benefits for Employees. Diversity Management

In 2019, the Bank launched SMART Reward proactive employee retention programme, combining elements of financial and non-financial motivation, as well as social programmes being a major focus of the Bank.

The SMART Reward programme is applicable to each employee of the Bank and includes special offers and discounts from the Bank and partners, provision of Bank's products on special terms, lectures and master classes by external speakers; uses innovative solutions in the field of development through involvement in social and educational activities, cultural and creative events, establishment of hobby communities, and joint travels. During Health Days, the Bank's employees passed basic tests and underwent examinations right at the Bank's Moscow offices, while several Children's Days held by the Bank for the first time provided employees' children with the unique opportunity of visiting their parents' work place.

The SMART Reward programme also includes a Well-Being programme launched in 2019, which consisted of over 50 events with roughly 1,500 participants. Well-Being is a culture that supports various initiatives aimed at improving the well-being of employees in various fields. These are physical health and sports events, psychological support, social initiatives, and living space. The programme allows employees to find new interests, unleash their potential, improve health, and become more energetic.

In 2019, two new projects were launched – the Readers Club and the What? Where? When? intellectual games club. These clubs are informal communities of employees interested in development for success. The purpose of establishing the communities is to arrange meetings in the format of discussions to drive demand for knowledge, stimulate professional growth, and provide for informal intellectual communications.

The Bank has been traditionally providing its employees with voluntary medical insurance (VMI) for employees and their children, accident insurance, international travel insurance, corporate pension schemes, extra allowances for annual vacation periods, free meals, extra vacation days, extra allowance under temporary disability leaves.

During 2019 12 highly qualified foreign professionals were working in the bank, while 36 Russian employees were gaining experience in UniCredit Group. Percentage of females on top management positions is persistently high – 48%. Average headcount of Bank's employees in 2019 was 4,000, including 67% working in Moscow, 8% – in St. Petersburg, and the rest in other regions. Average age of employees increased up to 37 years old, while the average service record grew up to 7.1 years. The overall staff turnover rate declined as compared to last year and is consistently below the Russian banking sector's averages.

Being a member of UniCredit Group, UniCredit Bank observes all the relevant workflow management standards in the area of environmental protection, supports environmental initiatives, and motivates its employees to take care of the environment.

The Bank continuously implements multiple energy consumption controls at various facilities in order to minimise consumption, uses energy-efficient equipment and state-of-the-art technology focused on more sustainable real estate management.

In 2019, UniCredit Bank took part in the Earth Hour global initiative coordinated by the World Wildlife Fund (WWF) on behalf of UniCredit Group. It is the eleventh year in a row that the Group has supported the campaign since 2008. On 30 March 2019, the Group turned off the light in its 74 buildings in 14 European countries. This year, the initiative involved 31 offices of the Bank in various cities of Russia.

In 2019, the Bank again announced the winner in the environment protection category of the "You Can Help" annual contest of charity projects for Bank employees. This category welcomes applications both from Bank employees and from members of its social media communities. The winner – "My Planet" charitable foundation – was awarded RUB 472,000 to implement the project to recover the burned out forest of the Chelyabinsk Region because the challenge of recovering burned out forests is still highly topical in Russia. The project is to recover 3 ha of the forest in the Sosnovsky District of Chelyabinsk through planting 10,000 pine seedlings. Some trees have already been planted in October 2019, while another portion is to be planted in April 2020.

In September-October, the Bank launched a "Recycle Batteries – Save Nature!» campaign to collect used batteries. Four containers for collecting batteries were installed in the offices at Prechistenskaya Embankment, Butikovsky Lane, and Nagatino. The campaign lasted for two weeks. As a result, 60 kg of batteries was scrapped.

Furthermore, the Bank continued its productive cooperation with the "Second Breath" charitable foundation in 2019 by co-sponsoring the fifth "Free up Your Wardrobe" campaign. A container was installed in the Bank's Headquarters in Moscow to collect clothes, bed sheets, and other fabric products in any condition, as well as shoes and accessories in good condition. Over 350 kg was collected in total. Most of the clothes collected were donated through the charitable foundation to those in need and sold through Charity Shop. 30 kg was scrapped and as much recycled.

The Bank will further use innovative technologies to reduce our environmental footprint, costs, and operational emissions.

Sustainability (Continued)

Charity

UniCredit Bank's activities are closely related to the interests and needs of the present-day Russian society. The Bank has supported charity programmes for many years. The Bank applies clear and transparent criteria to evaluate and select the projects for support programmes in its charity activities. To that end, in 2016 the Bank established the Charity Council and implemented the Policy "Approaches, Principles, and Rules for the Management of AO UniCredit Bank's Sponsorship and Charity Projects" based on UniCredit Group's global policy in this field. The Charity Council reviews charity organisations' requests, and makes decisions on providing assistance and support.

UniCredit Bank performs its charity activities in the following fields:

- assistance to disabled people
- assistance in solving the problems of children's health (through foundations, orphanages, health care institutions, etc.)
- assistance to elderly people (including WWII veterans) as well as other disadvantaged social groups
- promotion of corporate voluntary events (including in the field of physical education and mass sports) within the Bank's geographic reach
- support for environmental projects.

"Find a Family" Foundation psychological training "Soft School".

Art Therapy Programmes: Assistance in Solving the Problems of Children's Health

The Bank has been supporting art therapy programmes as one of its charity fields for several years. Art therapy is critical for the recovery of minor inpatients. The health recovery process is well known to be dependent on the child's psychological and emotional condition. According to medical staff, minor inpatients change their behaviour drastically after art therapy exercises, which is often unexpected not only by their parents but also experienced doctors and psychologists.

"When They Need You" Foundation.
Art-therapy in a children's hospice.

In 2019, the Bank supported programmes in the health care facilities and special care institutions of Moscow, St. Petersburg, Rostov-on-Don, Chelyabinsk, and Samara for children under the care of the "Sunflower", "When They Need You", "Children's Hospital", and "Chase your Victory" foundations. The assistance was rendered to children suffering from different diseases undergoing treatment in a burn care facility and Speransky Children's Hospital, Neuropsychiatric hospital for children with central nervous system affliction and mental disorders, St.Petersburg Children's Hospice and other clinics.

Assistance to Elderly People

Over a period of several years, UniCredit Bank has supported WWII veterans by allocating money for financial assistance and gifts on the occasion of the Victory Day, New Year, and anniversaries of important historical events. In 2019, the Bank rendered charity help to the following foundations supporting war veterans and elderly people: the Russian Non-Governmental Charitable Foundation of War, Labour and Armed Forces Veterans (Pensioners), Moscow Social Organisation of veterans, "Military Counterintelligence Veterans" Inter-Regional Non-Profit Organisation, and "Devyatichi" Association of State Guard Veterans. In December, the Bank employees took part in the "Joy of Old Age" charitable foundation's campaign and collected New Year gifts for lonely elderly people. The foundation handed the gifts over to nursing homes of the Tula Region.

Assistance with the Problems of Children's Health and Well-Being

In 2019, the Bank continued its cooperation with the "AiF. Kind Heart" charitable foundation and supported the programme of helping children in the at-risk population group of patients with chronic kidney disease.

Donor Day.

“Run for a Miracle” Anniversary Charity Race.

Perfomance in Neuropsychiatric hospital for children with mental disorders, organised by “Chase your Victory!” foundation.

Thanks to the Bank’s donation, a Sleep Safe automatic peritoneal dialysis machine was purchased for children with kidney transplants at Regional Children’s Clinical Hospital No. 1, Ekaterinburg. The machine is not covered by the state quotas, and yet it is the only means of salvation from death.

UniCredit Bank’s donation to the “In the Name of Life” charitable foundation was used to purchase equipment (oxygen cylinders) and medicine for the cystic fibrosis patients under its care.

The Bank also continued funding the infrastructural project – the Foster Family Support Centre in Nizhny Novgorod – implemented by the “Find a Family” charity foundation facilitating family creation. The centre has developed, implemented, and continuously improves its methodology of work with foster families created with advice from Russia’s best experts in this field. The centre helps children growing up in foster families with a wide range of issues. First of all, these are behaviour problems of adopted children, restoration of the parental resource, assistance in the adopted child’s assimilation within the family, and legal aspects. To address these issues, in 2019 the centre arranged group psychological trainings for parents and children, individual advice by psychologists and lawyers, social carers’ visits to educational establishments for negotiating aspects of adopted children’s education. Besides, the centre held trainings for employees of guardianship, social services, and police for minors to improve their skills and performance.

Corporate Volunteering and Helping Children to Solve Health Problems

Charity Races

Charity races represent a simple and affordable type of charity intended both to draw attention to social problems and help children on the one hand, and to support the company’s value system and strengthen team spirit on the other. In September 2019, over 100 employees of the Bank took part in the “Run for a Miracle” charity race arranged jointly with the “Life as a Miracle” foundation, and dedicated to the 30th anniversary of UniCredit Bank. The participants – the youngest of them just 1 year old – covered distances from 400 m to 10 km along the renovated site of the VDNKh. The amount of RUB 3,350,469 was collected out of the racers’ registration fees, as well as the donation of RUB 2.5 million made by the Bank. All of the money was steered into treating children under the care of the “Life as a Miracle” charitable foundation suffering from serious liver disorders.

In Volgograd, the Bank supported a charity race “Sport for Good” to help Down syndrome children, with the involvement of the Volgograd branch team.

Sustainability (Continued)

Charity (Continued)

Donor Days

Blood transfusion is an important part of treatment for children with cancer and haematological diseases. That is why UniCredit Bank together with the "Gift of Life" charitable foundation has been arranging Donor Days as part of its charity activities for as long as five years. In June and September, two Donor Days were held at UniCredit Bank's offices at Prechistenskaya Embankment and in Nagatino, with about 150 employees participating. The events provided 50 litres of donated blood to D. Rogachev National Research Centre of Pediatric Haematology, Oncology, and Immunology.

Bright Day

Each April, the Bank traditionally holds the "Bright Day" annual charity campaign in cooperation with the "Sunflower" charitable foundation supporting children with immune disorders. It aims at drawing attention to the problem of diagnosing and treating primary immune deficiency in Russia. On that day, the employees of the Bank's central and regional offices wear bright clothes at work and take part in various events. In 2019, the "Sunflower" foundation invited a professional instructor in Kundalini Yoga to the Bank's office to give a lecture on health and immunity. On the same day, a charity fair was held at the main office in favour of those under the care of the "Sunflower" foundation, for which the foundation partners provided their souvenirs.

Charity Fairs, Collection of Clothes, and Gifts

In the summer of 2019, UniCredit Bank's employees took part in the "Box of Courage" campaign. Everyone could bring gifts for children under the care of the "Gift of Life" charitable foundation undergoing treatment at the oncology departments of medical facilities and hospitals in Moscow and bravely enduring painful procedures. Several boxes with gifts were sent to the Moscow hospitals as a result of the campaign.

In the reporting year, two charity fairs took place at the Bank's main office with participation of the "In Your Hands", "Life as a Miracle" and "Sunflower" charitable foundations, and the "Special Childhood" Centre for Clinical Pedagogy. The money collected was spent to purchase medicines for the patients under the foundations' care.

To support the "SOS Children's Villages" international charitable organisation, UniCredit Bank's offices in Moscow have had donation collection boxes for several years now. The funds collected are used to finance activities of the foundation that helps orphans and children deprived of parental care in Russia.

"Your Heart's Personal Contribution" Charity Programme

The "Your Heart's Personal Contribution" special corporate charity programme provides an opportunity for making individual contributions. The Bank launched it in 2004 to support the Bank's employees and their children in hardship. In 2019, financial aid was rendered to the family of the Bank's female employee.

"You Can Help" Corporate Contest for the Best Idea of a Charity Project

UniCredit Bank also supports ideas of its employees in the field of charity as part of the "You Can Help" contest. Each employee may suggest a project of their own for the contest. The winners are announced by a special contest panel consisting of both the Bank's in-house experts (members of the Charity Council) and leading third-party experts in the field of charity (managers of major charitable foundations).

The winners' projects get funding from the Bank's budget, which exceeded RUB 1.2 million in 2019.

In 2019, as many as 55 applications were received for the contest, including 24 applications within the framework of a special eco-category covering not only the Bank employees.

Winners' Projects:

1. "Dobrosvet" Foundation: the acquisition of a Fabius Tiro anaesthesia-respiratory apparatus for the oncohematological chemotherapy department of Voronezh Regional Children's Clinical Hospital No. 1.
2. "Scarlet Flower" Regional Society of Disabled People: the establishment of social therapeutic creative workshop studios for developing creative labour skills and providing opportunities for harmonious and full-fledged social adaptation and social integration of children and young people with mental disorders in their families.
3. "I Have no Mom" Abandoned Babies Foundation: a programme to help unwanted children in the hospitals of Rostov-on-Don, including social and common care by special staff.
4. '"My Planet" Ecological Charitable Foundation: the "AERobics" project involves planting 11 thousand pines to help restore the burned-out forest – "green shield" of Chelyabinsk.

Support of Culture and Arts

In the year of its 30th anniversary, UniCredit Bank continued taking an active part in the cultural life of the country and community, supporting various initiatives in the fields of culture, art, and education.

The Bank's most significant project in this area is the corporate collection of masterpieces by Russian post avant-garde artists. The start of the collection's formation dates back to the first half of the 1990s, and today it comprises over 120 masterpieces. The collection of paintings and graphics of the 1920-1930s includes international-scale masterpieces by outstanding painters of that period, specifically, by Daniil Cherkes, Leonid Zusman, Leonid Chupyatov, Aleksandr Drevin, Aleksandra Koltsova-Bychkova, Fedor Semenov-Amursky, Arseny Schulz, and many others.

Exhibitions of paintings from the art collection in the Bank's branches for everyone to enjoy have long become a good tradition and are held annually. In 2019, these displays were dedicated to the anniversary of the Bank. The masterpieces first acquired for the collection were presented to the audience. These pieces are predominantly associated with independent art that was not officially recognised at a certain point, and yet is characterised by sui generis artistic merit. The visitors could enjoy masterpieces by Sergey Rastorguev, Anton Yastrzhembsky, Antonina Safronova, and Nadezhda Udaltsova.

For those who wish to learn more about the post avant-garde school and artists, the Bank continued holding free lectures by Aleksandr Balashov, art critic and curator of the collection. In 2019, Aleksandr's lectures presented many noteworthy discoveries of that period's history and new interesting artists of the school to the attention of the audience. The topics covered by the lectures included the unique cultural environment of Moscow in the 1920s-1930s, and the ways of comprehension and interpretation of that time by various artists, as well as the huge legacy of artistic styles, intentions, and meanings yet to be discovered.

As a representative of Italian UniCredit Group, UniCredit Bank has traditionally been contributing to strengthening the cultural ties between the two countries in 2019. For instance, the Bank continued supporting the cycle of readings dedicated to the "Divine Comedy" by Dante Alighieri, which provided the poet's fans with an opportunity not only to listen to, but also to discuss the masterpiece, share their opinions and impressions. In Russia, the project was implemented under the auspices of the Consulate of the Republic of Italy in Moscow. The Bank also continued cooperating with the "Italo Calvino" Italian school that has existed at the Consulate for many years.

Together with the Embassy of Italy, the Bank supported the exhibition of Massimo Sestini "Horizons of Italy. View from Police Helicopters." Sestini is among the best-known, most multifaceted, daring, and creative photo reporters in Italy, whose photos precisely and clearly reflect the contemporary realities. The "Horizons of Italy" is an international-scale project inspired by the desire to show the country from a perspective unfamiliar to a wide audience. The exhibition was held at the Multimedia Art Museum (MAMM), the largest Russian museum of modern art, from 13 to 24 March 2019. Another joint project with the Embassy was the Bank's participation in the celebration of the National Day of the Republic of Italy on 3 June 2019.

In support of education, in 2019 the Bank entered into cooperation with the Higher School of Economics National Research University, taking part in financing projects and programmes of the HSE International College of Economics and Finance.

In 2019, the Bank was further developing its long-term partnership with the Moscow Conservatory. Financially supported by the Bank, the Moscow Conservatory's Grand Hall hosted a charity concert of the Russian State Symphony Orchestra called "The Hollywood Cinema Legends" as part of the Open Rehearsals project on 3 October. Free tickets for the project concerts are traditionally distributed among children from low-income families and orphanages, war veterans, and students of musical universities.

Support of Sports Initiatives

Support of sports initiatives remained an important part of the UniCredit Bank brand promotion in 2019. One of the Bank's social priorities is to involve as many employees as possible in such initiatives.

In January 2019, UniCredit Bank held its traditional cross-country skiing championship in the Bitsa Park for the 7th time already. The Bank employees, their friends and family members took part in the competition. Special contests were arranged for children.

In March, the Seefeld Resort in Austria hosted the annual winter sports competition among the employees of UniCredit Group – Ski Meeting XXI. The Russian team showed excellent results. Our athletes won many prises in various categories, which allowed the team to take the second place in the team scoring of snowboarding and cross-country skiing.

Management

Supervisory Board of AO UniCredit Bank (as of January 1, 2020)

Marco Radice, Chairman of the Supervisory Board

Born in 1957. Graduate of J. D., Parma Law School, 1980, Accademia Guardia di Finanza, Rome, 1982, New York Law School, New York, 1983. From 1992 up to 2006 Marco Radice occupied position Non executive director, Itas s. p.a., Insurance Company, Trento. From April 1995 to May 2015 he was Member of the Board of Directors of Itas Mutua, Insurance Company. From 1994 up to 2001 he was Chairman of the Board of Statutory Internal Auditors, Cassa di Risparmio di Trento e Rovereto, Member / Chairman of the Board of Statutory Internal Auditors of Industrial and Financial Services Companies (Pioneer Alternative Investments S. g.r.p.a., Milano Innovazione S. g.r.p.a., Vivacity S. p.a., Iniziative Urbane s. p.a., Valore S. I. M. s.p.a., Metalsistem s. p.a, Rovimpex s. p.a. and others). From 1998 up to 2006 he was Professor of Financial Services Regulation Law, University of Trento. From April 2010 to May 2012 Mr. Radice was Member of the Board of Directors of UniCredit Audit S. p.a. Since April 1994, he has been Co-Principal at Radice & Cereda. He was also Member of Audit Committee of Bulbank, Bulgaria from 10.05.2012 to 10.07.2017 and has been its Chairman on 11.07.2017. He has been Chairman of Audit Committee of UniCredit Bank Serbia since 23.06.2008, Chairman of the Board of Directors of Itas Vita s. p.a., Insurance Company since May 2000. Since 27.04.2012, he is a member of the Supervisory Board of AO UniCredit Bank. Since 21.12.2018, he is Chairman of the Supervisory Board of AO UniCredit Bank.

Andrea Diamanti, Deputy Chairman of the Supervisory Board

Born in 1973. Andrea Diamanti graduated from Bocconi University, Italy, Degree in Business Administration in 1998, in 2002 he also received a certificate by CFA Institute. Andrea started his career in 1998 at Commerzbank AG, Milan Branch as Assistant Manager. He joined UniCredit in 2000 as Vice President in Global Acquisition and Leveraged Finance at HVB Milan Branch. Since then he has strongly contributed to the growth of the Financial Sponsor Solutions franchise. From December 2005 to May 2012 he was Managing Director of Financial Sponsor Solutions at UniCredit S. p.A. Then from April 2012 to March 2015 he served as Head of Financial Sponsor Solutions Austria & CEE at UniCredit Bank Austria AG responsible for structured finance business line in the region and the whole large corporate loan book in CEE. Then from April 2015 to September 2016 Mr. Diamanti was Head of Financing CEE at UniCredit Bank Austria AG. Since September 2016, Andrea is head of corporate and investment banking in CEE, with responsibilities for the corporate business in the region. He is a Member of the Supervisory Board, Audit Committee, Risk Committee and Remuneration Committee of UniCredit Bank Hungary Zrt. since 23.02.2017, he is also a Member of the Supervisory Board and Risk Committee of UniCredit Bank Czech Republic and Slovakia, a.s. since 01.03.2017. Since 17.04.2017, he is a Member of the Supervisory Board at AO UniCredit Bank. Since 11.04.2018, he was appointed a Deputy Chairman of the Supervisory Board at AO UniCredit Bank.

H. Faik Acıkalın, Member of the Supervisory Board

Born in 1962. Graduated from Middle East Technical University BS with degree in Business Administration in 1987. Faik Acıkalın began his banking career in 1987 as a Management Trainee at Interbank. He subsequently worked in various positions at several banks. In 1998, he joined Dışbank as Executive Vice President. Later after several managerial positions he became the President of Dışbank, which later following the acquisition by Fortis was renamed Fortisbank. In 2007, he became CEO at large newsprint media holding company Doğan Gazetecilik. In April 2009, Acıkalın was appointed as Executive Director of Yapı Kredi's Board of Directors and was also appointed as Chairman of the Executive Committee. From May 2009 to 29.12.2017, he served as Yapı Kredi's CEO. And in addition to his current role, from March 2010 to 29.12.2017, Acıkalın was also appointed as CEO of Koc Financial Services. Also from August 2011 to 29.12.2017, Acıkalın was the President of Koc Holding's Banking and Insurance Group. At the same time from June 2009 to 29.12.2017 Acıkalın served as Chairman of Yapı Kredi subsidiaries (Yapı Kredi Invest, Yapı Kredi Leasing, Yapı Kredi Factoring, Yapı Kredi Bank Nederland NV, Yapı Kredi Bank Azerbaijan, Yapı Kredi Bank Moscow). He also was Cahaiman of Yapı Kredi Bank Malta from March 2014 to 29.12.2017, Chairman of Yapı Kredi Koray Real Estate Investment Trust from March 2011 to 29.12.2017, Vice Chairman of Banque de Commerce et de Placements S. A. from September 2011 to 29.12.2017 and Board Member of the Banks Association of Turkey from May 2009 to December 2017. He willingly retired from his positions in Yapı Kredi Group and Koc Holding, as of 29 December 2017. At the present time, he has served also as Independent Member of Board of Directors at the following companies: Doğan Holding, Turkey (since 30.03.2018), Migros Ticaret AS, Turkey (since 15.05.2018), Eczacıbaşı Group, Turkey (since 22.05.2018). Since 09.04.2018, he is a member of the Supervisory Board of AO UniCredit Bank.

Gianfranco Bisagni, Member of the Supervisory Board

Born in 1958. Graduated from Royal Melbourne Institute of Technology with degree in Business Administration in 2006. Gianfranco started his career in the Italian UniCredit network, but moved to the United States shortly thereafter. His first appointment was to the Chicago office and he was subsequently relocated to New York City, where he took over as Deputy Chief Manager for the UniCredit New York branch, responsible for all the Representative Offices in North and South America.
He was later named Chief Manager of UniCredit´s Hong Kong branch (2001) and Head of Corporate Banking Asia Pacific & Chief Manager Hong Kong branch (2008). From 2010 he served as Head of CIB & Private Banking at UniCredit Tiriac Bank Romania, where he was appointed a member of the Management Board. From 2011 to 2015, he acted as Head of CEE Corporate and Investment Banking and as Deputy Head of CEE Division at UniCredit. He was Co-Head of CIB since September 2016 after having been Deputy Head since April 2015. Previously Mr. Bisagni served as Member of the Supervisory Board at the following companies: UniCredit Tiriac Bank SA (13.04.2011 –24.07.2015), UniCredit Bank Czech Republic and Slovakia, a.s. (02.03.2011–24.09.2015), Zagrebacka banka d. d. (27.04.2011–01.07.2015), AO UniCredit Bank (27.04.2012–11.11.2015), UniCredit Hungary Zrt. (28.07.2011–20.10.2015), where he also was a member of Auditee Committee. He was Member of Administrative Board of Italy-China Foundation from 01.10.2015 to 04.04.2016. At the present time, Mr. Bisagni has served as Member of the Board of Directors of the following companies: Koç Finansal Hizmetler (since 13.10.2016), Yapi ve Kredi Bankasi (since 25.10.2016), as well as Member of Administrative Boards of the following companies: UniCredit Services (since 10.04.2017), the Italian Banking Association (since 28.05.2018), SWIFT SCRL (since 08.06.2017). Starting from 01.04.2019 Gianfranco is a co-CEO of Commercial Banking CEE of UniCredit, he is in charge of commercial banking in CEE. Since 08.04.2019, he is Member of the Supervisory Board of AO UniCredit Bank.

Jirí Kunert,
Member of the Supervisory Board

Born in 1953. Graduated from the University of Economics, Prague, with degree in Finance and Credit in 1976. Jirí Kunert occupied position CEO of UniCredit Bank Czech Republic a.s from November 2007 to November 2013, then he was CEO of UniCredit Bank Czech Republic and Slovakia, a.s to 01.04.2019. He was Member of Presidium of the Czech Banking Association from 2012 to 2015. Since 08.04.2019, he is a member of the Supervisory Board of AO UniCredit Bank.

Mihaela Alina Lupu,
Member of the Supervisory Board

Born in 1975. Graduated from the Bucharest University of Economic Studies with degree in Economics in 1999. Mihaela Alina Lupu occupied position Chief Financial Officer of UniCredit Tiriac Bank SA from August 2013 to September 2017, from December 2013 she was Member of the Management Board of the bank. She has been Head of Group Planning, Capital Management & Strategic ALM of UniCredit S. p.A, Italy, since September 2017. Previously Mikhaela served as Member of the Board of Directors of the following companies: UniCredit Leasing Corporation IFN SA (03.2012–10.2017), Pioneer Asset Management SAI SA) (02.2017–08.2018). Since 08.04.2019, she is a member of the Supervisory Board of AO UniCredit Bank.

Christian Meidinger,
Member of the Supervisory Board

Born in 1978. Christian Meidinger holds a graduate degree in business administration (Finance, Accounting, Portfolio Management) from the Ludwig-Maximilians-University Munich, 2006, and is a CFA charterholder. In early 2006, he joined UniCredit Bank AG in UniCredit's Markets & Investment Banking department as a credit analyst in the Credit Strategy & Structured Credit Research team, followed by the Financials Credit Research team where he worked on Banks, Covered Bonds and Sub-Sovereigns & Agencies. Chris had over the years a variety of positions and responsibilities at UniCredit Bank AG, including credit underwriting, Head of Restructuring for international leverage finance and corporates, real estate and financial institutions (December 2017 – October 2018) as well as Head of Distressed Asset management – Research and Execution (January 2013 – November 2017). In addition, he was the business manager for the chief risk officer. Since November 2018, he has run the Large Credit Transaction & Country Risk department at UniCredit Group out of Milan. In his role he is on the lending side responsible for large corporate credit transactions, structured finance & special products transactions and restructuring files as well as for cross country risk management. Since 08.04.2019, he is a member of the Supervisory Board of AO UniCredit Bank.

In 2019, Carlo Vivaldi, Nikolaus Maximilian Linaric and Anna Maria Ricco resigned from the Supervisory Board, while Gianfranco Bisagni, Jirí Kunert, Mihaela Alina Lupu and Christian Meidinger were appointed to the Supervisory Board.
No shares of AO UniCredit Bank are held by any member of the Supervisory Board.

Management (Continued)

Management Board of AO UniCredit Bank (as of January 1, 2020)

Mikhail Yurievich Alekseev, Chairman of the Management Board

Born in 1964. Mr. Alekseev graduated cum laude from Moscow Finance Institute in 1986. In 1989 he defended a dissertation and received PhD in Economics and in 1992 he defended a dissertation and received PhD (full Doctor) in Economics. Mr. Alekseev started his career in the USSR Ministry of Finance. In 1992 he was elected to the Management Board of Mezhkombank. In 1995, he moved to UNEXIM Bank to the position of the Deputy Chairman of the Management Board. From 1999 to 2006 Mikhail Alekseev held the positions of Senior Vice-President and Deputy Chairman of the Management Board of Rosbank. His next place of employment was Rosprombank (from 2006), where he held the position of President and Chairman of the Board. In July 2008, in accordance with resolution of the Supervisory Board he was appointed Chairman of the Management Board at UniCredit Bank and is responsible for general management of the Bank's operations. Mr. Alekseev was a Member of the Board of Directors of TMK from 28.06.2011 to 25.06.2018, Non-Executive Director of BARN B. V., Netherlands from 15.04.2013 to 30.09.2018. At the present time he has served as Chairman of the Board of Directors of RN Bank since 05.09.2013, Chairman of the Supervisory Board of OOO "UniCredit Leasing" since 10.03.2011, Member of the Advisory Board of the Association of Banks of Russia since 20.05.2009, Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs since 11.11.2009.

Kirill Zhukov-Emelyanov, Member of the Management Board, Senior Vice President

Born in 1970. Mr. Zhukov-Emelyanov graduated from the Moscow State Institute of International Relations (MGIMO-University), International Economic Relations in 1993. He started his career in 1994 with UniCredit Bank (former International Moscow Bank) in the field of corporate finance. From 1999 he managed credit business of Bank Austria Creditanstalt Russia. Following its merger with International Moscow Bank in 2001, he held executive positions at corporate banking division of International Moscow Bank. From 2003, he was responsible for the development of the regional network and corporate business of International Moscow Bank, and then of UniCredit Bank. In December 2008, in accordance with resolution of the Supervisory Board he was appointed Member of the Management Board responsible for corporate banking business and Private Banking of AO UniCredit Bank.

Svetlana Zolotareva, Member of the Management Board, Senior Vice President

Born in 1979. Svetlana Zolotareva graduated from the Moscow State University, Economics Faculty in 2002, with honors and holds MBA from London Business School & Columbia Business School (2013). Svetlana has worked at UniCredit Bank (previously International Moscow Bank) since September 2002. For this period, Svetlana got experience in various units of the Bank in the area of risk management and corporate banking business. Since 2009, she occupied the position of Head of Mid-Market/Regions Department. Since 2013 she has also supervised the development of Private Banking business area. Since 11.04.2012, Svetlana has also served as Member of Supervisory Board of OOO «UniCredit Leasing». In July 2016, Svetlana Zolotareva was appointed Member of the Board of AO UniCredit Bank responsible for the Risk Division.

Algimantas Kundrotas, Member of the Management Board, Senior Vice President

Born in 1964. Algimantas Kundrotas holds a degree in Economics from Vilnius University, Lithuania, 1989. Algimantas Kundrotas joined the Group in 2000 as Deputy General Manager and Head of Corporate and Treasury Department at UniCredit in Lithuania. From 2007 till 2013 he worked in AS UniCredit Bank in Latvia, first as Director of Business Development, Board Member in charge of the Corporate and Private Banking and since 2012 as General Director, CEO of the bank. In 2014 Algimantas took over the role of Chief Program Officer for CEE2020 in UniCredit Bank Austria AG, and following he was appointed as Chief Program Officer for CEE Transform 2019 in UniCredit SpA Zweigniederlassung Vienna, Austria. In December 2017, Mr. Kundrotas was appointed Senior Vice-President at AO UniCredit Bank (since February 5, 2018). On May 7, 2018, Algimantas Kundrotas was appointed Member of the Management Board of AO UniCredit Bank responsible for the Global Banking Services. Since 28.06.2013 up to the present time, Mr.Kundrotas is Vice-Chairman of the Supervisory Board of UniCredit Leasing, Riga.

Mikhail Povaliy,

Member of the Management Board, Senior Vice President

Born in 1972. Mikhail Povaliy graduated from the Moscow Military Institute of Foreign Languages in 1994, he also holds MBA in General Management from the Higher School of Business at Moscow M. V. Lomonosov State University, 2005, and completed the Top executive program at INSEAD in 2017. Mikhail has more than 20 years' experience in roles that span FMCG, banking operations and financial services. He held different managerial positions in corporate and retail business at Alfa Bank from 2005 to 2017. He was responsible for the development of small business for 5 years. In 2013–2017, Mikhail Povaliy was Member of the Board, Head of the Retail Business block at Alfa Bank. Before joining UniCredit Bank, he was a Business Development Leader at Visa Inc. from November 2017 to December 2018. Mikhail Povaliy joined UniCredit Bank as Senior Vice-President, Head of Retail Business in May 2019. On July 5, 2019, Mikhail Povaliy was appointed Member of the Management Board of UniCredit Bank responsible for the Retail and SME business of the Bank.

Stefano Santini,

Member of the Management Board, Senior Vice President

Born in 1975. Stefano Santini holds a degree in Economics from Bocconi University, 1999. He joined UniCredit in 2000, in the newly established New Europe Division. After working with growing responsibilities in several banks of the Group located in the CEE region, in 2003 he started to cooperate with Bank Pekao in Poland, becoming, in 2005, Deputy Head of Finance Division. In 2006 – following the merger between UniCredit and HVB – he was appointed as Project Manager of the spin off and merger of Bank BPH and Bank Pekao, the largest Polish M&A banking transaction, contributing to create the highest capitalized company in the local market. In April 2010, mr Santini joined the Management Board at UniCredit Bank Hungary as Chief Financial Officer. Three years later, in April 2013, he returned to Bank Pekao as Vice President of the Management Board, supervising the Financial Division (CFO). At the same time, he served as Deputy Chairman of the Supervisory Board at Pekao Investment Banking and Member of the Supervisory Board of Pekao Leasing. On July 4, 2017, Mr. Santini was appointed Senior Vice-President at AO UniCredit Bank. On October 25, 2017, Stefano Santini was appointed Member of the Management Board of AO UniCredit Bank responsible for the Financial Division. Mr. Santini is Member of Board of Directors of BARN B. V., Netherlands since 01.10.2018, Member of the Board of Directors of RN Bank since 28.11.2018.

In 2019, Graziano Cameli and Ivan Matveev resigned from the Management Board, while Mikhail Povaliy joined the Management Board.
No shares of AO UniCredit Bank are held by any member of the Management Board.

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Consolidated Financial Statements

and Independent Auditor's Report for the Year Ended 31 December 2019

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2019

Management of AO UniCredit Bank is responsible for the preparation of the consolidated financial statements that present fairly the financial position of AO UniCredit Bank and its subsidiary (collectively – the "Group") as at 31 December 2019, and the related consolidated statements of comprehensive income for the year then ended, changes in equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2019 were approved by the Supervisory Board of AO UniCredit Bank on 11 March 2020 based on the decision of Board of Management of AO UniCredit Bank dated 5 March 2020.

M. Alekseev
Chairman of the Board of Management

11 March 2020

V. Starovoytov
Acting Chief Accountant

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To the Shareholder and the Supervisory Board of AO UniCredit Bank:

Opinion

We have audited the consolidated financial statements of AO UniCredit Bank and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019 and the consolidated statement of 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 December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Assessment of expected credit losses of loans to customers	
We focused on this area because assessment of significant increase in credit risk and measurement of expected credit losses (ECL) require considerable judgement and involves estimation uncertainties.	We assessed design and implementation, and tested operating effectiveness of relevant controls over the management's processes for the assessment, measurement and monitoring the level of ECL for both collectively and individual assessed loans, including the controls over timely identification of significant increase in credit risk.

Independent Auditor's Report (Continued)

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
For collectively assessed loans the measurement of the ECL involves application of a complex risk rating system based on historical data adjusted for relevant forward looking information. For individually assessed loans the measurement of ECL is based on estimation of future cash flows, which requires analysis of the borrower's current and future financial performance, collateral value and evaluation of possible outcome. In particular we focused on: • The principal assumptions and significant inputs underlying the estimation of ECL and corresponding risk rating system for performing loans and the integrity of the models used in calculations; • Timely identification of significant increase in credit risk based on quantitative and qualitative factors; • The principal assumptions and significant inputs underlying the calculation of discounted cash flows for defaulted loans; • How events of default that have not yet resulted to payment default are identified. See Note 2, 3 and Note 9 to the consolidated financial statements on pages 90-103, 103-104 and 112-120 respectively.	We challenged the assumptions used in collective credit models and corresponding risk rating system, tested input data and analysed the integrity of those models. Our work included, among others, the following procedures: • We analysed impairment methodology and considered the potential effects on the increase in credit risk and measurement of ECL of the information, which was not captured by management's models; • We analysed management's principal assumptions based on our own knowledge of industry practices and the Group's actual experience; • We tested the integrity of the credit models used to calculate ECL, performed selective recalculations and compared the results. For a sample of collectively assessed loans we ascertain whether the significant increase in credit risk had been identified in a timely manner including, where relevant, how forbearance had been considered. For a sample of individually assessed loans we tested the forecasts of future cash flows prepared by management for measurement of ECLs including challenging the assumptions made, testing input data and comparing estimates to external evidence in respect to the relevant counterparties. We examined a sample of loans, which had not been identified by management as defaulted and formed our own judgement as to whether that was appropriate using external evidence in respect of the relevant counterparties. In certain cases, we formed a different view on ECL from that of management's, but in our view, the differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties are disclosed in the consolidated financial statements.
Information Technology systems and controls	
We focused on this area because the Group's financial accounting and reporting systems are heavily dependent on complex information technology (the "IT") systems and the appropriate design and operating effectiveness of automated accounting procedures and technology-dependent manual controls.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial accounting and reporting process. We tested the functionality of the IT software used for calculation of expected credit losses in accordance with IFRS 9. We examined the Group's IT system's governance and change management environment, in particular the controls over program development and changes, access rights to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Group's IT systems including access management and segregation of duties. The combination of the tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the Group's IT systems for the purposes of our audit.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report and the quarterly report on securities for the 1st quarter of 2020, but does not include the consolidated financial statements and our auditor's report thereon. The mentioned reports are expected to be made available to us after the date of this auditor's report.

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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.

Independent Auditor's Report (Continued)

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

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

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

Report on procedures performed in accordance with the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

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

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

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

We report our findings below:

1. With respect to the Group's compliance with the obligatory ratios: the obligatory ratios as at January 1, 2020 were within the limits established by the CBRF.

   We have not performed any procedures with respect to the Group's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Group present fairly, in all material respects, the financial position of the Group as at December 31, 2019, its financial performance and its cash flows for 2019 in accordance with International Financial Reporting Standards and Russian reporting rules for annual financial statements of credit organizations.

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

   (a) In accordance with the CBRF requirements and recommendations as at December 31, 2019 the Group's internal audit department was subordinated and accountable to the Group's Supervisory Board and the Group's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBRF;

   (b) As at December 31, 2019, the Group had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;

   (c) As at December 31, 2019, the Group had a reporting system with regard to the Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;

   (d) Frequency and sequential order of reports prepared by the Group's risk management and internal audit departments in 2019 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Group's internal policies; these reports included results of monitoring by the Group's risk management and internal audit departments of effectiveness of the Group's respective methodologies and improvement recommendations;

(d) As at December 31, 2019, the authority of the Group's Supervisory Board and the Group's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Group. In order to control effectiveness and consistency of application of the Group's risk management policies, during 2019 the Group's Supervisory Board and the Group's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

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

Zdanevich Anna Mikhaylovna,
Engagement partner

11 March 2020

Акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений и отчетов
* * *
Россия, г. Москва, ул. Лесная, д. 5

The Entity: AO UniCredit Bank

Licensed by the Central Bank of the Russian Federation

on 22 December 2014, License #1.

Primary State Registration Number: 1027739082106

Certificate of registration in the Unified State Register series 77 #. 007773325 of 19.08.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39

9, Prechistenskaya emb., Moscow, Russia 119034.

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by

the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

Consolidated Statement of Financial Position

as at 31 December 2019
(in thousands of Russian Roubles)

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and cash balances	5	24 268 658	15 538 848
Debt securities held for trading	6		
- held by the Group		-	5 309 437
Derivative financial assets	8	23 884 409	36 868 281
Derivative financial assets designated for hedging	8	9 873 372	6 788 150
Changes in fair value of portfolio hedged items	8	6 559 846	(1 388 458)
Financial assets at amortized cost			
- Amounts due from credit institutions	7	245 812 527	359 588 990
- Loans to customers	9	733 770 527	863 150 705
Financial assets at fair value through other comprehensive income	10		
- held by the Group		138 326 977	46 258 756
- pledged under repurchase agreements		678 732	937 601
Investments in associate	11	8 202 044	6 912 137
Fixed assets	13	12 358 165	5 450 004
Intangible assets	14	8 538 523	7 331 783
Deferred income tax assets	15	609 346	1 836 648
Current income tax assets		103 747	207 457
Other assets	16	13 461 888	7 825 207
TOTAL ASSETS		**1 226 448 761**	**1 362 615 546**
LIABILITIES			
Amounts due to credit institutions	17,20	96 509 472	87 970 079
Amounts due to customers	18	861 626 647	1 015 640 868
Debt securities issued	19	-	47 553
Financial liabilities held for trading	7	-	3 427 071
Derivative financial liabilities	8	20 957 225	23 652 339
Derivative financial liabilities designated for hedging	8	15 377 471	20 324 175
Changes in fair value of portfolio hedged items	8	3 742 597	245 169
Current income tax liabilities		9 996	140 808
Other liabilities	16	14 996 738	15 405 180
TOTAL LIABILITIES		**1 013 220 146**	**1 166 853 242**

	Notes	31 December 2019	31 December 2018
EQUITY			
Share capital	21	41 787 806	41 787 806
Share premium		437 281	437 281
Cash flow hedge reserve		(381 731)	146 889
Revaluation reserve for financial assets at fair value through other comprehensive income		2 000 726	(2 092 519)
Foreign currency translation reserve		(71 830)	(98 835)
Fixed assets revaluation	2	4 294 938	-
Retained earnings		165 161 425	155 581 682
TOTAL EQUITY		**213 228 615**	**195 762 304**
TOTAL LIABILITIES AND EQUITY		**1 226 448 761**	**1 362 615 546**

M. Alekseev
Chairman of the Board of Management

11 March 2020

V. Starovoytov
Acting Chief Accountant

The accompanying notes on pages 90 to 152 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the Year Ended 31 December 2019
(in thousands of Russian Roubles)

	Notes	2019	2018
Interest income and similar revenues			
Loans to customers		65 343 457	60 130 759
Derivative financial instruments		28 368 331	28 859 518
Amounts due from credit institutions		10 301 641	11 407 631
Margin from derivative financial instruments designated for hedging	8	2 662 584	931 393
Trading and investment securities		9 499 232	7 759 475
		116 175 245	**109 088 776**
Interest expense and similar charges			
Amounts due to customers		(39 931 536)	(34 093 436)
Derivative financial instruments		(26 585 984)	(26 709 340)
Amounts due to credit institutions		(8 580 215)	(6 688 426)
Debt securities issued		(3 936)	(549 539)
		(75 101 671)	**(68 040 741)**
Net interest income		**41 073 574**	**41 048 035**
Fee and commission income	24	11 809 180	11 672 387
Fee and commission expense	24	(2 852 684)	(2 938 110)
Net fee and commission income		**8 956 496**	**8 734 277**
Dividend income		18 757	4 987
Losses on financial assets and liabilities held for trading	23	(1 211 396)	(2 691 565)
Fair value adjustments in portfolio hedge accounting	8	(44 828)	79 022
Gains on disposal of:			
- financial assets at amortized cost		1 220 304	564 562
- financial assets at fair value through other comprehensive income		1 391 105	1 498 063
OPERATING INCOME		**51 404 012**	**49 237 381**
(Impairment)/recovery of impairment on:			
- financial assets at fair value through other comprehensive income		(61 846)	(44 421)
- financial assets at amortized cost	7,9	(10 395 838)	(12 607 941)
- other financial transactions	22	(340 784)	2 340 818
NET INCOME FROM FINANCIAL ACTIVITIES		**40 605 544**	**38 925 837**
Personnel expenses	25	(10 237 755)	(9 428 579)
Other administrative expenses	25	(6 574 662)	(7 010 188)
Depreciation of fixed assets	13	(718 684)	(733 323)
Depreciation of right-of-use assets	13	(653 030)	-
Impairment of fixed assets	13	(26 939)	(72 433)
Amortization of intangible assets	14	(1 756 464)	(1 554 452)
Other provisions		244 301	(47 211)
Other operating expenses		(91 168)	(177 148)
Operating costs		**(19 814 401)**	**(19 023 334)**
Share of gains of associate	11	1 263 054	954 589
Gains on disposal of fixed assets		4 793	3 900

	Notes	2019	2018
PROFIT BEFORE INCOME TAX EXPENSE		**22 058 990**	**20 860 992**
Income tax expense	15	(4 357 925)	(4 156 924)
PROFIT FOR THE YEAR		**17 701 065**	**16 704 068**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will not be reclassified subsequently to profit or loss:			
Fixed assets revaluation	2,15	4 294 938	-
Items that may be reclassified subsequently to profit and loss			
Cash flow hedge reserve – effective portion of changes in fair value, net of tax:			
- fair value changes	15	(902 269)	407 027
- reclassification adjustment relating to financial assets and liabilities designated for hedging disposed of in the year	15	373 649	8 722
Revaluation reserve for financial assets at fair value through other comprehensive income, net of tax:			
- fair value changes	15	3 267 522	(2 352 645)
- reclassification adjustment relating to financial assets at fair value through other comprehensive income disposed of in the year	15	825 723	(1 056 310)
Foreign currency translation reserve	15	27 005	(98 835)
Other comprehensive income/(loss) for the year, net of tax		**7 886 568**	**(3 092 041)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**25 587 633**	**13 612 027**

M. Alekseev
Chairman of the Board of Management

11 March 2020

V. Starovoytov
Acting Chief Accountant

The accompanying notes on pages 90 to 152 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the Year Ended 31 December 2019
(in thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve
1 January 2018	**41 787 806**	**437 281**	**(268 860)**
Effect of change in accounting policy for application of IFRS 9	-	-	-
1 January 2018 (as restated)	**41 787 806**	**437 281**	**(268 860)**
Total comprehensive income			
Profit for the year	-	-	-
Other comprehensive income			
Change in cash flow hedge reserve, net of tax (Note 15)	-	-	415 749
Net change in revaluation reserve for financial assets at fair value through other comprehensive income, net of tax (Note 15)	-	-	-
Change in foreign currency translation reserve	-	-	-
Total other comprehensive income/(loss)	**-**	**-**	**415 749**
TOTAL COMPREHENSIVE INCOME/(LOSS)	**-**	**-**	**415 749**
Transactions with owner, directly recorded in equity			
Dividends paid on ordinary shares (Note 21)	-	-	-
Total transactions with owner	**-**	**-**	**-**
Gain on disposal of equity investment at fair value through other comprehensive income	-	-	-
31 December 2018	**41 787 806**	**437 281**	**146 889**
1 January 2019	**41 787 806**	**437 281**	**146 889**
Total comprehensive income			
Profit for the year	-	-	-
Other comprehensive income			
Change in cash flow hedge reserve, net of tax (Note 15)	-	-	(528 620)
Net change in revaluation reserve for financial assets at fair value through other comprehensive income, net of tax (Note 15)	-	-	-
Change in foreign currency translation reserve	-	-	-
Fixed assets revaluation reserve, net of tax (Note 2)	-	-	-
Total other comprehensive (loss)/ income	**-**	**-**	**(528 620)**
TOTAL COMPREHENSIVE (LOSS)/ INCOME	**-**	**-**	**(528 620)**
Transactions with owner, directly recorded in equity			
Dividends paid on ordinary shares (Note 21)	-	-	-
Total transactions with owner	**-**	**-**	**-**
31 December 2019	**41 787 806**	**437 281**	**(381 731)**

M. Alekseev
Chairman of the Board of Management

11 March 2020

V. Starovoytov
Acting Chief Accountant

Revaluation reserve for financial assets at fair value through other comprehensive income	Foreign currency translation reserve	Fixed assets revaluation reserve	Retained earnings	Total equity
226 583	**-**	**-**	**158 050 599**	**200 233 409**
1 089 853	-	-	(12 313 369)	(11 223 516)
1 316 436	**-**	**-**	**145 737 230**	**189 009 893**
-	-	-	16 704 068	16 704 068
-	-	-	-	415 749
(3 408 955)	-	-	-	(3 408 955)
-	(98 835)		-	(98 835)
(3 408 955)	**(98 835)**	**-**	**-**	**(3 092 041)**
(3 408 955)	**(98 835)**	**-**	**16 704 068**	**13 612 027**
-	-	-	(6 861 533)	(6 861 533)
-	**-**	**-**	**(6 861 533)**	**(6 861 533)**
-	-	-	1 917	1 917
(2 092 519)	**(98 835)**	**-**	**155 581 682**	**195 762 304**
(2 092 519)	**(98 835)**	**-**	**155 581 682**	**195 762 304**
-	-	-	17 701 065	17 701 065
-	-	-	-	(528 620)
4 093 245	-	-	-	4 093 245
-	27 005	-	-	27 005
-	-	4 294 938	-	4 294 938
4 093 245	**27 005**	**4 294 938**	**-**	**7 886 568**
4 093 245	**27 005**	**4 294 938**	**17 701 065**	**25 587 633**
-	-	-	(8 121 322)	(8 121 322)
-	**-**	**-**	**(8 121 322)**	**(8 121 322)**
2 000 726	**(71 830)**	**4 294 938**	**165 161 425**	**213 228 615**

The accompanying notes on pages 90 to 152 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the Year Ended 31 December 2019
(in thousands of Russian Roubles)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		113 850 861	114 366 264
Interest paid		(86 490 785)	(92 331 963)
Fees and commissions received		11 960 695	11 860 839
Fees and commissions paid		(2 767 864)	(2 826 300)
Net receipts/(payments) from debt securities held for trading		45 918	(1 994 306)
Net receipts from derivatives and dealing in foreign currencies		8 393 284	466 076
Salaries and benefits paid		(9 961 944)	(8 092 799)
Other operating expenses paid		(7 756 553)	(4 550 540)
Cash flows from operating activities before changes in operating assets and liabilities		**27 273 612**	**16 897 271**
Net decrease/(increase) in operating assets			
Obligatory reserve with the CBR		15 038	(2 877 214)
Debt securities held for trading		5 344 800	15 105 201
Amounts due from credit institutions		111 960 192	(64 318 334)
Loans to customers		116 388 885	(194 037 412)
Other assets		(5 674 241)	(2 364 457)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		4 692 546	(1 876 186)
Financial liabilities held for trading	7	(3 427 071)	(22 972 742)
Amounts due to customers		(141 891 815)	208 153 290
Other liabilities		(1 058 912)	813 246
Net cash from/(used in) operating activities before income tax		**113 623 034**	**(47 477 337)**
Income tax paid		(5 125 364)	(7 149 549)
Net cash from/(used in) operating activities		**108 497 670**	**(54 626 886)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		18 757	4 987
Purchase of associate	11	-	(6 033 031)
Purchase of financial assets at fair value through other comprehensive income		(497 467 099)	(376 050 266)
Proceeds from redemption and sale of financial assets at fair value through other comprehensive income		411 281 055	436 920 876
Proceeds from sale of fixed and intangible assets		21 948	32 241
Purchase of fixed and intangible assets		(4 224 403)	(2 549 661)
Net cash (used in)/ from investing activities		**(90 369 742)**	**52 325 146**

	Notes	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of bonds issued on maturity		(45 920)	(2 301 017)
Redemption of bonds issued under put option		-	(4 000 000)
Cash outflow for lease liabilities		(622 175)	-
Dividends paid on ordinary shares	21	(8 121 322)	(6 861 533)
Net cash used in financing activities		**(8 789 417)**	**(13 162 550)**
Effect of exchange rates changes on cash and cash balances		(608 701)	800 488
Net increase/(decrease) in cash and cash balances		**8 729 810**	**(14 663 802)**
CASH AND CASH BALANCES, beginning of the year	**5**	**15 538 848**	**30 202 650**
CASH AND CASH BALANCES, ending of the year	**5**	**24 268 658**	**15 538 848**

M. Alekseev
Chairman of the Board of Management

11 March 2020

V. Starovoytov
Acting Chief Accountant

The accompanying notes on pages 90 to 152 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

(in thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of AO UniCredit Bank (hereinafter – the “Bank”) and its subsidiary. AO UniCredit Bank, its subsidiary and associate are hereinafter collectively referred to as the “Group”.

The Bank (the former International Moscow Bank) was established in 1989 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under General Banking License issued by the Central Bank of Russia (hereinafter – the “CBR”) for banking operations for No. 1, as well as the license of the CBR for operations with precious metals for No. 1, both issued on 22 December 2014. The Bank also possesses licenses of the professional securities market participant for dealing, brokerage and depository activities issued by the Federal Securities Commission on 25 April 2003, as well as authorized to speak to the customs authorities as a guarantor. In the fourth quarter of 2019 the Bank was included in the list of investment advisors. The Bank is a member of the state deposit insurance system in the Russian Federation.

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO “RN Bank” (Russian Federation) since 2013. The remaining 60% in the authorized capital of BARN B.V. belongs to RN SF Holding B.V. (the Netherlands), which is a joint venture with equal participation (50%-50%) of RSI Bank S.A. and Nissan Motor Co., Ltd (see Note 11 for details).

As at 31 December 2019 the Group comprises the Bank, the leading operating entity of the Group, LLC UniCredit Leasing, a leasing company as its subsidiary, and holding company BARN B.V. as its associate. LLC UniCredit Leasing owns 100% of the shares in LLC UniCredit Garant. Both companies operate in the financial leasing industry on the local market. BARN B.V. is the holding company based in the Netherlands.

The consolidated financial statements include the following subsidiary and associate:

	Ownership, %			
Entities	**2019**	**2018**	**Country**	**Industry**
LLC UniCredit Leasing	100%	100%	Russia	Finance
BARN B.V.	40%	40%	Netherlands	Holding

As at 31 December 2019 the sole shareholder of the Group is UniCredit S.p.A.

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 31 December 2019 the Bank had 13 branches and 10 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus (31 December 2018: 13 branches and 10 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus).The Bank’s registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

2. Significant accounting policies

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – “IFRS”).

Going concern. These consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholder have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short term obligations will be refinanced in the normal course of business.

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 16 Leases. In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The date of initial application of IFRS 16 for the Group is 1 January 2019.The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information.

Impact of the new definition of a lease. The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4. The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019.

Impact on Lessee Accounting

Operating leases. IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17. Applying IFRS 16, for all leases (except as noted below), the Group:

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other administrative expenses in profit or loss.

Finance leases. The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

Impact on Lessor Accounting. IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Financial impact of the initial application of IFRS 16. The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current period.

Impact on profit or loss	
Increase in depreciation of right-of-use asset	(653 030)
Increase in interest expenses	(145 904)
Decrease in other administrative expenses	707 454
Decrease in profit for the year	**(91 480)**

Notes to Consolidated Financial Statements (Continued)

2. Significant accounting policies (Continued)

Impact on assets, liabilities and equity as at 1 January 2019	As previously reported	IFRS 16 adjustments	As restated
Fixed assets	5 450 004	2 062 507	7 512 511
Other assets	7 825 207	(85 279)	7 739 928
Impact on total assets	**13 275 211**	**1 977 228**	**15 252 439**
Amounts due to customers	-	1 977 228	1 977 228
Impact on total liabilities	**-**	**1 977 228**	**1 977 228**

IBOR transition. A comprehensive reference rates reform is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms, the Group launched in October 2018 a project in order to manage the IBORs discontinuation. In 2019, the Group has ensured compliance for EURIBOR and €STR/Eonia outstanding contracts. Possible uncertainties, involving other Interbank offered rates (hereinasfter "the IBOR") IBORs, with timing and/or fallback rules applied to outstanding stock of assets, liability and derivatives however cannot be excluded.

On this regard, the Group has early adopted the "Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform" (hereinasfter – "the Amendment"). The Amendment solves a potential source of uncertainty on the effects of the Interbank offered rates (IBOR) reform on existing accounting hedge relationships that are affected by the IBOR reform, clarifying that the reform does not require to terminate such hedge relationships.

The Group has adopted the Amendment with reference to 2019 for its existing hedge accounting relationships involving other IBORs, whose volume is presented below as nominal amount of hedging contracts:

RUB thousands

Hedging relationship	Hedged items	USD Libor	Other IBORs
Fair Value Hedge	Assets	145 787 923	131 432 000
	Liabilities	223 869 583	-
Cash Flow Hedge	Assets	151 726 537	3 280 000
	Liabilities	94 757 425	50 740 415

In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, the Group will continuously monitor the market and participate in the relevant public consultations.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

The Group has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

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

The Group has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Group applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*	The Group has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards: IAS 12 *Income Taxes*. The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. IAS 23 *Borrowing Costs.* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. IFRS 3 *Business Combinations.* The amendments clarify that when the Group obtains control of a business that is a joint operation, the Group applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation. IFRS 11 *Joint Arrangements.* The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Group does not remeasure its PHI in the joint operation.
IFRIC 23 *Uncertainty over Income Tax Treatments*	The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to: • Determine whether uncertain tax positions are assessed separately or as a group; and • Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings: – If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. – If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

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

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Basis of preparation. These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, financial assets at fair value through other comprehensive income, derivative financial instruments and real estate are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

These consolidated financial statements are presented in Russian Roubles (hereinafter – "RUB"). Amounts in Russian Roubles are rounded to the nearest thousand.

Notes to Consolidated Financial Statements (Continued)

2. Significant accounting policies (Continued)

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

	31 December 2019	31 December 2018
RUB/US Dollar	61.9057	69.4706
RUB/Euro	69.3406	79.4605

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved when the Bank:
- Has the power over the investee;
- Is exposed, or has rights, to variable return from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

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

When the Bank has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:
- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit or loss account from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the owners of the Bank and to the non-controlling interests (NCI). Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and to the NCI even if this results in the NCI having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation, with the exception of foreign currency gains and losses on intragroup monetary items denominated in a foreign currency of at least one of the parties.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the NCI are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Bank.

When the Group loses control of a subsidiary, the gain/loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any NCI. All amounts previously recognised in OCI in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Foreign currencies. For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in Russian roubles which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Net interest income. Interest income and expense for all financial instruments are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. The effective interest rate (hereinafter – "EIR") is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets held for trading transaction costs are recognized in profit or loss at initial recognition.

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

Interest income and expense in the consolidated statement of profit or loss also includes the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate risk. For fair value hedges of interest rate risk interest income and expense, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

Interest income and expenses related to derivative financial instruments is presented as interest income and interest expense from derivative financial instruments.

Fee and commission income/expense. Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Group's consolidated statement of profit or loss include among other things fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

Net gains/(losses) on financial assets and liabilities held for trading. Net gains/(losses) on trading assets and liabilities includes gains and losses from changes in the fair value of financial assets and financial liabilities held for trading excluding any related interest income/expense.

Dividend income. Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- For equity instruments which are held for trading, dividend income is presented as trading income;
- For equity instruments designated at FVTOCI dividend income is presented in other income.

Financial assets. The Group recognizes financial assets on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date. All financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as held-for-trading. Transaction costs directly attributable to the acquisition of financial assets classified as held-for-trading are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (hereinafter – "SPPI"), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, and equity investments are subsequently measured at fair value through other comprehensive income;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) are subsequently measured at fair value through profit and loss.

However, the Group makes the following irrevocable election / designation at initial recognition of a financial asset on an asset- by-asset basis:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income; and
- The Group may irrevocably designate a debt instrument that meets the amortized cost or fair value through other comprehensive income criteria as measured at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortized cost or at fair value through other comprehensive income. The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

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

Notes to Consolidated Financial Statements (Continued)

2. Significant accounting policies (Continued)

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

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

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

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

The Group considers all relevant information available when making the business model assessment. The Group takes into account all relevant evidence available 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 in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

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

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

Financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss are:
- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at at fair value through profit and loss using the fair value option.
- These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

Reclassifications. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment. The Group recognizes loss allowances for expected credit losses (hereinafter – "ECLs") on the financial instruments that are not measured at fair value through profit and loss. No impairment loss is recognized on equity investments.

With the exception of purchased or originated credit-impaired financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:
- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:
- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired financial assets. Purchased or originated credit-impaired financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain.

Definition of default. Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (hereinafter – "PD") which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:
- The borrower is past due more than 90 days on any material credit obligation to the Group; or
- The borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Significant increase in credit risk. The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. The weighting of these different scenarios forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

If the asset shows an increase in the probability of default compared to the date of origination of the financial instrument, a problematic change in the contract occurres or an asset becomes 30 days past due, the Group considers that an increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

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

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

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:
- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

If these do not clearly indicate a substantial modification, then:
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

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

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

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

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

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

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

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at fair value through other comprehensive income, where the cumulative gain/loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss.

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

Write-off. Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Presentation of allowance for ECL in the statement of financial position. Loss allowances for ECL are presented in the statement of financial position as follows:
- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at fair value through other comprehensive income: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the revaluation reserve;
- For loan commitments and financial guarantee contracts: as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial liabilities. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss. Financial liabilities are classified as at fair value through profit or loss when the financial liability is (i) held for trading, or (ii) it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:
- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at fair value through profit or loss upon initial recognition if:
- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the "Gains/(losses) gains on financial assets and liabilities held for trading" line item in the profit or loss account.

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

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

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

<u>Other financial liabilities.</u> Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

<u>Derecognition of financial liabilities.</u> The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments. In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, interest rate swaps and cross-currency interest rate swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

The Group books the credit risk of the counterparty as a fair value adjustment for those over-the-counter derivative trades, where master netting agreement exist. Credit risk expressed in the form of credit value adjustment (hereinafter – "CVA") and debit value adjustment (hereinafter – "DVA") is determined on a portfolio basis with the counterparty. Determining CVA/DVA on a net portfolio basis has resulted in adjustments booked individually for derivative financial assets and derivative financial liabilities held for trading (see Note 8 for details).

Hedge accounting. In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group's results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as fair value adjustments in portfolio hedge accounting. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the consolidated statement of financial position and recognized in the consolidated statement of comprehensive income as fair value adjustments in portfolio hedge accounting.

Credit risk expressed in the form of CVA and DVA is also incorporated in the calculation of the fair value of derivative financial assets and derivative financial liabilities designated for hedging (see Note 8 for details).

Embedded derivatives. Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

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

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

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

Financial guarantee contracts not designated at fair value through profit or loss are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue. The Group has not designated any financial guarantee contracts as at fair value through profit or loss.

Cash and cash balances. The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Obligatory reserve with the CBR. Obligatory reserve with the CBR represent obligatory reserve deposits with the CBR, which are not available to finance the Group's day-to-day operations.

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Fixed assets. For the purposes of preparing the financial statements as at 31 December 2019, the Group has decided to change the evaluation criterion of real estate fixed assets providing for the transition from the cost model to the revaluation model for the measurement subsequent to initial recognition. IAS 8 establishes that for the purposes of the valuation of the property, plant and machinery, regulated by IAS 16, the transition from the cost criterion to the revaluation model must be represented as a normal application in continuity of the revaluation mode. As a result, the revaluation model has been applied prospectively and not retrospectively as required by the general principle reported in IAS 8 without, therefore, making any adjustment of the opening balances of the comparative year and of the comparative data. Consequently, as at 31 December 2019 real estate properties were recalculated at the related fair values which were determined through the use of independent expert evaluators through the preparation of specific appraisals. The differences between these values and the previous values determined by applying the "cost" criterion was recognized in the other comprehensive income. As the change in the evaluation criterion took place at the end of the year, the calculation of the depreciation for the 2019 financial year was made with the previous cost criterion.

The table below shows the overall impact on financial statements as of 31 December 2019:

Impact on assets, liabilities and equity as at 31 December 2019	Cost model	Revaluation	Revaluation model
Cost	6 404 130	37 080 595	43 484 725
Accumulated depreciation	(2 614 850)	(31 711 922)	(34 326 772)
Impact on total assets	**3 789 280**	**5 368 673**	**9 157 953**
Revaluation reserve in other comprehensive income	-	5 368 673	5 368 673
Deferred income tax		(1 073 735)	(1 073 735)
Impact on total equity	**-**	**4 294 938**	**4 294 938**

Starting from 31 December 2019, land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

Construction in progress is carried at cost, less any recognised impairment loss. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

	Years
Buildings	50
Furniture and fixtures	3-5
Computer equipment	3
Other fixed assets	3-5

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

Intangible assets. Intangible assets include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years. In case of license obtaining with actual usage for a period of more than 10 years, the useful life is considered till the date, fixed in the contract.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of ten years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Taxation. Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

There are various operating taxes in the Russian Federation that are assessed on the Group's activities. These taxes are included as a component of other administrative expenses in the consolidated statement of comprehensive income.

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

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate.

The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Other provisions. Provisions are recognised 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 obligation can be made.

Retirement and other employee benefit obligations. The Group makes contributions to the State Pension System of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital. Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

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

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

Contingencies. Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

3. Significant accounting judgements and estimates

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

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

Recoverability of deferred tax assets. The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realised. As of 31 December 2019 the carrying value of deferred tax assets amounted to RUB 609 346 thousand (31 December 2018: 1 836 648 thousand).

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk. As explained in note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Models and assumptions used. The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. For Group-wide segments the Group uses the UniCredit Group IFRS 9 models. Local PD, LGD, EAD (exposure at default) and TL (transfer logic) models have been developed and implemented for all local segments. ECL is calculated for Group-wide and local segments with IFRS 9 parameters on separate contract level.

Measurement of ECL. The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery and recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan. The Group uses EAD models that reflect the characteristics of the portfolios.

Incorporation of forward-looking information. The Group uses forward-looking information that is provided by Unicredit Group (the parent company). Forward-looking information is accounted for by means of a non-linear scaling approach of the PDs/LGDs to a target PD/LGD level, which integrates the expectations about the future economic conditions. In line with the current best practices in the banking industry, the Group leverages on the Stress Test Models for including macro-economic effects into the expected credit losses.

The stress test models (or satellite models) are set of models aimed at translating the macro-economic conditions into credit risk parameters (PD/LGD). Within the wider stress testing framework the models serve as basis for calculating the stressed PD/LGD under the Adverse Scenarios adopted for the for stress test purposes They are used both for regulatory and managerial stress test exercises.

Fair value measurement and valuation process. In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. The valuation of the Group's real estate portfolio includes some degree of uncertainty and is based on assumptions. As at 31 December 2019 buildings are revalued based on the results of an independent appraisal performed by independent appraiser with recognized and relevant professional qualification.

Change in presentation. Starting from 1 January 2019, the Group has decided to present contractual interest accrued for Stage 3 loans gross with simultaneous provisioning of this contractual interest.
The details of this change and effect on disclosure in the consolidated financial statements are presented as follows:

	As previously reported	Effect of reclassifications	As adjusted
Gross loans to customers (Note 9)	919 329 207	4 558 336	923 887 543
Impairment loss allowance (Note 9)	(56 178 502)	(4 558 336)	(60 736 838)
Loans to customers (Note 9)	863 150 705	-	863 150 705

4. Operating segments

For the management purposes, the Group has four reporting business segments:

Corporate and Investment banking (hereinafter – "CIB") includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking comprises banking services to private individuals and Small and Medium Entities (hereinafter – "SME"), credit and debit card services, retail sight and term deposit services, lending to SME and retail lending (consumer loans, car loans and mortgages).

Leasing represents the leasing activities of the Group.

Other represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	31 December 2019	31 December 2018
Assets		
CIB	917 766 045	1 096 420 095
Retail banking	181 838 590	146 328 653
Leasing	33 771 082	27 526 767
Other	93 073 044	92 340 031
Total assets	**1 226 448 761**	**1 362 615 546**
Liabilities		
CIB	650 286 432	821 870 005
Retail banking	321 221 666	299 824 819
Leasing	28 585 015	23 207 443
Other	13 127 033	21 950 975
Total liabilities	**1 013 220 146**	**1 166 853 242**

Notes to Consolidated Financial Statements (Continued)

4. Operating segments (Continued)

Segment information for the operating segments for the year ended 31 December 2019 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income/(expense) from external customers	29 642 235	11 165 132	1 735 527	(1 469 320)	41 073 574
Inter-segment (expense)/income	(4 519 110)	1 124 945	-	3 394 165	-
Net interest income	**25 123 125**	**12 290 077**	**1 735 527**	**1 924 845**	**41 073 574**
Net fee and commission income from external customers	3 386 364	5 537 139	32 993	-	8 956 496
Dividend income	-	-	-	18 757	18 757
(Losses)/gains on financial assets and liabilities held for trading from external customers	(2 564 280)	1 364 799	140	(12 055)	(1 211 396)
Fair value adjustments in portfolio hedge accounting	-	-	-	(44 828)	(44 828)
Gains on disposals of financial assets	2 498 516	112 893	-	-	2 611 409
Operating income	**28 443 725**	**19 304 908**	**1 768 660**	**1 886 719**	**51 404 012**
Impairment on loans and other financial transactions	(6 421 969)	(4 168 978)	(207 521)	-	(10 798 468)
Net income from financial activities	**22 021 756**	**15 135 930**	**1 561 139**	**1 886 719**	**40 605 544**
Operating costs including:	(6 263 523)	(11 396 962)	(431 581)	(1 722 335)	(19 814 401)
depreciation of fixed assets and amortization of intangible assets	(871 083)	(2 253 158)	(3 937)	-	(3 128 178)
impairment of fixed assets	-	(26 939)	-	-	(26 939)
Share of gain in associate	-	-	-	1 263 054	1 263 054
Gains on disposal of fixed assets	-	-	-	4 793	4 793
Profit before income tax expense	**15 758 233**	**3 738 968**	**1 129 558**	**1 432 231**	**22 058 990**
Income tax expense					(4 357 925)
Profit for the year					**17 701 065**
Cash flow hedge reserve					(528 620)
Revaluation reserve for financial assets at fair value through other comprehensive income					4 093 245
Fixed assets revaluation					4 294 938
Foreign currency translation reserve					27 005
Total comprehensive income					**25 587 633**

Segment information for the operating segments for the year ended 31 December 2018 is set out below:

	CIB	Retail banking	Leasing	Other	Total
Net interest income/(expense) from external customers	29 923 000	9 655 448	1 558 492	(88 905)	41 048 035
Inter-segment (expense)/income	(2 292 547)	1 688 265	-	604 282	-
Net interest income	**27 630 453**	**11 343 713**	**1 558 492**	**515 377**	**41 048 035**
Net fee and commission income from external customers	3 604 607	5 096 769	32 901	-	8 734 277
Dividend income	-	-	-	4 987	4 987
(Losses)/gains on financial assets and liabilities held for trading from external customers	(4 132 146)	1 457 300	983	(17 702)	(2 691 565)
Fair value adjustments in portfolio hedge accounting	-	-	-	79 022	79 022
Gains on disposals of financial assets	1 663 199	399 426	-	-	2 062 625
Operating income	**28 766 113**	**18 297 208**	**1 592 376**	**581 684**	**49 237 381**
Impairment on loans and other financial transactions	(7 373 649)	(2 684 144)	(253 751)	-	(10 311 544)
Net income from financial activities	**21 392 464**	**15 613 064**	**1 338 625**	**581 684**	**38 925 837**
Operating costs including:	(6 500 031)	(10 680 068)	(402 539)	(1 440 696)	(19 023 334)
depreciation of fixed assets and amortization of intangible assets	(822 436)	(1 462 507)	(2 832)	-	(2 287 775)
impairment of fixed assets	(15 322)	(57 111)	-	-	(72 433)
Share of gain in associate	-	-	-	954 589	954 589
Gains on disposal of fixed assets	-	-	-	3 900	3 900
Profit before income tax expense	**14 892 433**	**4 932 996**	**936 086**	**99 477**	**20 860 992**
Income tax expense					(4 156 924)
Profit for the year					**16 704 068**
Cash flow hedge reserve					415 749
Revaluation reserve for financial assets at fair value through other comprehensive income					(3 408 955)
Foreign currency translation reserve					(98 835)
Total comprehensive income					**13 612 027**

Information about major customers and geographical areas. The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of net interest income is based on the geographical location of customers and assets.

Geographical information on net interest income and assets for 2019 is presented below:

	Net interest income	Assets
Russian Federation	31 527 562	1 029 040 072
OECD countries	7 890 840	171 146 139
Non-OECD countries	1 655 172	26 262 550
Total	**41 073 574**	**1 226 448 761**

Geographical information on net interest income and assets for 2018 is presented below:

	Net interest income	Assets
Russian Federation	32 574 486	1 134 812 351
OECD countries	6 017 801	181 603 646
Non-OECD countries	2 455 748	46 199 549
Total	**41 048 035**	**1 362 615 546**

5. Cash and cash balances

Cash and cash balances comprise:

	31 December 2019	31 December 2018
Cash on hand	10 973 214	12 091 358
Current accounts with the CBR	13 295 444	3 447 490
Cash and cash balances	**24 268 658**	**15 538 848**

6. Debt securities held for trading

Debt securities held for trading comprise:

	31 December 2019	31 December 2018
USD denominated		
Russian Government Eurobonds	-	1 556 909
RUB denominated		
Russian Government Bonds	-	3 752 528
Debt securities held for trading	**-**	**5 309 437**

As at 31 December 2018 all debt securities held for trading were rated no lower than "BBB-".

Nominal interest rates and maturities of debt securities held for trading are as follows:

	31 December 2019		31 December 2018	
	%	Maturity	%	Maturity
Russian Government Bonds	-	-	6.9-8.15%	2027, 2034
Russian Government Eurobonds	-	-	5.25%	2047

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2019	31 December 2018
Current accounts with credit institutions	46 028 899	82 623 139
Time deposits	140 059 986	114 733 010
Reverse repurchase agreements with credit institutions	47 973 174	150 678 666
Obligatory reserve with the CBR	11 957 146	11 973 998
Gross amounts due from credit institutions	**246 019 205**	**360 008 813**
Less: allowance for loan impairment	(206 678)	(419 823)
Total amounts due from credit institutions	**245 812 527**	**359 588 990**

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

A reconciliation of the impairment loss allowance by stages for the year 2019 is as follows:

	2019		
	Stage 1	Stage 2	Total
Impairment loss allowance at 1 January	**419 789**	**34**	**419 823**
(Recovery)/charge for the year	(208 035)	336	(207 699)
Effect of exchange rate changes	(5 076)	(370)	(5 446)
Impairment loss allowance at 31 December	**206 678**	**-**	**206 678**

A reconciliation of the impairment loss allowance by stages for the year 2018 in accordance with IFRS 9 is as follows:

	2018		
	Stage 1	Stage 2	Total
Impairment loss allowance at 1 January	**-**	**-**	**-**
Effect of change in accounting policy due to IFRS 9 adoption	515 196	-	515 196
At 1 January according to IFRS 9	**515 196**	**-**	**515 196**
(Recovery)/charge for the year	(128 439)	34	(128 405)
Effect of exchange rate changes	33 032	-	33 032
Impairment loss allowance at 31 December	**419 789**	**34**	**419 823**

The following table shows gross amounts due from credit institutions and related impairment distributed by stages according to IFRS 9 as at 31 December 2019:

	Stage 1	Stage 2	Total
Gross loans	246 019 205	-	246 019 205
Impairment	(206 678)	-	(206 678)
Total amounts due from credit institutions	**245 812 527**	**-**	**245 812 527**

The following table shows gross amounts due from credit institutions and related impairment distributed by stages according to IFRS 9 as at 31 December 2018:

	Stage 1	Stage 2	Total
Gross loans	359 347 096	661 717	360 008 813
Impairment	(419 789)	(34)	(419 823)
Total amounts due from credit institutions	**358 927 307**	**661 683**	**359 588 990**

As at 31 December 2019 there are two counterparties with balances that individually exceeded 10% of the Group's equity. As at 31 December 2019, the aggregate amount of these balances is RUB 153 934 130 thousand (31 December 2018: three counterparties with aggregate amount of RUB 281 764 826 thousand). As at 31 December 2019, an allowance of RUB 94 952 thousand was recognised against these loans (31 December 2018: RUB 341 010 thousand).

As at 31 December 2019 and 31 December 2018 the Group entered into reverse repurchase agreements with a number of Russian banks. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2019 and 31 December 2018 comprise:

	31 December 2019		31 December 2018	
	Gross amount of loans	Fair value of collateral	Gross amount of loans	Fair value of collateral
Government bonds	28 475 415	30 804 471	82 352 092	88 335 606
Corporate bonds	10 148 255	11 717 277	61 255 653	70 175 830
Bank bonds	9 349 504	10 275 712	7 070 921	7 351 378
Total	**47 973 174**	**52 797 460**	**150 678 666**	**165 862 814**

As at 31 December 2019 there are no securities which are sold out of collateral pledged under reverse repurchase agreements with credit institutions and disclosed as financial liabilities held for trading in the consolidated statement of financial position (31 December 2018: RUB 3 427 071 thousand).

As at 31 December 2019 included in government bonds are securities in the amount of RUB 336 421 thousand (31 December 2018: none) which were repledged under repurchase agreements with credit institutions (see Note 17 for details). The Group has the obligation to return these securities at the maturity of the related reverse repurchase agreements.

As at 31 December 2019 approximately 85% (31 December 2018: 86%) of amounts due from credit institutions were placed with banks rated not lower than "BBB-".

As at 31 December 2019 the Group had no term placements with the CBR. As at 31 December 2018 the Group had term placements with the CBR in the amount of RUB 3 001 110 thousand. As at 31 December 2018, an allowance of RUB 3 021 thousand was recognised against these loans.

8. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

The Group values the derivative financial instruments using widely accepted valuation techniques, which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value of derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	31 December 2019			31 December 2018		
		Fair value			Fair value	
	Notional principal	Asset	Liability	Notional principal	Asset	Liability
Cross-currency interest rate swaps	245 993 056	11 294 188	9 589 482	306 709 553	25 747 186	16 471 553
Interest rate swaps and options	323 171 704	9 022 310	7 395 456	427 697 625	5 248 843	4 497 636
Foreign exchange forwards, swaps and options	193 016 771	3 567 911	3 972 287	271 822 270	5 872 252	2 683 150
Total derivative financial assets/ liabilities		**23 884 409**	**20 957 225**		**36 868 281**	**23 652 339**

The change in fair value of the trading derivative financial instruments attributable to changes in the counterparty credit risk amounts to a gain of RUB 329 553 thousand for the year ended 31 December 2019 (31 December 2018: loss of RUB 26 774 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	31 December 2019			31 December 2018		
	Notional		Fair value	Notional		Fair value
	principal	Asset	Liability	principal	Asset	Liability
Cash flow hedge						
Interest rate swaps	308 390 052	2 214 494	2 034 270	557 327 810	2 339 692	1 713 468
Cross-currency interest rate swaps	102 626 167	1 715 392	1 988 260	190 026 893	505 258	13 004 256
Total cash flow hedge		**3 929 886**	**4 022 530**		**2 844 950**	**14 717 724**
Fair value hedge						
Interest rate swaps	698 733 214	5 943 486	11 354 941	639 715 294	3 943 200	5 606 451
Total fair value hedge		**5 943 486**	**11 354 941**		**3 943 200**	**5 606 451**
Total derivative financial assets/ liabilities designated for hedging		**9 873 372**	**15 377 471**		**6 788 150**	**20 324 175**

Portfolio Fair Value Hedge Accounting (hereinafter – the "PFVHA") is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items.

The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

The hedging instruments to hedge variability of fair value are measured at fair value with negative changes in fair value of RUB 2 816 698 thousand recognised in portfolio hedge accounting as at 31 December 2019 (31 December 2018: positive changes of RUB 1 633 470 thousand), presented as a loss of RUB 4 450 325 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2019 (31 December 2018: presented as a gain of RUB 5 434 704 thousand).

The positive changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as RUB 2 817 249 thousand as at 31 December 2019 (31 December 2018: negative changes in the amount of RUB 1 633 627 thousand), presented as profit of RUB 4 450 876 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2019 (31 December 2018: presented as a loss of RUB 5 434 861 thousand).

Fair value adjustments in portfolio hedge accounting amounted to a loss of RUB 44 828 thousand for the year ended 31 December 2019 (31 December 2018: gain of RUB 79 022 thousand) and consists of a positive difference between a negative change in fair value of financial instruments designated for hedging purposes and a positive change in fair value of hedged items in the amount of RUB 551 thousand (31 December 2018: negative change of RUB 157 thousand) and a negative change in counterparty credit risk attributable to derivative financial instruments designated for hedging purposes in the amount of RUB 45 379 thousand for the year ended 31 December 2019 (31 December 2018: positive change of RUB 79 179 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

Along with PFVHA the Group uses Portfolio Cash Flow hedging. The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2027 for interest rate swaps and cross-currency interest rate swaps. As at 31 December 2019, the negative effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised in equity was RUB 381 731 thousand (31 December 2018: positive amount of RUB 146 889 thousand), net of tax RUB 95 433 thousand (31 December 2018: RUB 30 884 thousand).

Margin from derivative financial instruments designated for hedging amounted to RUB 2 662 584 thousand for the year ended 31 December 2019 (31 December 2018: RUB 931 393 thousand) and consists of interest income from derivative financial instruments designated for hedging in the amount of RUB 35 860 291 thousand (31 December 2018: RUB 32 044 117 thousand) and interest expenses from derivative financial instruments designated for hedging in the amount of RUB 33 197 707 thousand (31 December 2018: RUB 31 112 724 thousand).

9. Loans to customers

Loans to customers comprise (see Note 3 for details of change in presentation for 31 December 2018):

	31 December 2019	31 December 2018
Corporate customers	543 100 726	709 638 390
Retail customers, including SME	197 027 967	161 858 230
Lease receivables	30 025 485	24 341 470
Reverse repurchase agreements with companies	7 736 381	28 049 453
Gross loans to customers	**777 890 559**	**923 887 543**
Less: allowance for loan impairment	(44 120 032)	(60 736 838)
Total loans to customers	**733 770 527**	**863 150 705**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2019 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2019	**44 497 554**	**15 610 619**	**628 665**	**60 736 838**
Charge for the year	6 241 154	4 154 862	207 521	10 603 537
Loans sold or recovered through acceptance of collateral during the year	(10 924 569)	(3 945 634)	-	(14 870 203)
Loans written-off during the year	(12 106 977)	(1 119 956)	(116 617)	(13 343 550)
Effect of allowance for accrued interest at Stage 3	1 689 478	883 351	-	2 572 829
Effect of exchange rate changes	(1 368 641)	(210 778)	-	(1 579 419)
At 31 December 2019	**28 027 999**	**15 372 464**	**719 569**	**44 120 032**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2018 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
Impairment loss allowance at 1 January 2018	**28 523 430**	**13 924 746**	**338 867**	**42 787 043**
Effect of change in accounting policy due to IFRS 9 adoption	5 822 117	4 358 582	126 437	10 307 136
At 1 January 2018	**34 345 547**	**18 283 328**	**465 304**	**53 094 179**
Charge for the year	9 838 939	2 643 656	253 751	12 736 346
Loans sold or recovered through acceptance of collateral during the year	(217 010)	(6 559 527)	-	(6 776 537)
Loans written-off during the year	(3 810 354)	(681 681)	(90 390)	(4 582 425)
Unwinding of discount	(616 728)	-	-	(616 728)
Effect of exchange rate changes	1 986 425	337 242	-	2 323 667
Change in presentation (Note 3)	2 970 735	1 587 601	-	4 558 336
At 31 December 2018	**44 497 554**	**15 610 619**	**628 665**	**60 736 838**

A reconciliation of the impairment loss allowance by stages in accordance with IFRS 9 for the year ended 31 December 2019 is as follows:

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Impairment loss allowance at the beginning of the year according to IFRS 9	**7 599 346**	**2 843 461**	**50 294 031**	**60 736 838**
Transfer to stage 1	425 261	(372 634)	(52 627)	-
Transfer to stage 2	(542 587)	575 451	(32 864)	-
Transfer to stage 3	-	(1 260 970)	1 260 970	-
(Recovery)/charge for the period	(845 058)	1 563 627	9 884 968	10 603 537
Loans sold or recovered through repossession of collateral during the period	(39 344)	-	(14 830 859)	(14 870 203)
Loans written-off during the period	-	-	(13 343 550)	(13 343 550)
Effect of allowance for accrued interest at Stage 3	-	-	2 572 829	2 572 829
Effect of exchange rate changes	(253 610)	(59 914)	(1 265 895)	(1 579 419)
Impairment loss allowance at the end of the year according to IFRS 9	**6 344 008**	**3 289 021**	**34 487 003**	**44 120 032**

A reconciliation of the impairment loss allowance by stages in accordance with IFRS 9 for the year ended 31 December 2018 is as follows:

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Impairment loss allowance at the beginning of the year according to IFRS 9	**8 357 461**	**2 961 651**	**41 775 067**	**53 094 179**
Transfer to stage 1	932 072	(881 343)	(50 729)	-
Transfer to stage 2	(2 134 477)	2 177 952	(43 475)	-
Transfer to stage 3	-	(2 362 924)	2 362 924	-
Charge for the period	510 065	946 450	11 279 831	12 736 346
Assets sold or recovered through repossession of collateral during the period	(41 793)	-	(6 734 744)	(6 776 537)
Assets written-off during the period	-	-	(4 582 425)	(4 582 425)
Unwinding of discount	-	-	(616 728)	(616 728)
Effect of exchange rate changes	(23 982)	1 675	2 345 974	2 323 667
Change in presentation (Note 3)	-	-	4 558 336	4 558 336
Impairment loss allowance at the end of the year according to IFRS 9	**7 599 346**	**2 843 461**	**50 294 031**	**60 736 838**

Notes to Consolidated Financial Statements (Continued)

9. Loans to customers (Continued)

The tables below analyze information about the significant changes in the gross carrying amount of loans to customers during the period ended 31 December 2019 per stages:

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross loans to customers at the beginning of the period	**830 946 643**	**23 868 033**	**69 072 867**	**923 887 543**
New loans to customers originated	349 172 948	-	-	349 172 948
Transfer to stage 1	3 585 208	(3 515 235)	(69 973)	-
Transfer to stage 2	(23 639 211)	23 672 075	(32 864)	-
Transfer to stage 3	-	(9 893 761)	9 893 761	-
Loans to customers that have been derecognized	(384 145 340)	(14 797 519)	(2 513 453)	(401 456 312)
Assets sold or recovered through repossession of collateral during the period	(22 668 809)	-	(17 479 025)	(40 147 834)
Assets written-off during the period	-	-	(13 343 550)	(13 343 550)
Effect of exchange rate changes	(36 609 595)	(1 551 630)	(2 061 011)	(40 222 236)
Gross loans to customers at the end of the period	**716 641 844**	**17 781 963**	**43 466 752**	**777 890 559**

The tables below analyze information about the significant changes in the gross carrying amount of loans to customers during the period ended 31 December 2018 per stages:

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross loans to customers at the beginning of the period	**628 586 006**	**30 091 509**	**52 632 708**	**711 310 223**
New loans to customers originated	410 298 694	-	-	410 298 694
Transfer to stage 1	13 123 409	(13 032 448)	(90 961)	-
Transfer to stage 2	(46 828 698)	46 872 173	(43 475)	-
Transfer to stage 3	-	(30 032 638)	30 032 638	-
Loans to customers that have been derecognised	(224 914 065)	(13 458 942)	(6 735 472)	(245 108 479)
Assets sold or recovered through repossession of collateral during the period	(200 161)	-	(7 469 997)	(7 670 158)
Assets written-off during the period	-	-	(4 582 425)	(4 582 425)
Effect of exchange rate changes	50 881 458	3 428 379	5 329 851	59 639 688
Gross loans to customers at the end of the period	**830 946 643**	**23 868 033**	**69 072 867**	**923 887 543**

The following table shows gross loans and related impairment as at 31 December 2019:

	Gross loans	Impairment	Net loans
Corporate customers			
- Not past due	523 834 615	(11 477 258)	512 357 357
- Past due less than 31 days	847 477	(584 759)	262 718
- Past due 31-90 days	171 552	(154 397)	17 155
- Past due 91-180 days	261 381	(196 321)	65 060
- Past due over 180 days	17 985 701	(15 352 687)	2 633 014
Total loans to corporate customers	**543 100 726**	**(27 765 422)**	**515 335 304**
Retail customers			
- Not past due	180 884 419	(3 215 026)	177 669 393
- Past due less than 31 days	2 355 535	(604 378)	1 751 157
- Past due 31-90 days	1 622 593	(905 947)	716 646
- Past due 91-180 days	1 619 918	(1 192 095)	427 823
- Past due over 180 days	10 545 502	(9 455 018)	1 090 484
Total loans to retail customers	**197 027 967**	**(15 372 464)**	**181 655 503**
Lease receivables			
- Not past due	29 409 471	(548 642)	28 860 829
- Past due less than 31 days	269 800	(28 137)	241 663
- Past due 31-90 days	202 121	(67 630)	134 491
- Past due 91-180 days	67 578	(36 312)	31 266
- Past due over 180 days	76 515	(38 848)	37 667
Total lease receivables	**30 025 485**	**(719 569)**	**29 305 916**
Reverse repurchase agreements with companies			
- Not past due	7 736 381	(262 577)	7 473 804
Total loans to customers	**777 890 559**	**(44 120 032)**	**733 770 527**

Notes to Consolidated Financial Statements (Continued)

9. Loans to customers (Continued)

The following table shows gross loans and related impairment as at 31 December 2018:

	Gross loans	Impairment	Net loans
Corporate customers			
- Not past due	674 097 437	(14 807 391)	659 290 046
- Past due less than 31 days	4 520 470	(2 631 577)	1 888 893
- Past due 31-90 days	311 446	(131 084)	180 362
- Past due 91-180 days	1 476 125	(958 438)	517 687
- Past due over 180 days	29 232 912	(25 932 322)	3 300 590
Total loans to corporate customers	**709 638 390**	**(44 460 812)**	**665 177 578**
Retail customers			
- Not past due	145 149 278	(3 055 244)	142 094 034
- Past due less than 31 days	2 695 416	(622 610)	2 072 806
- Past due 31-90 days	1 213 936	(623 961)	589 975
- Past due 91-180 days	971 688	(668 361)	303 327
- Past due over 180 days	11 827 912	(10 640 443)	1 187 469
Total loans to retail customers	**161 858 230**	**(15 610 619)**	**146 247 611**
Lease receivables			
- Not past due	23 824 529	(415 544)	23 408 985
- Past due less than 31 days	257 754	(40 664)	217 090
- Past due 31-90 days	111 220	(46 103)	65 117
- Past due 91-180 days	129 208	(111 288)	17 920
- Past due over 180 days	18 759	(15 066)	3 693
Total lease receivables	**24 341 470**	**(628 665)**	**23 712 805**
Reverse repurchase agreements with companies			
- Not past due	28 049 453	(36 742)	28 012 711
Total loans to customers	923 887 543	(60 736 838)	863 150 705

The following table shows gross loans to customers and related impairment distributed by stages according to IFRS 9 as at 31 December 2019:

	Stage 1	Stage 2	Stage 3	Total
Corporate customers				
Gross loans	504 771 208	8 189 728	30 139 790	543 100 726
Impairment	(3 829 002)	(865 321)	(23 071 099)	(27 765 422)
Net loans to corporate customers	**500 942 206**	**7 324 407**	**7 068 691**	**515 335 304**
Retail customers and SME				
Gross loans	174 985 264	9 415 957	12 626 746	197 027 967
Impairment	(1 920 216)	(2 410 285)	(11 041 963)	(15 372 464)
Net loans to retail customers and SME	**173 065 048**	**7 005 672**	**1 584 783**	**181 655 503**
Lease receivables				
Gross lease receivables	29 148 991	176 278	700 216	30 025 485
Impairment	(332 213)	(13 415)	(373 941)	(719 569)
Net lease receivables	**28 816 778**	**162 863**	**326 275**	**29 305 916**
Reverse repurchase agreements with companies				
Gross loans	7 736 381	-	-	7 736 381
Impairment	(262 577)	-	-	(262 577)
Net reverse repurchase agreements with companies	**7 473 804**	**-**	**-**	**7 473 804**
Total loans to customers	**710 297 836**	**14 492 942**	**8 979 749**	**733 770 527**

The following table shows gross loans to customers and related impairment distributed by stages according to IFRS 9 as at 31 December 2018:

	Stage 1	Stage 2	Stage 3	Total
Corporate customers				
Gross loans	639 423 638	14 632 827	55 581 925	709 638 390
Impairment	(5 108 557)	(838 205)	(38 514 050)	(44 460 812)
Net loans to corporate customers	**634 315 081**	**13 794 622**	**17 067 875**	**665 177 578**
Retail customers and SME				
Gross loans	139 894 394	8 993 502	12 970 334	161 858 230
Impairment	(2 119 372)	(1 997 015)	(11 494 232)	(15 610 619)
Net loans to retail customers and SME	**137 775 022**	**6 996 487**	**1 476 102**	**146 247 611**
Lease receivables				
Gross lease receivables	23 579 158	241 704	520 608	24 341 470
Impairment	(334 675)	(8 241)	(285 749)	(628 665)
Net lease receivables	**23 244 483**	**233 463**	**234 859**	**23 712 805**
Reverse repurchase agreements with companies				
Gross loans	28 049 453	-	-	28 049 453
Impairment	(36 742)	-	-	(36 742)
Net reverse repurchase agreements with companies	**28 012 711**	**-**	**-**	**28 012 711**
Total loans to customers	**823 347 297**	**21 024 572**	**18 778 836**	**863 150 705**

Notes to Consolidated Financial Statements (Continued)

9. Loans to customers (Continued)

The following table provides analysis of minimum lease payments as at 31 December 2019:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	15 006 964	12 364 325
From 1 to 5 years	18 077 966	15 447 393
Over 5 years	1 688 344	1 494 198
	34 773 274	**29 305 916**
Less unearned finance income	(5 467 358)	-
Present value of minimum lease payments receivable (net investment in the lease)	**29 305 916**	**29 305 916**

The following table provides analysis of minimum lease payments as at 31 December 2018:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	12 719 710	10 365 058
From 1 to 5 years	14 308 071	11 881 202
Over 5 years	1 813 764	1 466 545
	28 841 545	**23 712 805**
Less unearned finance income	(5 128 740)	-
Present value of minimum lease payments receivable (net investment in the lease)	**23 712 805**	**23 712 805**

Impaired loans. Interest income on impaired loans for the year ended 31 December 2019 amounted to RUB 1 323 647 thousand (year ended 31 December 2018: RUB 727 273 thousand).

Renegotiated loans. As at 31 December 2019 and 31 December 2018 loans to customers included Stage 1 and 2 loans totaling RUB 1 880 601 thousand and RUB 17 119 252 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Write-off and sale of loans. The decision to write-off the loan is taken by the authorized body of the Group. Loans are written-off after receiving all necessary documentation from the authorized state bodies, as well as under the conditions where further debt collection is not possible.

The decisions to sell the loans is taken individually for each case, for both corporate and retail loans. The decision is taken by the authorized body of the Group based on the analysis of all possible alternative strategies for debt collection, the main criterion for the adoption of which is to minimize the losses of the Group's troubled assets.

Collateral. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines regarding the acceptability of types of collateral taking into account valuation parameters of borrower risk level are implemented.

The main types of collateral obtained are as follows:
- For reverse repurchase transactions, securities;
- For commercial lending to corporate customers, pledge over real estate properties, equipment, inventories and trade receivables, guarantee of a legal entity with rating not lower than "BBB";
- For retail lending, mortgages over residential properties and motor vehicles;
- For lease receivables, pledge over real estate properties, motor vehicles and equipment.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing and regularly reassessed.

The following table summarizes the carrying value of loans, net of impairment, to corporate customers by types of collateral as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Loans to corporate customers		
Real estate	35 635 578	29 006 120
Guarantees	34 187 080	36 940 227
Other collateral	37 823	3 681 274
No collateral	445 474 823	595 549 957
Total loans to corporate customers	**515 335 304**	**665 177 578**

The following table summarizes the carrying value of loans, net of impairment, to retail customers by types of collateral as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Loans to retail customers		
Real estate	58 720 486	34 840 376
Motor vehicles	58 290 092	48 205 703
Other collateral	-	104 273
No collateral	64 644 925	63 097 259
Total loans to retail customers	**181 655 503**	**146 247 611**

The following table summarizes the carrying value of lease receivables, net of impairment, by types of collateral as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Lease receivables		
Real estate	466 972	485 714
Motor vehicles	7 817 996	7 375 232
Other collateral	21 020 948	15 851 859
Total lease receivables	**29 305 916**	**23 712 805**

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

When lending to legal entities belonging to one economic group, the Group normally also obtains guarantees from other group members.

Repossessed collateral. As at 31 December 2019 and 31 December 2018, the Group obtained certain assets by taking control of collateral obtained for derecognized loans to customers. As at 31 December 2019, the repossessed collateral is comprised of real estate, motor vehicles and other assets with carrying amount of RUB 441 925 thousand (31 December 2018: RUB 538 141 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Reverse repurchase agreements. As at 31 December 2019 and 31 December 2018 the Group entered into reverse repurchase agreements with a number of Russian companies. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2019 and 31 December 2018 comprise:

	31 December 2019		31 December 2018	
	Gross amount of loans	Fair value of collateral	Gross amount of loans	Fair value of collateral
Government bonds	221 864	246 980	15 567 594	16 291 947
Corporate bonds	6 952 893	7 766 442	12 481 859	13 880 054
Bank bonds	561 624	609 392	-	-
Total	**7 736 381**	**8 622 814**	**28 049 453**	**30 172 001**

9. Loans to customers (Continued)

As at 31 December 2019 included in bank bonds are securities in the amount of RUB 10 691 thousand (31 December 2018: none) which were repledged under repurchase agreements with customers (see Note 18 for details). The Group has the obligation to return these securities at the maturity of the related reverse repurchase agreements.

Concentration of loans to customers. As at 31 December 2019, the Group had RUB 166 589 729 thousand due from the ten largest borrowers (21% of gross loan portfolio) (31 December 2018: RUB 243 755 054 thousand or 27%). As at 31 December 2019, an allowance of RUB 280 329 thousand was recognised against these loans (31 December 2018: RUB 405 822 thousand).

As at 31 December 2019, the Group had three borrowers or a group of borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2018: ten borrowers or a group of borrowers). As at 31 December 2019, the aggregate amount of these loans is RUB 84 312 172 thousand (31 December 2018: RUB 262 552 497 thousand).

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

	31 December 2019	31 December 2018
Mining and metallurgy	116 070 824	196 296 861
Chemicals	97 052 009	92 865 163
Trade	76 425 130	101 344 131
Other manufacturing	47 430 313	52 114 124
Machinery construction	42 602 629	32 135 968
Real estate and construction	34 910 178	44 803 795
Energy	34 715 166	75 318 193
Agriculture and food	29 784 233	31 986 092
Telecommunications	27 111 589	21 828 067
Finance	24 932 186	49 665 293
Timber processing	21 828 192	35 063 393
Transportation	17 798 444	18 729 614
Other	13 185 202	13 269 482
Gross loans to corporate customers	**583 846 095**	**765 420 176**
Gross loans to individuals	**194 044 464**	**158 467 367**
Gross loans to customers	**777 890 559**	**923 887 543**

Loans to individuals are divided by products as follows:

	31 December 2019	31 December 2018
Car loans	63 772 753	53 984 605
Consumer loans	61 225 334	52 796 913
Mortgages loans	61 232 934	42 557 794
Other loans	7 813 443	9 128 055
Gross loans to individuals	**194 044 464**	**158 467 367**

10. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise:

	31 December 2019	31 December 2018
Debt and other fixed income investments		
USD denominated		
Russian Government Eurobonds	-	20 403 064
RUB denominated		
Cental bank bonds	95 542 835	-
Russian Government Bonds	30 830 961	20 516 950
Corporate and bank bonds	12 508 221	6 152 651
Total debt and other fixed income investments measured at fair value through other comprehensive income	**138 882 017**	**47 072 665**
Equity investments		
RUB denominated		
Equity investments in financial institutions	116 945	116 945
EUR denominated		
Equity investments in financial institutions	6 747	6 747
Total equity investments measures at fair value through other comprehensive income	**123 692**	**123 692**
Total financial assets measures at fair value through other comprehensive income	**139 005 709**	**47 196 357**

As of 31 December 2019 and 31 December 2018 all debt securities classified as financial assets at fair value through other comprehensive income were allocated to Stage 1 in accordance with IFRS 9.

As at 31 December 2019 included in Russian Government bonds are securities sold under repurchase agreements in the amount of RUB 678 732 thousand (31 December 2018: Russian Government bonds in the amount of RUB 937 601 thousand) (see Notes 12 and 17 for details).

Nominal interest rates and maturities of these securities are as follows:

	31 December 2019		31 December 2018	
	%	Maturity	%	Maturity
Central bank bonds	6.3	2020	-	-
Russian Government Bonds	7.1-8.2%	2027-2039	6.5-8.5%	2024-2034
Corporate and bank bonds	6.5-9.8%	2020-2050	6.75-9.25%	2019-2050
Russian Government Eurobonds	-	-	4.25-7.5%	2023-2047

As at 31 December 2019 approximately 18% of debt and other fixed income investments were rated not lower than “BBB-” (31 December 2018: 96%).

11. Investments in associate

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO "RN Bank" (Russian Federation) since 2013 (see Note 1). Total acquisition costs amounted to RUB 6 033 031 thousand, including increase in share capital amounted to RUB 1 209 598 thousand.

Information about associate of the Group as at reporting date is set out below:

Name	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest by the Group	
			31 December 2019	**31 December 2018**
BARN B.V.	Holding company	Netherlands	40%	40%

The above associate is accounted for using the equity method.

The summarized financial information in respect of BARN B.V. as of 31 December 2019 and as of 31 December 2018 is set out below. The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRS.

	31 December 2019	31 December 2018
Total assets	107 191 578	92 344 461
Total liabilities	87 304 557	75 682 206
Equity	19 887 021	16 662 255
Net profit	3 157 636	2 814 156

The carrying amounts of the Group's interest in BARN B.V. as of 31 December 2019 and as of 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Net assets of BARN B.V.	19 887 021	16 662 255
Proportion of the Group's ownership interest in BARN B.V.	7 954 809	6 664 902
Goodwill	247 235	247 235
Carrying amount of the Group's interest in BARN B.V.	**8 202 044**	**6 912 137**

The reconciliation of the above financial information to the carrying amount of the interest in associate recognized in the consolidated financial statements is as follows:

Carrying amount of the Group's interest in BARN B.V. as at 1 March 2018 (unaudited)	**4 823 433**
Share of capital increase	1 209 598
Share of post-acquisition net profit of associate	954 589
Share of post-acquisition other comprehensive loss of associate	(75 483)
Carrying amount of the Group's interest in BARN B.V. as at 31 December 2018	**6 912 137**
Carrying amount of the Group's interest in BARN B.V. as at 1 January 2019	**6 912 137**
Share of post-acquisition net profit of associate	1 263 054
Share of post-acquisition other comprehensive income of associate	26 853
Carrying amount of the Group's interest in BARN B.V. as at 31 December 2019	**8 202 044**

12. Transfers of financial assets

The Group has transactions to sell securities classified as trading, financial assets at fair value through other comprehensive income under agreements to repurchase (see Notes 10, 17 for details).

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under repurchase agreements" in Note 10. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances due to credit institutions (see Note 17 for details).

These transactions are conducted under terms that are usual and customary to standard lending, as well as requirements determined by exchanges.

As at 31 December 2019 and 31 December 2018 the breakdown by portfolio of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2019		31 December 2018	
	Carrying amount of assets	**Carrying amount of associated liabilities**	**Carrying amount of assets**	**Carrying amount of associated liabilities**
Financial assets at fair value through other comprehensive income	678 732	615 053	937 601	869 379
Total	**678 732**	**615 053**	**937 601**	**869 379**

As at 31 December 2019 and 31 December 2018 the breakdown by issuer of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2019		31 December 2018	
	Carrying amount of assets	**Carrying amount of associated liabilities**	**Carrying amount of assets**	**Carrying amount of associated liabilities**
Government bonds	678 732	615 053	937 601	869 379
Total	**678 732**	**615 053**	**937 601**	**869 379**

13. Fixed assets

The movements in fixed assets were as follows:

	Buildings	Computers and equipment	Other fixed assets	Right-of-use assets - Buildings	Total
Cost					
31 December 2018	**6 611 550**	**4 987 040**	**1 115 262**	**-**	**12 713 852**
Effect of change in accounting policy for application of IFRS 16 (Note 2)	-	-	-	2 062 507	2 062 507
Cost					
1 January 2019	**6 611 550**	**4 987 040**	**1 115 262**	**2 062 507**	**14 776 359**
Additions	-	1 047 941	189 110	-	1 237 051
Disposals	(207 420)	(202 062)	(354 191)	-	(763 673)
Revaluation (Note 2)	37 080 595	-	-	-	37 080 595
31 December 2019	**43 484 725**	**5 832 919**	**950 181**	**2 062 507**	**52 330 332**
Accumulated depreciation					
1 January 2019	**(2 627 109)**	**(4 121 938)**	**(514 801)**	**-**	**(7 263 848)**
Depreciation charge	(87 473)	(591 746)	(39 465)	(653 030)	(1 371 714)
Impaiment	(3 854)	-	(23 085)	-	(26 939)
Disposals	103 586	264 754	33 916	-	402 256
Revaluation (Note 2)	(31 711 922)	-	-	-	(31 711 922)
31 December 2019	**(34 326 772)**	**(4 448 930)**	**(543 435)**	**(653 030)**	**(39 972 167)**
Net book value					
As at 31 December 2019	**9 157 953**	**1 383 989**	**406 746**	**1 409 477**	**12 358 165**

As of 31 December 2019 buildings valued at fair value are categorised into Level 3 fair value hierarchy.

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2018	**6 577 320**	**4 674 821**	**985 590**	**12 237 731**
Additions	34 230	698 247	384 926	1 117 403
Disposals	-	(386 028)	(255 254)	(641 282)
31 December 2018	**6 611 550**	**4 987 040**	**1 115 262**	**12 713 852**
Accumulated depreciation				
1 January 2018	**(2 357 932)**	**(4 039 101)**	**(478 060)**	**(6 875 093)**
Depreciation charge	(228 332)	(468 526)	(36 465)	(733 323)
Impaiment	(40 845)	-	(31 588)	(72 433)
Disposals	-	385 689	31 312	417 001
31 December 2018	**(2 627 109)**	**(4 121 938)**	**(514 801)**	**(7 263 848)**
Net book value				
As at 31 December 2018	**3 984 441**	**865 102**	**600 461**	**5 450 004**

14. Intangible assets

The movements in intangible assets were as follows:

	2019	2018
Cost		
1 January	**14 413 931**	**12 981 728**
Additions	3 019 495	1 675 859
Disposals	(76 561)	(243 656)
31 December	**17 356 865**	**14 413 931**
Accumulated amortisation		
1 January	**(7 082 148)**	**(5 528 924)**
Amortisation charge	(1 756 464)	(1 554 452)
Disposals	20 270	1 228
31 December	**(8 818 342)**	**(7 082 148)**
Net book value		
As at 31 December	**8 538 523**	**7 331 783**

15. Taxation

The corporate income tax expense comprises:

	2019	2018
Current tax charge	5 095 553	6 930 442
Deferred tax charge – reversal of temporary differences	(737 628)	(2 773 518)
Income tax expense	**4 357 925**	**4 156 924**

Russian legal entities must file individual tax declarations. The tax rate for banks and companies for profits other than on state securities was 20% for 2019 and 2018. The tax rate for interest income on state securities was 15% for 2019 and 2018.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2019	2018
Profit before tax	**22 058 990**	**20 860 992**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**4 411 798**	**4 172 198**
Effect of income taxed at lower tax rates	(445 868)	(326 883)
Non-deductible costs	391 995	311 609
Income tax expense	**4 357 925**	**4 156 924**

Notes to Consolidated Financial Statements (Continued)

15. Taxation (Continued)

Deferred tax assets and liabilities as at 31 December 2019 and 31 December 2018 comprise:

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Fixed and intangible assets	8 567 449	1 756 244	(11 620 323)	(3 246 456)	(3 052 874)	(1 490 212)
Debt securities held for trading and derivatives	577 567	3 079 963	-	(1 894 877)	577 567	1 185 086
Financial assets at fair value through other comprehensive income	10 390	538 278	(504 772)	(15 148)	(494 382)	523 130
Loan impairment and credit related commitments	2 645 189	2 952 689	(2 467 802)	(3 073 720)	177 387	(121 031)
Other items	3 401 648	2 627 415	-	(887 740)	3 401 648	1 739 675
Total deferred tax assets/(liabilities)	**15 202 243**	**10 954 589**	**(14 592 897)**	**(9 117 941)**	**609 346**	**1 836 648**

Movement in deferred tax assets and liabilities during the year ended 31 December 2019 is presented in the table below:

	1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2019
Fixed and intangible assets	(1 490 212)	(488 927)	(1 073 735)	(3 052 874)
Debt securities held for trading and derivatives	1 185 086	(733 836)	126 317	577 567
Financial assets at fair value through other comprehensive income	523 130	-	(1 017 512)	(494 382)
Loan impairment and credit related commitments	(121 031)	298 418	-	177 387
Other items	1 739 675	1 661 973	-	3 401 648
	1 836 648	**737 628**	**(1 964 930)**	**609 346**

Movement in deferred tax assets and liabilities during the year ended 31 December 2018 is presented in the table below:

	1 January 2018	Effect of change in accounting policy for application of IFRS 9	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2018
Fixed and intangible assets	(1 408 648)	-	(81 564)	-	(1 490 212)
Debt securities held for trading and derivatives	(2 414 277)	-	3 697 462	(98 099)	1 185 086
Financial assets at fair value through other comprehensive income	(471 239)	(241 458)	383 588	852 239	523 130
Loan impairment and credit related commitments	(1 498 809)	3 048 125	(1 670 347)	-	(121 031)
Other items	1 295 296	-	444 379	-	1 739 675
	(4 497 677)	**2 806 667**	**2 773 518**	**754 140**	**1 836 648**

Tax effect relating to components of other comprehensive income comprises:

	2019			2018		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	(654 937)	126 317	(528 620)	513 848	(98 099)	415 749
Revaluation reserve for financial assets at fair value through other comprehensive income	5 110 757	(1 017 512)	4 093 245	(4 261 194)	852 239	(3 408 955)
Foreign currency translation reserve	27 005	-	27 005	(98 835)	-	(98 835)
Revaluation reserve for fixed assets	5 368 673	(1 073 735)	4 294 938	-	-	-
Other comprehensive income	**9 851 498**	**(1 964 930)**	**7 886 568**	**(3 846 181)**	**754 140**	**(3 092 041)**

16. Other assets and liabilities

Other assets comprise:

	31 December 2019	31 December 2018
Advances, prepayments and deferred expenses	5 796 001	4 934 120
Transit accounts	4 918 808	345 334
VAT receivables on leases	821 269	416 387
Accrued income other than income capitalised in related financial assets	470 013	841 400
Other	1 455 797	1 287 966
Other assets	**13 461 888**	**7 825 207**

Other liabilities comprise:

	31 December 2019	31 December 2018
Accrued compensation expense	4 030 571	3 923 670
Provision for off-balance	3 873 160	3 532 376
Accrued expenses and deferred income	2 878 814	1 004 746
Accounts payable	1 775 850	2 495 992
Transit accounts	482 337	1 180 261
Taxes payables	444 062	391 629
Other provisions	226 036	470 337
Other	1 285 908	2 406 169
Other liabilities	**14 996 738**	**15 405 180**

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2019	31 December 2018
Current accounts	7 316 851	9 328 075
Time deposits and loans	58 494 241	44 255 468
Repurchase agreements with credit institutions (Note 12)	917 972	869 379
Subordinated debt (Note 20)	29 780 408	33 517 157
Amounts due to credit institutions	**96 509 472**	**87 970 079**

As at 31 December 2019, the ten largest deposits, excluding subordinated debt, represented 83% of total amounts due to credit institutions (31 December 2018: 77%).

As at 31 December 2019, the Group has one counterparty with aggregate balances that individually exceeded 10% of equity (31 December 2018: none).

As at 31 December 2019 fair value of securities pledged under repurchase agreements with credit institutions is RUB 678 732 thousand (31 December 2018: RUB 937 601 thousand) (see Notes 10, 12 and 28 for details).

As at 31 December 2019 included in repurchase agreements with credit institutions are agreements in the amount of RUB 302 919 thousand (31 December 2018: none) which are secured by Russian government bonds with fair value of RUB 336 421 thousand obtained under reverse repurchase agreements with credit institutions (see Note 7 for details).

18. Amounts due to customers

The amounts due to customers include the following:

	31 December 2019	31 December 2018
Current accounts	215 990 365	207 011 786
Time deposits	644 239 121	808 629 082
Repurchase agreements with customers	9 857	-
Lease liabilities under IFRS 16	1 387 304	-
Amounts due to customers	**861 626 647**	**1 015 640 868**

As at 31 December 2019, approximately 34% of total amounts due to customers was placed with the Group by its ten largest customers (31 December 2018: 45%).

Analysis of customer accounts by type of customers is as follows:

	31 December 2019	31 December 2018
Corporate		
Current accounts	84 173 774	79 068 909
Time deposits	454 966 587	636 922 591
Repurchase agreements with customers	9 857	-
Total corporate accounts	**539 150 218**	**715 991 500**
Retail		
Current accounts	131 816 591	127 942 877
Time deposits	189 272 534	171 706 491
Total retail accounts	**321 089 125**	**299 649 368**
Lease liabilities under IFRS 16	**1 387 304**	**-**
Amounts due to customers	**861 626 647**	**1 015 640 868**

Included in retail time deposits are deposits of individuals in the amount of RUB 167 534 866 thousand (31 December 2018: RUB 151 315 470 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 21 737 668 thousand (31 December 2018: RUB 20 391 021 thousand) is represented by deposits placed by SME.

As at 31 December 2019 repurchase agreements with customers in the amount of RUB 9 857 thousand (31 December 2018: none) are secured by bank bonds with fair value of RUB 10 691 thousand obtained under reverse repurchase agreements with customers (see Note 9 for details).

The analisys by the economic sector is presented in the table below:

	31 December 2019	31 December 2018
Energy	148 400 758	339 647 424
Trade	102 627 855	95 695 275
Machinery construction	58 589 867	31 421 065
Russian regional authorities	49 322 772	62 648 463
Mining and metallurgy	45 832 153	58 796 169
Real estate and construction	38 968 514	30 643 246
Telecommunications	30 858 971	17 163 945
Other manufacturing	26 920 194	26 968 633
Chemicals	19 316 315	15 344 029
Transportation	16 989 716	19 965 191
Finance	15 753 466	26 733 062
Agriculture and food	3 975 246	5 718 454
Timber processing	3 361 377	5 656 917
Other	38 059 089	37 333 873
Corporate customers	598 976 293	773 735 746
Individuals	261 263 050	241 905 122
Customers	**860 239 343**	**1 015 640 868**

19. Debt securities issued

Debt securities issued consisted of the following bonds:

Issue	Date of issue	Maturity date	Currency	Coupon rate, %	Carrying value at 31 December 2019	Carrying value at 31 December 2018
UniCredit Bank, BO-22	12.08.2014	06.08.2019	RUB	9.00	-	46 732
UniCredit Bank, BO-21	23.05.2014	17.05.2019	RUB	9.00	-	818
UniCredit Bank, BO-11	26.11.2014	20.11.2019	RUB	9.10	-	3
Debt securities issued					**-**	**47 553**

20. Subordinated debt

	31 December 2019	31 December 2018
UniCredit S.p.A		
USD 480 900 thousand, quarterly interest payment, maturing March 2025	29 780 408	33 517 157
Subordinated Debt	**29 780 408**	**33 517 157**

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group’s liabilities to all other creditors.

21. Shareholder's equity

As at 31 December 2019 and 31 December 2018, the authorised, issued and paid share capital comprises 2 404 181 ordinary shares with a par value of RUB 16 820 each.

In 2019 the Group declared and paid dividends of RUB 3 378 per share on ordinary shares in the total amount of RUB 8 121 322 thousand (2018: RUB 6 861 533 thousand).

22. Commitments and contingencies

Credit related commitments and contingencies comprise:

	31 December 2019	31 December 2018
Undrawn loan commitments	376 971 129	323 047 380
Undrawn guarantees and letters of credit commitments	241 762 866	314 753 124
Guarantees issued	151 284 851	146 447 347
Letters of credit	51 852 069	58 185 712
Gross credit related commitments and contingencies	**821 870 915**	**842 433 563**
Provision for credit related commitments and contingencies	(3 873 160)	(3 532 376)
Net credit related commitments and contingencies	**817 997 755**	**838 901 187**

A reconciliation of provision for credit losses on financial guarantees and other committed and uncommitted credit related commitments and contingencies in accordance with IFRS 9 for the year ended 31 December 2019 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance as at the beginning of the period	**3 102 125**	**121 818**	**41 023**	**3 264 966**
(Recovery)/charge for the period	(901 398)	(10 968)	140 678	(771 688)
Balance as at the end of the period	**2 200 727**	**110 850**	**181 701**	**2 493 278**

A reconciliation of provision for credit losses on financial guarantees and other committed and uncommitted credit related commitments and contingencies in accordance with IFRS 9 for the year ended 31 December 2018 is as follows:

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	-	-	-	-
Effect of change in accounting policy due to IFRS 9 adoption	3 614 982	515 157	285 005	4 415 144
At 1 January 2018 according to IFRS 9	**3 614 982**	**515 157**	**285 005**	**4 415 144**
Recovery for the period	(512 857)	(393 339)	(243 982)	(1 150 178)
At 31 December 2018	**3 102 125**	**121 818**	**41 023**	**3 264 966**

A reconciliation of the provisions on credit related commitments in accordance with IAS 37 is as follows:

	31 December 2019	31 December2018
Provisions at the beginning of the period	**267 410**	**1 458 050**
Charge/(recovery) for the period	1 112 472	(1 190 640)
Provisions at the end of the period	**1 379 882**	**267 410**

The following table shows gross financial guarantees and other committed and uncommitted credit related commitments and contingencies and related expected loss under IFRS 9 by stages as of 31 December 2019:

	Stage 1	Stage 2	Stage 3	Total
Gross credit related commitments and contingencies	707 625 098	12 434 829	316 126	720 376 053
Provisions for credit related commitments and contingencies	(2 200 727)	(110 850)	(181 701)	(2 493 278)
Net credit related commitments and contingencies	**705 424 371**	**12 323 979**	**134 425**	**717 882 775**

The following table shows gross credit related commitments and related impairment under IAS 37 as of 31 December 2019:

	Performing exposure	Impaired exposure	Total
Gross credit related commitments and contingencies	100 571 088	923 774	101 494 862
Provisions for credit related commitments and contingencies	(608 514)	(771 368)	(1 379 882)
Net credit related commitments and contingencies	**99 962 574**	**152 406**	**100 114 980**

The following table shows gross financial guarantees and other committed and uncommitted credit related commitments and contingencies and related expected loss under IFRS 9 by stages as of 31 December 2018:

	Stage 1	Stage 2	Stage 3	Total
Gross credit related commitments and contingencies	715 583 026	34 351 805	57 073	749 991 904
Provisions for credit related commitments and contingencies	(3 102 125)	(121 818)	(41 023)	(3 264 966)
Net credit related commitments and contingencies	**712 480 901**	**34 229 987**	**16 050**	**746 726 938**

The following table shows gross credit related commitments and related impairment under IAS 37 as of 31 December 2018:

	Performing exposure	Impaired exposure	Total
Gross credit related commitments and contingencies	91 160 605	1 281 054	92 441 659
Provisions for credit related commitments and contingencies	-	(267 410)	(267 410)
Net credit related commitments and contingencies	**91 160 605**	**1 013 644**	**92 174 249**

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans issued. With respect to the documentary instruments shown above, as at 31 December 2019, collateral deposits of RUB 6 007 311 thousand were held by the Group (31 December 2018: RUB 17 290 901 thousand).

Operating environment. The Russian Federation displays certain characteristics of an emerging market. Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation may change frequently and are subject to arbitrary interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Given that Russia produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the prices of oil and gas on the world market. Following high volatility in natural resources prices, the ruble exchange rate and interest rates in 2018 and 2019 have been relatively stable. The Russian economy continued to be negatively impacted by ongoing political tension in the region and continuing international sanctions imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

There has continued to be increased economic challenges to the Russian consumers and corporates, which have led to higher defaults in the retail and commercial banking sector. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could significantly differ from actual results.

Taxation. Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. As of the reporting date, the tax authorities completed the Bank's tax inspection regarding the correct calculation and timely payment of taxes and fees for the years 2015-2016, the Bank has not yet received an act on the results of this tax inspection. Management is not aware of any fines and charges related to this tax inspection. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2019, amendments were introduced to the Tax Code of the Russian Federation and certain other legislative acts, which provides, among other things, an increase in the general rate of Value Added Tax (VAT) from 18% to 20%. The new rates apply to goods, work, services, and property rights supplied starting from 1 January 2019. As the banking operations are exempted from VAT the management does not expect any significant effect of these changes on the consolidated financial statements of the Group, except for corresponding increase of the cost of goods and services purchased.

Fiduciary activities. The Group also provides depositary services to its customers. As at 31 December 2019 and 31 December 2018, the Group had customer securities totaling 38 574 427 402 items and 36 942 398 341 items, respectively, in its nominal holder accounts.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. As at 31 December 2019 the provision for legal proceedings in the amount of RUB 226 036 thousand (31 December 2018: RUB 470 337 thousand) was recognized in other liabilities in the consolidated statement of financial position.

23. Losses on financial assets and liabilities held for trading

(Losses)/gains on financial assets and liabilities held for trading comprise:

	2019	2018
Net gains/(losses) from debt securities held for trading	50 018	(1 489 460)
Net losses from foreign exchange, interest based derivatives and translation of other foreign currency assets and liabilities	(1 261 414)	(1 202 105)
Losses on financial assets and liabilities held for trading	**(1 211 396)**	**(2 691 565)**

24. Fee and commission income and expense

Fee and commission income comprises:

	2019	2018
Agent insurance fee	4 090 566	3 722 675
Retail services	3 136 489	3 001 499
Customer accounts handling and settlements	2 487 770	2 618 699
Documentary business	2 083 762	2 316 387
Other	10 593	13 127
Fee and commission income	**11 809 180**	**11 672 387**

Fee and commission expense comprises:

	2019	2018
Retail services	(1 293 008)	(1 218 835)
Accounts handling and settlements	(1 249 155)	(1 249 745)
Documentary business	(114 511)	(326 908)
Other	(196 010)	(142 622)
Fee and commission expense	**(2 852 684)**	**(2 938 110)**

25. Personnel and other administrative expenses

Personnel and other administrative expenses comprise:

	2019	2018
Salaries and bonuses	7 666 330	7 121 938
Social security costs	470 210	443 764
Other compensation expenses	204 640	180 945
Other employment taxes	1 896 575	1 681 932
Personnel expenses	**10 237 755**	**9 428 579**
Communication and information services	2 782 792	2 486 603
Deposit insurance	1 704 926	1 336 187
Rent, repairs and maintenance	582 453	1 307 438
Security expenses	348 977	385 422
Advertising and marketing	212 112	512 772
Other taxes	143 495	150 574
Legal, audit and other professional services	143 885	141 416
Other	656 022	689 776
Other administrative expenses	**6 574 662**	**7 010 188**

26. Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, principles and approaches established by Basel II and Basel III, Regulation and Directive of the European Parliament and the Council (CRD IV), the CBR regulation.

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

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

Capital (own funds) under the requirements of the CBR regulation No. 646-P "Calculation of own funds (Basel III) by credit institutions" as at 31 December 2019 and 31 December 2018 was as follows:

	31 December 2019	31 December 2018
Core equity Tier I capital	182 670 441	175 108 291
Tier I capital	182 670 441	175 108 291
Additional capital	38 348 034	41 573 433
Total capital	**221 018 475**	**216 681 724**

Core equity Tier I and Tier I comprise share capital, share premium, reserve fund and retained earnings including current year profit. Additional capital includes subordinated debt, current year profit not included in the main capital and revaluation reserves.

The capital adequacy ratios, computed in accordance with the CBR Regulation No. 180-I "Obligatory banking ratios", as at 31 December 2019 and 31 December 2018 were as follows:

	31 December 2019	31 December 2018
Total capital adequacy ratio H1.0 (minimum 8%)	18,0%	16.1%
Core equity Tier I capital adequacy ratio H1.1 (minimum 4.5%)	15,0%	13.1%
Tier 1 capital adequacy ratio H1.2 (minimum 6%)	15,0%	13.1%

Capital and capital adequacy ratio under Basel III and Basel II requirements (unaudited). Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Group internal policies.

Starting from 2017, the Group calculates risk weighted assets in accordance with the requirements of CRD IV. Subordinated loans, received by the Group might be considered as loss absorbtion capacity of the Bank and as a result can be included in Tier II capital.

The capital and capital adequacy ratios computed in accordance with the Basel II and Basel III requirements as at 31 December 2019 and 31 December 2018 were as follows (unaudited):

	31 December 2019	31 December 2018
Core equity Tier 1 capital	188 977 354	173 649 762
Tier II capital	31 186 341	35 179 280
Total capital	**220 163 695**	**208 829 042**
Risk weighted assets	**1 100 992 675**	**1 106 293 154**
Core equity Tier 1 capital ratio	17.2%	15.7%
Total capital ratio	20.0%	18.9%

27. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market (including foreign exchange), liquidity and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimize potential adverse effect on the Group's financial performance.

Risk management structure. The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board has the overall responsibility for the oversight of the risk management framework, supervising the management of key risks. It also approves internal documentation for strategic areas of activity, including those concerning management of capital and risk.

The Board of Management has the overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is a Member of the Board of Management.

The most important risk quantification systems are subject to internal validation by the dedicated independent function within Chief Risk Officer area.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as the Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of Credit Approval Authorities, which includes four credit committees, including Credit Committee, Small Credit Committee, Special Credit Committee and Retail Business Credit Committee as well as several levels of joint and single personal approval authority, depending on the amount of exposure, risk type and risk associated with a customer (internal ratings).

The main objective of the risk-committee is to analyze and discuss the current risk profile, its compliance with risk appetite and risk strategy approved by the Supervisory Board, also for making operational decisions aimed at achieving the targets set for the risk profile, as well as other issues of risk management quality improvement in the Bank within the framework defined by special rules and procedures.

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals and to Small and Medium Enterprises (hereinafter – "SME") are in line with UniCredit Group Credit Policies, agreed with the CRO and approved by the Board of Management/Supervisory Board according to the current Rules of development, agreement and approval of internal documents of the Bank.

The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in the lending process to individuals decision-making is done by the Operations Function, to which the CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. For standardized products in the lending process to SMEs decision-making is done by the Business Function, to which the CRO Function delegates authority through respective guidelines, rules and decision matrix for applications. All deviations/exceptions from standardized products have to be approved by the CRO.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk. Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other credit exposures.

For risk management purposes, credit risk arising from positions in debt securities held for trading is managed and reported on a daily basis.

Credit risk governance. Credit risk management policies, procedures and manuals are approved by the Board of Management/ Supervisory Board according to the current Policy and Procedure of Group rules implementation at the Bank.

The following credit committees are responsible for approving corporate and retail credit risk exposures:

- The Credit Committee reviews and approves all loan/ credit applications from customers and issuers above RUB 750 million or equivalent in other currencies depending on the rating of the borrower. It is chaired by the Chairman of the Board of Management or the CRO and meets on a weekly basis.
- The Small Credit Committee reviews and approves all loan/ credit applications from corporate customers in the amount up to RUB 2 billion or equivalent in other currencies depending on the rating of the borrower. It is chaired by the Head of Credit Underwriting Department or Deputy Head/ Senior Manager of Credit Underwriting Department and meets on a weekly basis.
- The Retail Business Credit Committee is responsible for making decisions on loan applications of SME in the amount up to 73 million RUB (inclusive) and also for making decisions on loan applications of Private Individual clients in the amount up to 100 million RUB (inclusive) or equivalent in other currencies. The Retail Business Credit Committee meets in regular full-time sessions that are held in cases of necessity, but not less than twice a month in working order.
- The Special Credit Committee for Troubled Assets and Credit Restructuring takes decisions on issues related to work with problematic assets and restructuring of loans within the limits of delegated authority.

All corporate credit applications are considered by collegial bodies (credit committees) except for low risk products (covered guarantees) and products with low limits (up to RUB 100 mln.) for which there is a system of personal credit approval authorities.

There is also a system of personal credit approval authorities with the four-eyes principle in place. For SME and private individuals lending process proposal is done by business function and approval is done by competent authority body according to decision matrix for applications. In the process of analyzing private undividuals, the Bank uses various procedures, including an integrated approach to the assessment of the borrower. This approach establishes rules and checks, including those conducted automatically on the basis of internal and external information, including the assessment of client scoring. The analysis also takes into account the result of scoring obtained by the borrower from the National Credit Bureau.

All credit exposures above EUR 50 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 25 million have to be approved by authorized bodies of UniCredit Group.

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:

- Procedures and standards for approval and review of loan/ credit applications;
- Methodology for the credit assessment of borrowers (corporate, retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The relevant relationship managers and Corporate Lending Department or Financing Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager.

The credit applications consist of a structured complex analysis focusing on the customer's business, financial performance and risks. The loan/credit applications are then independently reviewed by the Credit Underwriting Department and a second opinion in respect of risks is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/ credit application accompanied by the Credit Underwriting opinion.

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting Department. This business model allows the Group to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Group's operations. This allows the Group to manage its credit portfolio both on industry and regional levels.

Notes to Consolidated Financial Statements (Continued)

27. Risk management (Continued)

Credit portfolio diversification by client types (large corporate clients, SME, individual clients) and industries allows to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Group uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review procedures.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. As the result of the review, the borrower's internal credit rating may be changed. The Group monitors concentrations of credit risk by industry/sector and by the exposure to top borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals and SME. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Group's credit transactions a Monitoring Unit was established which implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

Property risk. Due to the nature of leasing activity, in case of default events, the Group is exposed to property risk which is the risk that it will be impossible to sell property repossessed from defaulted clients or selling price won't cover credit exposure of the client.

The Group minimizes this risk by analyzing the leasing objects as well as lessees before entering into a leasing transaction, in case of increased risk additional collateral is demanded, other measures to handle credit risk are also used.

Settlement risk. The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum gross exposure as at 31 December 2019	Maximum gross exposure as at 31 December 2018
Cash and cash balances (excluding cash on hand)	5	13 295 444	3 447 490
Debt securities held for trading:	6		
- held by the Group		-	5 309 437
Derivative financial assets	8	23 884 409	36 868 281
Derivative financial assets designated for hedging	8	9 873 372	6 788 150
Financial assets at amortized cost			
- Amounts due from credit institutions	7	245 812 527	359 588 990
- Loans to customers	9	733 770 527	863 150 705
Financial assets at fair value through other comprehensive income	10		
- held by the Group		138 203 285	46 135 064
- pledged under repurchase agreements		678 732	937 601
Total		**1 165 518 296**	**1 322 225 718**
Financial commitments and contingencies	22	817 997 755	838 901 187
Total credit risk exposure		**1 983 516 051**	**2 161 126 905**

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

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2019.

	Notes	Neither past due nor impaired		Past due or impaired	Total
		High grade	Standard		
Cash and cash balances (excluding cash on hand)	5	13 295 444	-	-	13 295 444
Derivative financial assets	8	21 158 410	2 725 999	-	23 884 409
Derivative financial assets designated for hedging	8	9 873 372	-	-	9 873 372
- Amounts due from credit institutions	7	230 329 058	15 483 469	-	245 812 527
- Loans to customers	9	334 039 999	387 898 684	11 831 844	733 770 527
Financial assets at fair value through other comprehensive income	10				
- held by the Group		136 868 217	1 335 068	-	138 203 285
- pledged under repurchase agreement		678 732	-	-	678 732
Total		**746 243 232**	**407 443 220**	**11 831 844**	**1 165 518 296**

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2018.

	Notes	Neither past due nor impaired		Past due or impaired	Total
		High grade	Standard		
Cash and cash balances (excluding cash on hand)	5	3 447 490	-	-	3 447 490
Debt securities held for trading:	6				
- held by the Group		5 309 437	-	-	5 309 437
Derivative financial assets	8	34 083 660	2 784 621	-	36 868 281
Derivative financial assets designated for hedging	8	6 719 682	68 468	-	6 788 150
- Amounts due from credit institutions	7	335 610 096	23 978 894	-	359 588 990
- Loans to customers	9	460 209 582	380 442 209	22 498 914	863 150 705
Financial assets at fair value through other comprehensive income	10				
- held by the Group		44 823 742	1 311 322	-	46 135 064
- pledged under repurchase agreement		937 601	-	-	937 601
Total		**891 141 290**	**408 585 514**	**22 498 914**	**1 322 225 718**

The Standard grade category includes exposures with probability of default from 0.5% to 99%. The High grade category includes exposures with probability of default up to 0.5% (so-called "Investment grade" in accordance with the UniCredit Group methodology).

As at 31 December 2019, 37% of exposures included in the tables above are rated as AAA/AA/A/BBB/BB/B by external rating agencies (Moody's, S&P, Fitch) (31 December 2018: 48%). As at 31 December 2019, 63% of the exposures (31 December 2018: 52%) are not rated due to the fact that small entities and private inidviduals are not externally rated.

Geographical concentration. Asset and Liability Management Committee exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

As at 31 December 2019 and 31 December 2018 assets and liabilities of the Group are concentrated mainly in the Russian Federation except for the amounts due from credit institutions and derivative financial assets and liabilities (including those designated for hedging) which are mainly concentrated in OECD countries.

Liquidity risk and funding management. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – "ALCO") is responsible for management of liquidity risk. ALCO delegates to the Finance Department and Markets Department the responsibility to monitor and maintain the liquidity profile within limits on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limit breaches. Both Finance Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on the annual budget data. On a monthly basis, the funding plan is updated taking into account the current recognized and unrecognized positions, changes in the asset and liability mismatches of the Group, available funding sources and market analysis. The Group has adopted contingency funding plans, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval. In addition to Contingency funding plans UniCredit Group develops Recovery and Resolution Plan which covers extreme stress scenario management.

2. Structural liquidity is analyzed by Finance Department and Market Risk Unit using Net Stable Funding Ratio (hereinafter – "NSFR") and NSFR-based liquidity gap approach and reported to local ALCO and to the UniCredit Group on weekly basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.

3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies according to UniCredit Group approach and local approach. Differences in the two approaches are explained by necessity to control liquidity taking into account the Group's strategy and features of the local market environment.
   - Regulatory approach for liquidity monitoring based on Liquidity Coverage Ratio is applied in the Bank following UniCredit Group and the CBR requirements.
   - Stress scenarios (combined – including market crisis, foreign exchange market crisis scenario, etc.) are assessed to stress forecast future cash flows and corresponding liquidity needs. Market crisis scenario includes "haircuts" to liquid security positions, failure of the Group's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. In attempt to reveal possible weaknesses reverse stress testing applied with further development of recovery plan.
   - UniCredit Group sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline). Additionally local ALCO sets limits on liquidity gaps in accordance with local approach to cash flow model.
   - Liquidity control framework is not limited to strict metrics but includes liquidity early warning indicators, which allows ALCO to switch between going-concern and crisis phases.

4. Funding structure concentration is monitored and managed on a constant basis:
   - UniCredit Group sets separate triggers for:
     - Structural funding concentration by time bucket;
     - Overall funding concentration level by counterparties;
     - Total amount for specific products;
     - Total amount of structural funding in material foreign currencies;
   - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
   - Reports on customer funds concentration are presented to the management and analyzed on a weekly basis.

5. Liquidity ratios in line with regulatory requirements established by the CBR are to be monitored and met:
   - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
   - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
   - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year;
   - Liquidity coverage ratio (N26) is the ratio of high quality liquid assets and net short-term outflow. Calculated in compliance with actual CBR regulations, it implements "Basel III" standards;
   - Net stable funding ratio (N28) is ratio of stable funding and required stable funding. Calculated in compliance with actual CBR regulations, it implements "Basel III" standards.

Finance Department performs daily N26 and N28 estimation and makes a forecast of N4 ratio for a one month horizon on a daily basis. Markets Department projects N2, N3 ratios for a one month horizon. Accounting is responsible for independent final reporting of regulatory ratios.

As at 31 December 2019 and 31 December 2018, these ratios were as follows:

	2019,%	2018,%
N2 “Instant liquidity Ratio” (minimum 15%)	196.4	191.1
N3 “Current Liquidity Ratio” (minimum 50%)	306.6	221.7
N4 “Long-Term Liquidity Ratio” (maximum 120%)	44.3	52.4
N26 “”Liquidity Coverage Ratio”(minimum 90%)	160.7	100
N28 “Net Stable Funding Ratio” (minimum 100%)	127.9	126.3

The table below presents the liquidity gap profile as at 31 December 2019:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	24 268 658	-	-	-	-	-	-	**24 268 658**
Derivative financial assets	2 667 388	991 297	1 844 627	739 790	5 922 195	11 719 112	-	**23 884 409**
Derivative financial assets designated for hedging	16 781	2 213	132 636	1 252 153	5 491 986	2 977 603	-	**9 873 372**
Financial assets at amortised costs with banks	220 119 644	6 919 968	5 221 764	6 235 350	7 228 790	87 011	-	**245 812 527**
Financial assets at amortised costs with customers	42 141 679	46 858 717	45 099 973	93 375 693	203 701 891	302 592 574	-	**733 770 527**
Debt securities FVTOCI	3 040 920	92 726 646	-	-	1 746 233	41 368 218	123 692	**139 005 709**
Other financial assets	-	-	-	-	-	-	25 946 712	**25 946 712**
Total financial assets	**292 255 070**	**147 498 841**	**52 299 000**	**101 602 986**	**224 091 095**	**358 744 518**	**26 070 404**	**1 202 561 914**
Liabilities								
Amounts due to credit institutions	54 766 917	5 987 069	934 149	2 104 304	1 419 330	31 297 703	-	**96 509 472**
Derivative financial liabilities	1 305 797	1 932 396	445 418	483 804	4 082 401	12 707 409	-	**20 957 225**
Derivative financial liabilities designated for hedging	369 249	564 598	1 075 220	1 201 833	6 296 540	5 870 031	-	**15 377 471**
Amounts due to customers	534 832 665	91 255 902	56 451 884	57 222 040	115 583 121	6 281 035	-	**861 626 647**
Other financial liabilities	-	-	-	-	-	-	16 783 329	**16 783 329**
Total financial liabilities	**591 274 628**	**99 739 965**	**58 906 671**	**61 011 981**	**127 381 392**	**56 156 178**	**16 783 329**	**1 011 254 144**
Net position	**(299 019 558)**	**47 758 876**	**(6 607 671)**	**40 591 005**	**96 709 703**	**302 588 340**	**9 287 075**	
Accumulated gap	**(299 019 558)**	**(251 260 682)**	**(257 868 353)**	**(217 277 348)**	**(120 567 645)**	**182 020 695**	**191 307 770**	

As shown in the table above, as at 31 December 2019 the maximum negative accumulated gap in less than 1 month period is explained by significant amount of short-term and demand deposits in liabilities. The accumulated gap can be sufficiently covered by refinancing with the CBR (loans secured by assets available for collateral under CBR loans), repurchase agreements and sell of securities while reducing volume of the Group’s participation in reverse repurchase agreements. The approximate amount of funds available from the mentioned sources is RUB 233 125 060 thousand.

Notes to Consolidated Financial Statements (Continued)

27. Risk management (Continued)

The table below presents the liquidity gap profile as at 31 December 2018:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	15 538 848	-	-	-	-	-	-	**15 538 848**
Debt securities held for trading	-	-	-	-	-	5 309 437	-	**5 309 437**
Derivative financial assets	3 547 679	1 784 882	19 041 802	730 643	4 540 935	7 222 340	-	**36 868 281**
Derivative financial assets designated for hedging	1 515	106 855	22 852	383 342	2 523 020	3 750 566	-	**6 788 150**
Financial assets at amortised costs with banks	296 916 763	6 837 798	15 818 546	37 430 289	2 002 788	582 806	-	**359 588 990**
Financial assets at amortised costs with customers	82 854 378	48 142 823	75 550 744	105 622 058	235 630 343	315 350 359	-	**863 150 705**
Debt securities FVTOCI	-	-	-	-	1 768 393	45 304 272	123 692	**47 196 357**
Other financial assets	-	-	-	-	-	-	11 644 533	**11 644 533**
Total financial assets	**398 859 183**	**56 872 358**	**110 433 944**	**144 166 332**	**246 465 479**	**377 519 780**	**11 768 225**	**1 346 085 301**
Liabilities								
Amounts due to credit institutions	29 126 890	16 549 518	649 587	2 349 133	2 552 148	36 742 803	-	**87 970 079**
Financial iabilities held for trading	3 427 071	-	-	-	-	-	-	**3 427 071**
Derivative financial liabilities	3 385 724	1 415 257	7 976 297	1 435 766	2 948 094	6 491 201	-	**23 652 339**
Derivative financial liabilities designated for hedging	7 030	1 680 598	4 017 420	2 495 150	8 686 402	3 437 575	-	**20 324 175**
Amounts due to customers	602 223 034	56 787 988	106 823 279	83 344 058	121 527 763	44 934 746	-	**1 015 640 868**
Debt securities issued	-	-	818	46 735	-	-	-	**47 553**
Other financial liabilities	-	-	-	-	-	-	12 382 214	**12 382 214**
Total financial liabilities	**638 169 749**	**76 433 361**	**119 467 401**	**89 670 842**	**135 714 407**	**91 606 325**	**12 382 214**	**1 163 444 299**
Net position	**(239 310 566)**	**(19 561 003)**	**(9 033 457)**	**54 495 490**	**110 751 072**	**285 913 455**	**(613 989)**	
Accumulated gap	**(239 310 566)**	**(258 871 569)**	**(267 905 026)**	**(213 409 536)**	**(102 658 464)**	**183 254 991**	**182 641 002**	

Analysis of financial assets and liabilities by remaining contractual maturities. The tables below summarise the maturity profile of financial assets and liabilities as at 31 December 2019 and 31 December 2018 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2019							
Cash and cash balances	24 268 658	-	-	-	-	-	**24 268 658**
Derivative financial assets:							
- Contractual amounts payable	(45 250 337)	(24 429 852)	(24 813 900)	(11 452 477)	(56 024 653)	(86 376 053)	**(248 347 272)**
- Contractual amounts receivable	48 264 765	25 115 250	28 498 668	14 952 453	64 529 437	98 190 655	**279 551 228**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(468 149)	(1 117 646)	(1 558 396)	(22 926 471)	(30 267 040)	(3 250 946)	**(59 588 648)**
- Contractual amounts receivable	434 587	1 792 413	2 185 443	26 175 553	36 093 675	4 857 283	**71 538 954**
Financial assets at amortized cost							
- Amounts due from credit institutions	220 536 699	7 051 123	5 442 500	6 712 138	7 093 526	561 222	**247 397 208**
- Loans to customers	49 561 985	58 387 060	59 899 113	120 651 041	287 362 023	419 074 925	**994 936 147**
Financial assets at fair value through other comprehensive income							
- held by the Group	3 174 935	93 752 009	1 208 793	1 463 772	7 479 246	69 855 153	**176 933 908**
- pledged under repurchase agreements	-	-	22 685	22 685	90 740	1 312 727	**1 448 837**
Total undiscounted financial assets	**300 523 143**	**160 550 357**	**70 884 906**	**135 598 694**	**316 356 954**	**504 224 966**	**1 488 139 020**
Financial liabilities as at 31 December 2019							
Amounts due to credit institutions	54 844 626	6 958 414	1 869 224	4 018 241	8 859 608	39 562 275	**116 112 388**
Derivative financial liabilities:							
- Contractual amounts payable	56 153 540	41 147 046	11 824 396	9 894 791	31 366 041	111 192 350	**261 578 164**
- Contractual amounts receivable	(53 927 906)	(39 253 405)	(11 236 877)	(6 820 032)	(25 862 526)	(96 933 140)	**(234 033 886)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	1 166 588	7 193 676	14 398 243	31 020 493	47 670 877	13 152 287	**114 602 164**
- Contractual amounts receivable	(1 434 127)	(7 455 394)	(13 014 685)	(26 107 100)	(40 236 410)	(10 137 853)	**(98 385 569)**
Amounts due to customers	535 700 577	92 648 256	56 937 608	58 227 326	122 644 367	6 350 666	**872 508 800**
Total undiscounted financial liabilities	**592 503 298**	**101 238 593**	**60 777 909**	**70 233 719**	**144 441 957**	**63 186 585**	**1 032 382 061**

Notes to Consolidated Financial Statements (Continued)

27. Risk management (Continued)

The maturity profile of the financial assets and liabilities at 31 December 2018 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2018							
Cash and cash balances	15 538 848	-	-	-	-	-	**15 538 848**
Debt securities held for trading:							
- held by the Group	-	-	-	-	-	5 309 437	**5 309 437**
Derivative financial assets:							
- Contractual amounts payable	(84 373 007)	(33 660 360)	(46 145 975)	(15 925 016)	(40 233 172)	(49 247 352)	**(269 584 882)**
- Contractual amounts receivable	87 649 741	32 590 008	65 873 615	17 884 121	45 927 812	55 303 504	**305 228 801**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(563 558)	(1 771 987)	(3 603 424)	(6 480 805)	(28 377 479)	(8 016 487)	**(48 813 740)**
- Contractual amounts receivable	703 781	2 718 626	3 130 293	7 073 844	32 258 933	10 007 858	**55 893 335**
Financial assets at amortized cost							
- Amounts due from credit institutions	297 923 785	7 001 894	16 776 404	37 977 783	2 020 362	582 806	**362 283 034**
- Loans to customers	95 729 973	64 224 887	90 837 519	136 726 829	318 286 676	409 377 046	**1 115 182 930**
Financial assets at fair value through other comprehensive income							
- held by the Group	383 634	517 309	841 194	1 512 149	7 508 631	70 312 001	**81 074 918**
- pledged under repurchase agreements	35 150	-	-	35 150	140 600	1 456 950	**1 667 850**
Total undiscounted financial assets	**413 028 347**	**71 620 377**	**127 709 626**	**178 804 055**	**337 532 363**	**495 085 763**	**1 623 780 531**
Financial liabilities as at 31 December 2018							
Amounts due to credit institutions	29 163 496	17 885 756	1 746 103	4 660 754	11 520 313	51 317 759	**116 294 181**
Financial iabilities held for trading	3 427 071	-	-	-	-	-	**3 427 071**
Derivative financial liabilities:							
- Contractual amounts payable	54 029 960	24 545 563	82 837 070	28 031 612	32 056 028	51 342 933	**272 843 166**
- Contractual amounts receivable	(50 030 364)	(26 239 326)	(74 170 748)	(25 428 488)	(27 162 551)	(45 246 961)	**(248 278 438)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	1 983 205	15 154 729	48 784 696	40 715 067	99 005 223	9 552 327	**215 195 247**
- Contractual amounts receivable	(1 952 476)	(12 923 139)	(44 700 863)	(37 435 217)	(89 184 353)	(7 543 358)	**(193 739 406)**
Amounts due to customers	603 343 153	57 689 611	109 134 160	85 622 083	129 905 508	50 451 620	**1 036 146 135**
Debt securities issued	-	2 030	846	47 140	-	-	**50 016**
Total undiscounted financial liabilities	**639 964 045**	**76 115 224**	**123 631 264**	**96 212 951**	**156 140 168**	**109 874 320**	**1 201 937 972**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 18).

The table below shows the contractual expiry by maturity of financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2019	17 961 491	5 940 372	10 572 255	219 146 735	148 149 478	416 227 424	**817 997 755**
2018	17 017 813	46 067 536	111 588 349	232 168 606	285 086 222	146 972 661	**838 901 187**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Group distinguishes the following market risk categories:
1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments;
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates;
3. Spread Risk is the risk that changes in credit spreads will affect bond prices;
4. Basis spread risk is the risk that changes in cross-currency basis spread or between different bases (for example, 3 months and overnight) will affect the value of financial instruments;
5. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis, the Group assesses interest rate, currency and basis spread risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VaR") methodology for the measuring of all risks mentioned above. VaR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. In addition, the Group calculates SVaR, a measure of the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon in a period of market stress. The Group distinguishes the following types of VaR:
1. Total VaR is calculated for all risk factors taken in aggregate;
2. Interest Rate VaR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VaR is originated from currency risk exposure of the portfolio;
4. Spread VaR is originated from spread risk exposure of the bond portfolio;
5. Residual VaR is originated from other factors exposure of the bond portfolio.

The Group also calculates an Incremental Risk Charge (hereinafter – "IRC") that complements additional standards being applied to VaR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which measures a change of present value of the Group's position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group calculates a Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

The Group additionally calculates (and includes in VaR calculation as a component of interest rate risk) the change of present value of the Group's position if cross-currency basis swap rates change by one basis point.

In 2019 two additional metrics were introduced. These are Loss Warning Level (hereinafter –"LWL") and Stress Test Warning Level (hereinafter – "STWL"). LWL defined as the accumulated economic P&L over a 60 calendar-day rolling period. STWL is the maximum conditional loss in a set of severe market scenarios.

Since monitoring of VaR, BPV and CPV is an integral part of the risk management procedures, VaR, CPV and BPV limits and warning levels have been established and exposures are reviewed daily against the limits and warning levels by Market Risk Unit (hereinafter – "MRU"). IRC exposure is reviewed weekly.

The Group has adopted the following limits:
- Total VaR limit for the trading portfolio, and a warning level for total VaR for the whole portfolio;
- Warning level for Total VaR for banking book;
- Total SVaR limit for the trading portfolio;
- IRC limit for trading and total bond positions;
- Total BPV limit for the whole portfolio;
- BPV limits split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position;
- LWL and STWL limits for total position.

In addition, local ALCO sets limits for BPV by timeband and business segments and VaR warning levels for subportfolios.

Usage of VaR enables management of position taking into consideration complex relationships and interdependencies between different risk factors. Typically, MRU analyses VaR figures and sets BPV limits which help traders and the Finance Department to optimize risk profiles in volatile market environment.

Verification of applied methodologies is carried out through back- and stress-testing. Bank estimates its own internal models of market risk regarding data quality and risk factor completeness on a regular basis.

In addition, MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

The control of economic and regulatory open foreign currency position is performed by MRU on a daily basis against the established limits.

All limit violations are analyzed by MRU on a daily basis, and all limit breaches are escalated and reported to local ALCO and to the relevant UniCredit Group functions.

According to Basel III regulatory standards the Credit Valuation Adjustment (modification of derivatives market value taking into account counterparty credit risk) and corresponding impact on capital are calculated monthly by the Group. Additionally, the requirements of minimum mark-up of derivative transactions with corporate counterparties are applied.

In an effort to control the Group's trading strategy the sensitivity analysis of statement of comprehensive income in terms of risk factors is performed monthly and presented to ALCO. The analysis was expanded to include historical impact of the risk factors.

In 2019 Group continued to improve its VaR model by introduction of more detailed risk factors on interest rate curves distinguishing different curve types for every currency.

Interest rate risk management of the banking book. The Group uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book. Risk appetite apply generally used for IRRBB limitation for economic value sensitivity and net interest income sensitivity, which are used to define granular metric restriction.

In the banking book interest rate risk position there is a discrepancy between economic (behavioral) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on the historical observation, the Group developed models that allowed applying a behavioral approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. Behavioral models applied to non-interest bearing current accounts and a prepayment model for retail loans affecting interest rate risk position. For avoiding an accounting discrepancy between hedged items of the banking book calculated on an accrual basis and hedging instruments calculated on a mark-to-market basis and, as a result, to stabilize net interest income, the Group uses hedge accounting methodology. Currently, Macro Cash Flow Hedge and Portfolio Fair Value Hedge are used.

Objectives and limitation of VaR methodology (unaudited). The Group uses Basel II compliant VaR methodology based on historical simulations. Historical simulation is a method that allows to calculate VaR without making any assumptions about the statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VaR is given by the percentile evaluation with the 99% confidence interval.

VaR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to an underestimation of future losses. The VaR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VaR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

One single model is used to estimate VaR for all purposes (regulatory, market risk disclosures, etc.). Changes to VaR model/parameters (if any are required) are validated using the back-testing approach mentioned above. Regulatory requirements for approval, if any, are handled at the UniCredit Group level.

Computational results (unaudited). The following table shows an estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices:

	2019	2018
Total VaR	493 552	700 958
Interest Rate VaR	599 785	625 839
Spread VaR	351 535	294 919
Foreign exchange VaR	4 523	16 926

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits and debt securities issued on the liability side offset by interest rate swaps.

The following table shows estimation of the potential losses that could occur on the banking book risk positions as a result of movements in market rates and prices:

	2019	2018
Total VaR	493 475	733 111
Interest Rate VaR	601 598	654 432
Spread -VaR[1]	351 535	272 427

[1] Spread risk in the banking book arises from bonds comprising investment portfolio.

The following table shows estimation of the potential losses that could occur on the trading book risk positions as a result of movements in market rates and prices:

	2019	2018
Total VaR	33 737	54 869
Interest Rate VaR	30 886	41 162
Spread VaR	-	30 857
Foreign exchange VaR	4 523	16 926

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Strategic Risks Management Department together with Financial Markets Department controls currency risk by management of the open currency position in order to minimize the Group's losses from significant currency rates fluctuations toward its national currency, while also utilizing short-term profit opportunities. The Group does not keep long-term exposures to currency risk. The Group uses spots, swaps and forwards as main instruments of risk hedging.

The Group's exposure to foreign currency exchange rate risk as at 31 December 2019 is presented in the table below:

	RUB	USD	EUR	Other currencies	Total
Non-derivative financial assets					
Cash and cash equivalents	19 298 216	2 422 229	2 388 452	159 761	24 268 658
Financial assets at amortized cost					
- Amounts due from credit institutions	102 506 789	117 337 118	22 492 515	3 476 105	245 812 527
- Loans to customers	520 528 632	169 823 768	43 418 123	4	733 770 527
Financial assets at fair value through other comprehensive income:					
- held by the Group	138 320 230	-	6 747	-	138 326 977
- pledged under repurchase agreements	678 732	-	-	-	678 732
Total non-derivative financial assets	**781 332 599**	**289 583 115**	**68 305 837**	**3 635 870**	**1 142 857 421**
Non-derivative financial liabilities					
Amounts due to credit institutions	57 610 906	34 619 119	4 233 851	45 596	96 509 472
Amounts due to customers	488 625 703	292 698 204	70 381 997	9 920 743	861 626 647
Total non-derivative financial liabilities	**546 236 609**	**327 317 323**	**74 615 848**	**9 966 339**	**958 136 119**
OPEN BALANCE SHEET POSITION	**235 095 990**	**(37 734 208)**	**(6 310 011)**	**(6 330 469)**	**184 721 302**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**(50 282 726)**	**38 167 101**	**2 992 795**	**6 468 942**	**(2 653 888)**
OPEN POSITION	**184 813 264**	**432 893**	**(3 317 216)**	**138 473**	**182 067 414**

27. Risk management (Continued)

The Group's exposure to foreign currency exchange rate risk as at 31 December 2018 is presented in the table below:

	RUB	USD	EUR	Other currencies	Total
Non-derivative financial assets					
Cash and cash equivalents	9 715 111	2 888 346	2 748 044	187 347	15 538 848
Debt securities held for trading:					
- held by the Group	3 752 528	1 556 909	-	-	5 309 437
Financial assets at amortized cost					
- Amounts due from credit institutions	72 014 640	248 317 194	33 488 322	5 768 834	359 588 990
- Loans to customers	512 694 504	305 578 064	44 878 137	-	863 150 705
Financial assets at fair value through other comprehensive income:					
- held by the Group	25 848 945	20 403 064	6 747	-	46 258 756
- pledged under repurchase agreements	937 601	-	-	-	937 601
Total non-derivative financial assets	**624 963 329**	**578 743 577**	**81 121 250**	**5 956 181**	**1 290 784 337**
Non-derivative financial liabilities					
Amounts due to credit institutions	43 526 139	36 703 050	7 701 872	39 018	87 970 079
Amounts due to customers	537 242 434	382 223 495	79 046 996	17 127 943	1 015 640 868
Debt securities issued	47 553	-	-	-	47 553
Financial liabilities held for trading	3 427 071	-	-	-	3 427 071
Total non-derivative financial liabilities	**584 243 197**	**418 926 545**	**86 748 868**	**17 166 961**	**1 107 085 571**
OPEN BALANCE SHEET POSITION	**40 720 132**	**159 817 032**	**(5 627 618)**	**(11 210 780)**	**183 698 766**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**140 070 470**	**(159 344 939)**	**7 428 490**	**11 412 774**	**(433 205)**
OPEN POSITION	**180 790 602**	**472 093**	**1 800 872**	**201 994**	**183 265 561**

The following table presents sensitivities of profit and loss and equity to changes in exchange rates applied at the balance sheet date by 10%, with all other variables held constant:

	2019 impact	2018 impact
USD strengthening by 10%	43 289	47 209
USD weakening by 10%	(43 289)	(47 209)
EUR strengthening by 10%	(331 722)	180 087
EUR weakening by 10%	331 722	(180 087)

Management belives that sensitivity analysis does not necessarily reflect currency risk adherent to the Group due to the fact that amounts as of the end of reporting periods do not reflect the amounts throughout the year.

Operational risk

Operational risk definition and risk management principles. The Group defines as "operational" the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The management of operational risk as defined above is based on the following fundamental principles:

- Involvement of corporate governing bodies in all the relevant decisions regarding the operational risk management framework;
- Independence of operational risk management function from the risk taking functions;
- Effective system of controls at different control levels (line, second level and third level);
- Clear separation between the operational risk management framework development and validation functions;
- Involvement of operational risk management function in the evaluation of the risks within new products, processes, systems and markets;
- Effective and efficient escalation and decision-making process;
- Adequate and periodical disclosure and reporting process.

Operational risk management framework. The Group is fully compliant with the UniCredit Group's operational risk management framework in its guiding standards and principles as well as with the legislation of the Russian Federation.

The implementation of the standards and principles is substantially supported by the exhaustive set of internally approved normative documents being constantly maintained and updated in accordance with both external and internal requirements.

The Board of Management holds the responsibility for the establishment, governance and continuous monitoring of the effective and efficient operational risk management system. The Board of Management establishes the general policies of the Group's operational risk management system and has control over its due implementation and its actual operations including but not limiting to:

- Approval of the operational risk framework and any essential changes to it as well as all internal normative documents of the Group guiding the operational risk management system;
- Establishment of an operational risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;
- Assurance that the tasks and responsibilities of the functions involved in the operational risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;
- Establishment of informing and reporting system providing accurate, complete and timely information on operational risk exposure and other significant operational risk management issues.

For further enforcement of the operational risk management system, Operational Risk Committee being a governing body primarily is responsible for making decisions on operational risk topics and ongoing monitoring of developments affecting the Group's business and promoting the exchange of information among the divisions and individual operating functions (Retail Banking, CIB, CFO, Legal, HR, Security) representing line controls.

The Operational Risk Management Unit (hereinafter – "ORM Unit") performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM Unit's main methodologies, tools and activities to identify, assess, monitor and mitigate operational risk are focused on but not limited to:

- Loss data collection including general ledger analysis, accounts reconciliation, transitory and suspense accounts monitoring, data quality control;
- Operational risk indicators;
- Scenario analysis;
- ELOR monitoring;
- Insurance coverage;
- Capital at risk allocation according to the Basel II Standardized Approach;
- New products/processes analysis from the operational risk impact perspective;
- Credit bureaus cooperation;
- Reporting and escalating any of the essential Operational Risk issues to the Board of Management, Internal Audit Department and competent UniCredit Group functions;
- Granting to the Operational Risk Committee information of the relevant operational risk events having significant effect on the Group's risk profile.

In order to assure and sustain the efficacy of the Operational Risk identification and mitigation processes, a Permanent Workgroup is operating which aims at identifying the source of Operational Risk taking measures for prevention of the operational risks and reduce the Operational Risk exposure, leveraging mainly on the expertise of the ORM Unit, Internal Audit Department and the invited experts from relevant divisions of the Bank.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the operational risk management system, operational risk identification and the inherent local internal validation process.

28. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope

28. Fair values of financial instruments (Continued)

of IFRS 2 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

UCBR follows methodology adopted by the UniCredit Group, which belongs to the income approach family – Discounted Cash Flow model. It is defined as the sum of the present value of expected future cash flow specific to the instrument, discounted using a rate that incorporates all risk factors, mainly leveraging on market inputs rather than on internal parameters. Main inputs for calculating fair value include:
- Cash flows;
- Risk-free interest rates;
- Credit spreads;
- Risk neutral cumulative default probability;
- Risk premium;
- Correlations;
- Internal cumulative probability of default;
- Loss given default.

In the case of the presence of liquid instruments in the market, an estimate of the credit spread can be derived from market quotes.

For fair value computation own credit spread is used, determined on the basis of the prices of Group's unsecured senior bonds.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Except as detailed in the following table, the Group consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate their fair value.

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	245 812 527	246 692 408	359 588 990	363 319 774
Loans to customers	733 770 527	734 299 930	863 150 705	863 028 445
Financial liabilities				
Amounts due to credit institutions	96 509 472	97 279 889	87 970 079	90 949 659
Amounts due to customers	861 626 647	872 989 818	1 015 640 868	1 024 310 611
Debt securities issued	-	-	47 553	47 796

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at amortized cost, grouped into Levels 1 to 3.

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	-	246 692 408	246 692 408
Loans to customers	-	-	734 299 930	734 299 930
Financial liabilities				
Amounts due to credit institutions	-	-	97 279 889	97 279 889
Amounts due to customers	-	-	872 989 818	872 989 818

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	-	363 319 774	363 319 774
Loans to customers	-	-	863 028 445	863 028 445
Financial liabilities				
Amounts due to credit institutions	-	-	90 949 659	90 949 659
Amounts due to customers	-	-	1 024 310 611	1 024 310 611
Debt securities issued	-	47 796	-	47 796

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Derivative financial assets	-	23 884 409	-	23 884 409
Derivative financial assets designated for hedging	-	9 873 372	-	9 873 372
Financial assets at fair value through other comprehensive income:				
- held by the Group	30 152 229	108 051 056	-	138 203 285
- pledged under repurchase agreements	678 732	-	-	678 732
Total	**30 830 961**	**141 808 837**	**-**	**172 639 798**
Financial liabilities at fair value				
Derivative financial liabilities	-	20 957 225	-	20 957 225
Derivative financial liabilities designated for hedging	-	15 377 471	-	15 377 471
Total	**-**	**36 334 696**	**-**	**36 334 696**

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Debt securities held for trading:				
- held by the Group	2 365 174	2 944 263	-	5 309 437
Derivative financial assets	-	36 868 281	-	36 868 281
Derivative financial assets designated for hedging	-	6 788 150	-	6 788 150
Financial assets at fair value through other comprehensive income:				
- held by the Group	37 325 950	8 809 114	-	46 135 064
- pledged under repurchase agreements	937 601	-	-	937 601
Total	**40 628 725**	**55 409 808**	**-**	**96 038 533**
Financial liabilities at fair value				
Financial liabilities held for trading	3 427 071	-	-	3 427 071
Derivative financial liabilities	-	23 652 339	-	23 652 339
Derivative financial liabilities designated for hedging	-	20 324 175	-	20 324 175
Total	**3 427 071**	**43 976 514**	**-**	**47 403 585**

The table above does not include financial assets at fair value through other comprehensive income equity investments of RUB 123 692 thousand (31 December 2018: RUB 123 692 thousand) which do not have a quoted market price in an active market.

During the year ended 31 December 2019 transfers from level 2 to level 1 amounted to RUB 8 533 345 thousand for financial assets at fair value through other comprehensive income (31 December 2018: RUB 4 849 085 thousand). During the year ended 31 December 2019 there were no transfers between fair value levels for trading securities (31 December 2018: there were no transfers between fair value levels for trading securities).

29. Related party disclosures

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be conducted on the same terms, conditions and amounts as transactions between unrelated parties.

Balances and transactions with UniCredit S.P.A were as follows:

	31 December 2019	Weighted average interest rate, %	31 December 2018	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	649 707	6.5%	-	-
- In EUR	460 795	0.0%	571 226	0.0%
- In USD	95 838 180	2.3%	91 379 215	3.3%
Derivative financial assets	10 504 983		4 358 968	
Derivative financial assets designated for hedging	9 222 110		4 853 841	
Other assets	103 486		162 569	
Amounts due to credit institutions				
- In Russian Roubles	129 183	0.0%	145 886	0.0%
- In EUR	448 711	1.8%	539 270	1.7%
- In USD	30 327 115	11.8%	33 839 765	12.8%
Derivative financial liabilities	11 094 170		14 160 452	
Derivative financial liabilities designated for hedging	10 896 528		16 573 195	
Other liabilities	563 430		530 001	
Commitments and guarantees issued	10 885 422		5 529 485	
Commitments and guarantees received	10 972 433		23 853 936	

	2019	2018
Interest income	24 662 338	22 702 089
Interest expense	(16 253 977)	(14 532 521)
Fee and commission income	19 883	39 691
Fee and commission expense	(134 733)	(307 399)
Gains/(losses) on financial assets and liabilities held for trading	19 505 827	(28 365 172)
Fair value adjustments in portfolio hedge accounting	(2 773 372)	3 014 374
(Personnel expenses)/recovery of personnel expenses	(10 441)	6 657
Other administrative costs	(68 043)	(87 787)

Balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group are as follows:

	31 December 2019	Weighted average interest rate, %	31 December 2018	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	649 714	6.5%	47	0.0%
- In EUR	11 665 800	0.0%	16 422 965	0.0%
- In USD	2 341 480	0.0%	123 539	0.0%
- In other currencies	153 918	0.0%	2 569	0.0%
Derivative financial assets	1 518 492		3 622 258	
Derivative financial assets designated for hedging	651 020		1 429 811	
Loans to customers				
- In Russian Roubles	705 797	5.8%	1 010 205	5.8%
Intangible assets	125 428		103 990	
Other assets	165 993		8 472	
Amounts due to credit institutions				
- In Russian Roubles	4 307 486	3.5%	5 178 908	9.1%
- In EUR	3 397 399	2.1%	7 131 383	1.4%
- In USD	1 699 138	3.0%	1 484 764	3.4%
Derivative financial liabilities	3 007 703		3 023 885	
Derivative financial liabilities designated for hedging	1 606 352		1 752 537	
Amounts due to customers				
- In Russian Roubles	695 312	4.0%	842 935	5.6%
Other liabilities	279 833		203 497	
Commitments and guarantees issued	28 581 450		31 229 672	
Commitments and guarantees received	16 090 783		3 648 690	

	2019	2018
Interest income	678 566	(111 413)
Interest expense	(1 663 384)	(2 444 687)
Fee and commission income	108 338	144 968
Fee and commission expense	(82 787)	(275 776)
Gains on financial assets and liabilities held for trading	420 666	2 782 844
Fair value adjustments in portfolio hedge accounting	730 532	598 826
Other income	485	485
Personnel expenses	(5 230)	(20 576)
Other administrative expenses	(259 677)	(240 671)

Notes to Consolidated Financial Statements (Continued)

29. Related party disclosures (Continued)

Balances and transactions with associate are as follows:

	31 December 2019	Weighted average interest rate, %	31 December 2018	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	11 251 984	8.2%	22 614 567	9.0%
Derivative financial assets	58 196		113 405	
Amounts due to credit institutions				
- In Russian Roubles	12 996	0.0%	24 173	0.0%
- In EUR	4 777	0.0%	1 206	0.0%
- In USD	1 843	0.0%	3 299	0.0%
Derivative financial liabilities	341 546		-	
Investments in associate	8 202 044		6 912 137	
Commitments and guarantees issued	177 735		296 620	

	2019	2018
Interest income and similar revenues	1 968 978	2 041 001
Interest expense and similar charges	(722 648)	(305 579)
Fee and commission income	17 994	62 201
Losses on financial assets and liabilities held for trading	(731 832)	(117 091)
Share of gains of associate	1 263 054	954 589

Balances and transactions with key management personnel are as follows:

	31 December 2019	31 December 2018
Amounts due to customers	464 854	456 038
Accrued liabilities on remuneration	296 161	336 518
Other liabilities	90 142	74 119

	2019	2018
Interest expense	(17 702)	(12 109)
Personnel expenses, including:	(301 540)	(401 864)
short-term benefits	(241 201)	(222 690)
long-term benefits	(54 991)	(168 149)
post-employment benefits	(5 348)	(11 025)

Subordinated loans from the members of the UniCredit Group were as follows for 2019 and 2018:

	31 December 2019 UniCredit S.p.A	31 December 2018 UniCredit S.p.A
Subordinated loans at the beginning of the year	33 517 157	27 718 054
Accrual of interest, net of interest paid	(98 789)	90 628
Effect of exchange rates changes	(3 637 960)	5 708 475
Subordinated loans at the end of the year	**29 780 408**	**33 517 157**

Notes to Consolidated Financial Statements (Continued)

29. Related party disclosures (Continued)

29. Related party disclosures (Continued)

Consolidated Financial Statements and Independent Auditor's Report for the Year Ended 31 December 2019 (continued)

Support of Culture and Arts (Continued)