Consolidated financial statements of
Joint Stock Company "Leasing company "Europlan" and its subsidiaries
for the year ended 31 December 2019

February 2020

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Joint Stock Company
"Leasing company "Europlan"
and its subsidiaries

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Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the Sole Shareholder and Board of Directors of
Joint Stock Company "Leasing company "Europlan"

Opinion

We have audited the consolidated financial statements of Joint Stock Company "Leasing company "Europlan" and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 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 (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Allowance for net investments in lease	
Given the significant share of net investments in lease in total assets of the Group, and the complexity and judgements related to the estimation of expected credit losses under IFRS 9 Financial instruments ("IFRS 9"), we considered this area as a key audit matter. For determination of whether a significant increase in credit risk has occurred since initial recognition and grouping of net investments in lease by stages of impairment requires judgement as well as analysis of a variety of factors indicating of increase in credit risk, including length of overdue period. Assessment of expected credit losses requires complex statistical modelling and expert judgment. Probability of default, projected exposure at default, loss arising at default are calculated based on available historical data and external information, which are adjusted for forward looking information, including forecast of macroeconomic variables. The calculation of expected credit losses for credit-impaired financial assets requires judgment as far as selection of probable settlement scenario is concerned as well as use of other assumptions. Assessment of estimated future cash flows is based on significant unobservable inputs including lease object value. The use of different modeling techniques, assumptions and forecasts could produce significantly different estimation of the allowance for expected credit losses. Information on the methodology of expected credit losses calculation and credit risk management is disclosed in Notes 7 and 22.	We involved our experts to analyse expected credit loss calculation methodology applied by the Group for compliance with IFRS 9. We assessed the reasonableness of the credit risk factors selected by the management to determine whether significant increase in credit risk has occurred and consistency of their application. We analyzed underlying statistical models, key inputs, assumptions and forecasts used and assessed incorporation of forward-looking information in the calculation of expected credit losses. On a sample basis we tested the correctness of expected credit loss calculation, including testing of probability of default, projected exposure of net investments in lease at default, loss arising at default, as well as performed analytical procedures to analyse the relationships between credit quality of net investments in the lease and amount of expected credit losses. For significant individually impaired net investments in lease we analyzed the management assumptions used in calculation of recoverable amount based on our professional judgment and available market information. We also analyzed the disclosures in the consolidated financial statements about the Group's allowance for expected credit losses on net investments in lease.

Other information included in the annual report of Joint Stock Company "Leasing company "Europlan" for 2019

Other information consists of the information included in the annual report of Joint Stock Company "Leasing company "Europlan" for 2019, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

Responsibilities of management and the Board of Directors for the consolidated financial statements

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

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

Board of Directors are responsible for overseeing the Group's financial reporting process.

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

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

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

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

We communicate with Board of Directors 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 Board of Directors 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.

Совершенствуя бизнес, улучшаем мир

From the matters communicated with Board of Directors, 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.

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

S.M. Taskaev
Partner
Ernst & Young LLC

28 February 2020

Details of the audited entity

Name: Joint stock company "Leasing company "Europlan"
Record made in the State Register of Legal Entities on 30 June 2017, State Registration Number 1177746637584.
Address: Russia 119049, Moscow, Korovy Val street, 5.

Details of the auditor

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

Consolidated statement of financial position

as at 31 December 2019

(in thousands of Russian roubles, unless otherwise stated)

	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	5	2,762,117	1,490,035
Deposits in banks	6	49,703	50,041
Net investment in leases after allowance for expected credit losses	7	71,563,218	56,626,878
Assets purchased and advances to suppliers for lease operations	8	1,017,275	613,617
Debtors on leasing activity	9	36,377	8,744
Current income tax prepayment		5,954	9,902
VAT recoverable		831,354	1,523,986
Property and equipment and right-of-use assets	10	1,639,718	427,016
Other assets	11	1,515,686	966,265
Total assets		**79,421,402**	**61,716,484**
Liabilities			
Advances received from lessees		2,209,451	1,546,988
Borrowings	12	38,055,638	31,975,769
Bonds issued	13	20,070,206	13,893,996
Lease liabilities	3	822,400	–
Current income tax payable		198,205	176,148
Deferred tax liabilities	21	1,500,803	1,067,414
VAT payable		91,513	72,976
Other liabilities	14	2,542,417	1,995,457
Total liabilities		**65,490,633**	**50,728,748**
Equity			
Share capital	15	120,000	120,000
Retained earnings		13,810,769	10,867,736
Total equity		**13,930,769**	**10,987,736**
Total liabilities and equity		**79,421,402**	**61,716,484**

Approved for issue and signed on behalf of the Company on 28 February 2020.

Alexander Mikhaylov
CEO

Anatoly Aminov
CFO

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

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2019

(in thousands of Russian roubles, unless otherwise stated)

	Note	31 December 2019	31 December 2018
Interest income	16	12,574,096	9,969,224
Interest expense	16	(5,042,103)	(3,891,331)
Net interest income		**7,531,993**	**6,077,893**
Other income, net	17	3,792,027	2,637,897
Other expense, net	17	(136,983)	(82,272)
Income from operations		**11,187,037**	**8,633,518**
Net foreign exchange income (losses)		2	(284)
Total income from operations and finance income		**11,187,039**	**8,633,234**
Changes in allowance for expected credit losses on leasing assets	18	(199,567)	(138,900)
Changes in allowance for expected credit losses on other assets	18	(43,940)	(1,939)
Changes in other allowance for losses	18	(94,706)	(45,807)
Staff expenses	19	(3,606,540)	(3,261,690)
Other operating expenses	20	(1,183,654)	(1,060,875)
Other non-operating income		6,600	10,775
Profit before income tax		**6,065,232**	**4,134,798**
Income tax expense	21	(1,239,399)	(842,957)
Net profit		**4,825,833**	**3,291,841**
Other comprehensive income		–	–
Total comprehensive income for the period		**4,825,833**	**3,291,841**

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

Consolidated statement of changes in equity

for the for the year ended 31 December 2019

(in thousands of Russian roubles, unless otherwise stated)

	Share capital	*Retained earnings*	*Total equity*
Balance as at 1 January 2018	**120,000**	**8,984,695**	**9,104,695**
Net profit	–	3,291,841	**3,291,841**
Other comprehensive income for the period	–	–	**–**
Total comprehensive income for the period	**–**	**3,291,841**	**3,291,841**
Dividends paid	–	(1,408,800)	**(1,408,800)**
Balance as at 31 December 2018	**120,000**	**10,867,736**	**10,987,736**
Net profit	–	4,825,833	**4,825,833**
Other comprehensive income for the period	–	–	**–**
Total comprehensive income for the period	**–**	**4,825,833**	**4,825,833**
Dividends paid (Note 15)	–	(1,882,800)	**(1,882,800)**
Balance as at 31 December 2019	**120,000**	**13,810,769**	**13,930,769**

The notes form 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, unless otherwise stated)

	31 December 2019	*31 December 2018*
Cash flows from operating activities		
Interest received	11,888,477	9,048,224
Comissions received	1,715,635	1,404,175
Interest paid	(5,192,182)	(3,766,942)
Proceeds from disposal of repossessed assets	1,870,664	1,042,101
Cash paid to employees and payroll related taxes paid	(3,622,823)	(2,947,567)
Other operating income	2,097,394	972,675
Other operating expenses	(752,817)	(816,109)
Cash flows from operating activities before changes in working capital	**8,004,348**	**4,936,557**
Changes in operating assets/liabilities		
Deposits in banks	–	191,293
Net investment in leases	(16,855,116)	(16,397,742)
Advances to suppliers and from lessees on leasing activities	268,972	515,164
Debtors on leasing activity	258,700	200,758
Assets under operating lease	(220,012)	–
Other assets including VAT recoverable	572,636	(896,837)
Other liabilities including VAT payable	98,086	110,071
Net cash flows used in operating activities before income tax	**(7,872,386)**	**(11,340,736)**
Income tax paid	(781,078)	(628,049)
Net cash flows used in operating activities	**(8,653,464)**	**(11,968,785)**
Cash flows from investing activities		
Proceeds from sale of property and equipment	16,417	14,149
Purchase of property and equipment	(412,264)	(187,217)
Net cash flows used in investing activities	**(395,847)**	**(173,068)**
Cash flows from financing activities		
Borrowings received (Note 27)	17,055,942	12,321,739
Borrowings repaid (Note 27)	(11,007,932)	(2,078,064)
Bonds issued (Note 27)	11,396,137	9,589,375
Bonds repaid (Note 27)	(5,043,760)	(5,572,805)
Lease liabilities repaid (Note 27)	(185,589)	–
Dividends paid	(1,882,800)	(1,408,800)
Net cash flows from financing activities	**10,331,998**	**12,851,445**
Effect of exchange rate changes on cash and cash equivalents	(104)	160
Effect of expected credit losses changes on cash and cash equivalents	(10,501)	(2,437)
Net decrease in cash and cash equivalents	**1,272,082**	**707,315**
Cash and cash equivalents at the beginning of the period (Note 5)	1,490,035	782,720
Cash and cash equivalents at the end of the period (Note 5)	**2,762,117**	**1,490,035**

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

(in thousands of Russian roubles, unless otherwise stated)

1 Introduction

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2019 for Joint Stock Company "Leasing company "Europlan" (the "Company") and its subsidiaries (together referred to as the "Group").

In February 2017 the decision on reorganisation of the Company in the form of split-off of Joint Stock Company "Leasing company "Europlan" was accepted at the extraordinary general meeting of the shareholders of Public Joint Stock Company "Europlan" (PJSC "Europlan") (in August 2017 PJSC "Europlan" changed its name to Public Joint Stock Company "SAFMAR Financial investments"). On 30 June 2017, after the reorganisation was completed, all rights and obligations under the contracts on leasing activity concluded before the completion date of reorganisation were transferred to the separated company. The subsidiaries LLC "Europlan Auto", LLC "Europlan Lease Payments" and LLC "Europlan Service" as well as all bonds issues (issued and not issued) were also transferred to JSC "LC "Europlan". In August 2018 the subsidiaries LLC "Europlan Auto", LLC "Europlan Lease Payments" and LLC "Europlan Service" changed their names to LLC "Autoleasing", LLC "Europlan Service", LLC "Service", respectively.

JSC "LC "Europlan's" registered address is 5, Korovy Val st., Moscow, 119049, Russian Federation.

As at 31 December 2019 and 31 December 2018 the immediate parent company of JSC "LC "Europlan" is PJSC "SFI". As at 31 December 2019 the ultimate controlling party is Gutseriev Said Mikhaylovich with 36.5% share (31 December 2018: Gutseriev Said Mikhaylovich with 34.11% share).

As at 31 December 2019 and 31 December 2018 the main subsidiaries of JSC "LC "Europlan" are LLC "Autoleasing" and LLC "Europlan Service" with 100% ownership.

The principal activity of the Group is leasing of various types of automobiles and equipment to individual entrepreneurs and legal entities within the Russian Federation. The Group purchases leasing assets from suppliers operating on the territory of the Russian Federation. The Group's principal place of business is the Russian Federation. During the period the Group provided its services via 77 offices (31 December 2018: 73). As at 31 December 2019 the number of employees was 2,043 (31 December 2018: 1,980).

2 Operating environment of the Group

The Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the risks on economic and financial markets of the Russian Federation, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group.

Although the future business environment may differ from management's assessment, management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

These consolidated financial statements have been prepared under the historical cost convention except as disclosed in this section.

These consolidated financial statements are presented in thousands of Russian roubles ("RUB") unless otherwise indicated.

Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of annual consolidated financial statements of JSC "LC "Europlan" for the year ended 31 December 2018, except for the adoption of new Standards effective as of 1 January 2019 and described below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

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

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Effect of adoption of IFRS 16 on Group's consolidated statement of financial position is as follows:

	1 January 2019
Assets	
Property and equipment and right-of-use assets	1,000,072
Total assets	**1,000,072**
Liabilities	
Lease liabilities	1,000,072
Total	**1,000,072**
Net impact on equity	–

(in thousands of Russian roubles, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

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

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

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

Leases previously accounted for as operating leases

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

The Group also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of RUB 1,000,072 thousand were recognised and included in Property and equipment and right-of-use assets;
- Additional lease liabilities of RUB 1,000,072 thousand (included in Lease liabilities) were recognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	**1,500,181**
Weighted average incremental borrowing rate as at 1 January 2019	10.3%
Discounted operating lease commitments as at 1 January 2019	**1,000,072**
Lease liabilities as at 1 January 2019	**1,000,072**

(in thousands of Russian roubles, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

(b) Summary of new accounting policies

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

i. Group as a lessee

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

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

Short-term leases and leases of low-value assets

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

(in thousands of Russian roubles, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

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

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

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

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

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

	Right-of-use assets	*Lease liabilities*
As at 1 January 2019	**1,000,072**	**1,000,072**
Additions	7,509	7,509
Deprecation expense	(244,843)	–
Interest expence	–	94,802
Payments	–	(280,391)
Modification	589	408
As at 31 December 2019	**763,327**	**822,400**

The Group recognised rent expense from short-term leases, leases of low-value assets and variable lease payments of RUB 94,355 thousand for the year ended 31 December 2019.

The Group had total cash outflows for leases of RUB 416,174 thousand in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of RUB 1,014,901 thousand in 2019.

ii. Operating – Group as a lessor

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

iii. Finance – Group as a lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

(in thousands of Russian roubles, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

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

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset). The amendments had no impact on the consolidated financial statements of the Group.

(in thousands of Russian roubles, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

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

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

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

Annual improvements 2015-2017 cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

IFRS 11 Joint Arrangements

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

(in thousands of Russian roubles, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

Basis of consolidation

The Group was organised as a result of reorganisation under common control, during which PJSC "Europlan" transferred leasing activity business to JSC "LC "Europlan" registered on 30 June 2017. The reorganisation was accounted for using the pooling of interests method including comparative data on leasing activity, carved out from the consolidated financial statements of PJSC "Europlan".

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases to be. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(in thousands of Russian roubles, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(in thousands of Russian roubles, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- FVPL.

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

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

Business model assessment

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

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

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

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

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

The "solely payments of principal and interest" (SPPI) test

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

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

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

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

Debt instruments at FVOCI

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

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

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

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

Reclassification of financial assets and liabilities

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

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in hand and highly liquid placements with banks with original maturities of up to 90 days. Funds placed for a period of more than 90 days are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost using the effective interest rate method.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, debt securities issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Finance leases

Inception of the lease

The inception of the lease is considered to be the date of the lease agreement, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall specifically set forth the principal terms of the transaction.

Commencement of the lease term

The commencement of the lease is the date on which the lessor makes the underlying asset available for use by the lessee. It is the date of initial recognition of the lease.

Net investment in leases / finance income from leases

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

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

Initial direct transaction costs incurred by the lessor include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. For finance leases, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Finance leases (continued)

Definition of a lease

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying IFRS 15 *Revenue from Contracts with Customers*.

The Group starts to accrue interest income from the commencement date.

Payments received by the Group from lessees are treated as advances received from lessees (a separate line within liabilities section) up to the commencement date of the lease when net investment in leases adjusted by payments received from lessees are recognised.

Any advances made to the supplier are recorded as advances to suppliers for lease operations.

Assets purchased for leasing purposes

Items purchased for leasing purposes represent assets purchased for subsequent transfer to lessees but not transferred at the reporting date. The assets are carried at the lower of cost and net realisable value.

Leased objects repossessed

Leased objects repossessed generally represent the assets repossessed by the Group from delinquent lessees under terminated finance lease contracts. The major types of assets held are cars, trucks and other equipment. When the Group takes possession of the collateral under terminated lease contracts, it measures the assets obtained at the lower of cost or net realisable value. When estimating the net realisable value the Group makes assumptions to assess the market values depending on the type of asset being assessed and then applies market realisation cost adjustments to certain types of assets for obsolescence, illiquidity and trade discounts expected.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. 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.

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 assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Taxation (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes, that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Value added tax ("VAT")

Output value added tax is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount due from the debtor, including VAT.

VAT recoverable represents the amount of VAT paid on assets acquired for leasing purposes. This VAT is recoverable from lease payments of the lessees (sales VAT).

For the purpose of these consolidated financial statements, VAT payable to the state is netted against VAT receivables from lessees and VAT recoverable on assets acquired for leasing purposes within each component of the Group.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of equipment items are capitalised and the replaced part is amortised. Gains and losses on disposals determined by comparing proceeds with the carrying amount are recognised in profit or loss. Costs related to repairs and renewals are charged as incurred and included in general and administrative expenses, unless they qualify for capitalisation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Building	30 years
Computer equipment	5 years
Office equipment	5 years
Vehicles	5 years
Other equipment	5 years

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Intangible assets other than goodwill

Intangible assets other than goodwill include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and 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 does not have any pension arrangements separate from 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. In addition, the Group has no significant post-employment benefits.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

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 information

The Group operates in one segment – "Leasing activity":

- Leasing activity includes conclusion of financial lease contracts with legal entities and individual entrepeneurs and further monitoring of the execution of these contracts.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

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.

Recognition of income and expenses

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

Interest and similar income and expense

The Group calculates interest revenue on debt financial assets measured at amortised cost or at FVOCI by applying the effective interest rate (EIR) to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

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

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

Fee and commission income

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

- *Fee income earned from services that are provided over a certain period of time.*

  Fees earned for the provision of services over a period of time are accrued over that period.

- *Fee income from providing transaction services.*

  Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Russian roubles, which is the Group's functional and presentation currency.

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2019 and 31 December 2018 were 61.9057 roubles and 69.4706 roubles to 1 USD, respectively. The official CBR exchange rates at 31 December 2019 and 31 December 2018 were 69.3406 roubles and 79.4605 roubles to 1 EUR, respectively.

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

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

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The standard is not expected to have an impact on the Group's consolidated financial statements.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 3 Definition of a Business

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

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

Amendments to IAS 1 and IAS 8 Definition of Material

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

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

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

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

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

(in thousands of Russian roubles, unless otherwise stated)

4 Significant accounting judgments and estimates

In the process of applying the Group’s accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

The amount of allowance for expected credit losses recognised in consolidated statement of financial position at 31 December 2019 was RUB 461,656 thousand (31 December 2018: RUB 329,240 thousand).

5 Cash and cash equivalents

	31 December 2019	***31 December 2018***
Settlement accounts in banks	361,294	115,664
Term deposits in banks with original maturity up to 90 days	2,413,761	1,376,808
Cash and cash equivalents before impairment allowance	**2,775,055**	**1,492,472**
Allowance for expected credit losses	(12,938)	(2,437)
Total cash and cash equivalents	**2,762,117**	**1,490,035**

(in thousands of Russian roubles, unless otherwise stated)

5 Cash and cash equivalents (continued)

No settlement accounts in banks or term deposits in banks with original maturity up to 90 days are past due or impaired. The credit quality of cash and cash equivalent balances is based on Standard and Poor's ratings, or ratings of Moody's or Fitch, which are converted to the nearest equivalent to the Standard and Poor's ratings. Analysis by credit quality of settlement accounts in banks and term deposits in banks with original maturity up to 90 days is as follows:

	31 December 2019		*31 December 2018*	
	Settlement accounts in banks	***Term deposits in banks with original maturity up to 90 days***	***Settlement accounts in banks***	***Term deposits in banks with original maturity up to 90 days***
Neither past due nor impaired				
- Rated higher than BB+	356,374	463,761	61,173	74,643
- BB- to BB+ rated	1,028	–	44,851	1,302,165
- Rated lower than BB-	3,244	1,950,000	9,640	–
- Unrated	648	–		
Total cash and cash equivalents	**361,294**	**2,413,761**	**115,664**	**1,376,808**

As at 31 December 2019 the Group has one counterparty (31 December 2018: one counterparty) whose aggregate balances on settlement accounts in banks and term deposits in banks with original maturity up to 90 days exceed 10% of equity. The gross value of these balances as of 31 December 2019 is RUB 1,952,175 thousand (31 December 2018: RUB 1,309,588 thousand).

All balances of cash equivalents are allocated to Stage 1. The Stages are described in Note 22. An analysis of changes in the allowances for expected credit losses during the year ended 31 December 2019 and 31 December 2018 is as follows:

	2019	*2018*
Allowance for expected credit losses as at 1 January	**(2,437)**	**(464)**
Increase in allowance for expected credit losses	(10,501)	(1,973)
Allowance for expected credit losses as at 31 December	**(12,938)**	**(2,437)**

6 Deposits in banks

	31 December 2019	*31 December 2018*
Term deposits in banks with original maturity over 90 days before allowance for expected credit losses	50,000	50,308
Allowance for expected credit losses	(297)	(267)
Total deposits in banks	**49,703**	**50,041**

Deposits in banks as at 31 December 2019 were mainly deposits in RUB and had an average interest rate of 7.50% (31 December 2018: 7.49%). As at 31 December 2019 the maturity of these deposits is March 2020 (31 December 2018: September 2019).

All deposits in banks are neither past due nor impaired. The credit quality of the deposits in banks is based on Standard and Poor's ratings, or ratings of Moody's or Fitch, which are converted to the nearest equivalent to the Standard and Poor's ratings.

(in thousands of Russian roubles, unless otherwise stated)

6 Deposits in banks (continued)

Analysis by credit quality of deposits in banks is as follows:

	31 December 2019	*31 December 2018*
BB- (inclusive) to BB+ rated	–	50,041
Rated lower than BB-	49,703	–
Total deposits in banks	**49,703**	**50,041**

As at 31 December 2019 and 31 December 2018 the Group does not have counterparties, whose aggregate balances exceed 10% of equity.

All balances of deposits in banks are allocated to Stage 1. The Stages are described in Note 22. An analysis of changes in the allowances for expected credit losses during the year ended 31 December 2019 and 31 December 2018 is as follows:

	2019	*2018*
Allowance for expected credit losses as at 1 January	**(267)**	**(355)**
(Increase)/decrease in allowance for expected credit losses	(30)	88
Allowance for expected credit losses as at 31 December	**(297)**	**(267)**

7 Net investment in leases after allowance for expected credit losses

As at 31 December 2019 and 31 December 2018 net investment in leases comprises:

	31 December 2019	*31 December 2018*
Gross investment in leases	**88,492,076**	**71,170,633**
Unearned finance income	(16,563,125)	(14,252,838)
Net investment in leases before allowance for expected credit losses	**71,928,951**	**56,917,795**
Allowance for expected credit losses	(365,733)	(290,917)
Total net investment in leases after allowance for expected credit losses	**71,563,218**	**56,626,878**

Finance lease payments receivable (gross investment in leases) and their present values are as follows:

	31 December 2019
Gross investment in leases	
Due in 1 year	47,001,952
Due between 1 and 2 years	25,484,322
Due between 2 and 3 years	11,789,070
Due between 3 and 4 years	3,170,470
Due between 4 and 5 years	1,046,004
Due over 5 years	258
Gross investment in leases	**88,492,076**
Unearned finance income	(16,563,125)
Net investment in leases before allowance for expected credit losses	**71,928,951**
Allowance for expected credit losses	(365,733)
Total net investment in leases after allowance for expected credit losses	**71,563,218**

(in thousands of Russian roubles, unless otherwise stated)

7 Net investment in leases after allowance for expected credit losses (continued)

	Due in 1 year	*Due between 1 and 5 years*	*Total*
Gross investment in leases as at 31 December 2018	**39,183,053**	**31,987,580**	**71,170,633**
Unearned finance income	(3,434,663)	(10,818,175)	**(14,252,838)**
Allowance for expected credit losses	(162,852)	(128,065)	**(290,917)**
Net investment in leases after allowance for expected credit losses as at 31 December 2018	**35,585,538**	**21,041,340**	**56,626,878**

Movements in the allowance for expected credit losses for net investment in leases by types of leased assets for the year ended 31 December 2019 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Vehicles				
Allowance for expected credit losses as at 1 January 2019	**(213,393)**	**(14,269)**	**(35,871)**	**(263,533)**
Transfers to Stage 1	(4,931)	3,596	1,335	**–**
Transfers to Stage 2	3,260	(3,260)	–	**–**
Transfers to Stage 3	884	65	(949)	**–**
Impact on ECL of exposures transferred between stages	1,960	(5,705)	(35,400)	**(39,145)**
Effect of changes in the gross carrying amount, net	(41,695)	116	11,165	**(30,414)**
Changes to models and inputs used for ECL calculations	(3,099)	(301)	6	**(3,394)**
Write-offs	9,072	1,297	17	**10,386**
Allowance for expected credit losses as at 31 December 2019	**(247,942)**	**(18,461)**	**(59,697)**	**(326,100)**
Mobile machinery and other				
Allowance for expected credit losses as at 1 January 2019	**(25,292)**	**(1,061)**	**(1,031)**	**(27,384)**
Transfers to Stage 1	(111)	111	–	**–**
Transfers to Stage 2	268	(268)	–	**–**
Transfers to Stage 3	219	–	(219)	**–**
Impact on ECL of exposures transferred between stages	63	(347)	(3,023)	**(3,307)**
Effect of changes in the gross carrying amount, net	(9,041)	304	(67)	**(8,804)**
Changes to models and inputs used for ECL calculations	(91)	(7)	(40)	**(138)**
Allowance for expected credit losses as at 31 December 2019	**(33,985)**	**(1,268)**	**(4,380)**	**(39,633)**

The Stages are described in Note 22.

(in thousands of Russian roubles, unless otherwise stated)

7 Net investment in leases after allowance for expected credit losses (continued)

Movements in the allowance for expected credit losses for net investment in leases by types of leased assets for the year ended 31 December 2018 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Vehicles				
Allowance for expected credit losses as at 1 January 2018	**(168,370)**	**(8,025)**	**(9,774)**	**(186,169)**
Transfers to Stage 1	(1,550)	674	876	–
Transfers to Stage 2	2,635	(2,635)	–	–
Transfers to Stage 3	353	72	(425)	–
Impact on ECL of exposures transferred between stages	1,303	(4,258)	(13,215)	**(16,170)**
Effect of changes in the gross carrying amount, net	(57,968)	(742)	(13,481)	**(72,191)**
Changes to models and inputs used for ECL calculations	(7,707)	242	–	**(7,465)**
Write-offs	17,911	403	148	**18,462**
Allowance for expected credit losses as at 31 December 2018	**(213,393)**	**(14,269)**	**(35,871)**	**(263,533)**
Mobile machinery and other				
Allowance for expected credit losses as at 1 January 2018	**(12,411)**	**(314)**	**(637)**	**(13,362)**
Transfers to Stage 1	(35)	35	–	–
Transfers to Stage 2	163	(163)	–	–
Transfers to Stage 3	13	95	(108)	–
Impact on ECL of exposures transferred between stages	27	(605)	(727)	**(1,305)**
Effect of changes in the gross carrying amount, net	(12,588)	(109)	507	**(12,190)**
Changes to models and inputs used for ECL calculations	(461)	–	(66)	**(527)**
Allowance for expected credit losses as at 31 December 2018	**(25,292)**	**(1,061)**	**(1,031)**	**(27,384)**

Changes in the gross carrying amount of net investment in leases by types of leased assets for the year ended 31 December 2019 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Vehicles				
Gross carrying amount as at 1 January 2019	**51,174,135**	**888,291**	**108,916**	**52,171,342**
Transfers to Stage 1	323,488	(313,825)	(9,663)	–
Transfers to Stage 2	(670,893)	670,893	–	–
Transfers to Stage 3	(188,834)	(5,236)	194,070	–
Changes in the gross carrying amount, net	12,618,249	151,836	33,631	**12,803,716**
Write-offs	(9,072)	(1,297)	(17)	**(10,386)**
Gross carrying amount as at 31 December 2019	**63,247,073**	**1,390,662**	**326,937**	**64,964,672**
Mobile machinery and other				
Gross carrying amount as at 1 January 2019	**4,680,341**	**63,684**	**2,428**	**4,746,453**
Transfers to Stage 1	10,914	(10,914)	–	–
Transfers to Stage 2	(35,601)	35,601	–	–
Transfers to Stage 3	(19,681)	–	19,681	–
Changes in gross carrying amount, net	2,225,852	(11,180)	3,154	**2,217,826**
Gross carrying amount as at 31 December 2019	**6,861,825**	**77,191**	**25,263**	**6,964,279**

(in thousands of Russian roubles, unless otherwise stated)

7 Net investment in leases after allowance for expected credit losses (continued)

Changes in the gross carrying amount of net investment in leases by types of leased asset for the year ended 31 December 2018 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Vehicles				
Gross carrying amount as at 1 January 2018	**37,443,042**	**477,864**	**53,301**	**37,974,207**
Transfers to Stage 1	45,638	(40,846)	(4,792)	–
Transfers to Stage 2	(331,907)	331,907	–	–
Transfers to Stage 3	(48,798)	(5,100)	53,898	–
Changes in the gross carrying amount, net	14,084,190	124,814	6,594	**14,215,598**
Write-offs	(18,030)	(348)	(84)	**(18,462)**
Gross carrying amount as at 31 December 2018	**51,174,135**	**888,291**	**108,917**	**52,171,343**
Mobile machinery and other				
Gross carrying amount as at 1 January 2018	**2,742,423**	**6,661**	**1,483**	**2,750,567**
Transfers to Stage 1	1,375	(1,375)	–	–
Transfers to Stage 2	(31,843)	31,843	–	–
Transfers to Stage 3	(1,853)	(342)	2,195	–
Changes in gross carrying amount, net	1,970,239	26,896	(1,250)	**1,995,885**
Gross carrying amount as at 31 December 2018	**4,680,341**	**63,683**	**2,428**	**4,746,452**

Analysis by credit quality of net investment in leases as at 31 December 2019 by ratings assigned at conclusion of contracts is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Vehicles				
- Prime	11,290,047	46,228	32,674	**11,368,949**
- Strong	22,354,426	365,711	51,891	**22,772,028**
- Acceptable	26,526,233	899,365	210,618	**27,636,216**
- Sufficient	3,076,367	79,358	31,754	**3,187,479**
Net investment in leases before allowance for expected credit losses	**63,247,073**	**1,390,662**	**326,937**	**64,964,672**
Allowance for expected credit losses	(247,942)	(18,461)	(59,697)	**(326,100)**
Total net investment in leases after allowance for expected credit losses	**62,999,131**	**1,372,201**	**267,240**	**64,638,572**
Mobile machinery and other				
- Prime	1,173,444	10,493	3,346	**1,187,283**
- Strong	3,010,013	24,877	20,053	**3,054,943**
- Acceptable	2,644,817	41,821	1,864	**2,688,502**
- Sufficient	33,551	–	–	**33,551**
Net investment in leases before allowance for expected credit losses	**6,861,825**	**77,191**	**25,263**	**6,964,279**
Allowance for expected credit losses	(33,985)	(1,268)	(4,380)	**(39,633)**
Total net investment in leases after allowance for expected credit losses	**6,827,840**	**75,923**	**20,883**	**6,924,646**

(in thousands of Russian roubles, unless otherwise stated)

7 Net investment in leases after allowance for expected credit losses (continued)

Analysis by credit quality of net investment in leases as at 31 December 2018 by ratings assigned at conclusion of contracts is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Vehicles				
- Prime	8,617,124	43,449	3,735	**8,664,308**
- Strong	19,144,084	168,097	35,904	**19,348,085**
- Acceptable	21,495,249	627,945	63,273	**22,186,467**
- Sufficient	1,917,678	48,800	6,005	**1,972,483**
Net investment in leases before allowance for expected credit losses	**51,174,135**	**888,291**	**108,917**	**52,171,343**
Allowance for expected credit losses	(213,393)	(14,269)	(35,871)	**(263,533)**
Total net investment in leases after allowance for expected credit losses	**50,960,742**	**874,022**	**73,046**	**51,907,810**
Mobile machinery and other				
- Prime	747,085	20,204	228	**767,517**
- Strong	2,367,238	15,913	481	**2,383,632**
- Acceptable	1,548,966	8,797	1,719	**1,559,482**
- Sufficient	17,052	18,769	–	**35,821**
Net investment in leases before allowance for expected credit losses	**4,680,341**	**63,683**	**2,428**	**4,746,452**
Allowance for expected credit losses	(25,292)	(1,061)	(1,031)	**(27,384)**
Total net investment in leases after allowance for expected credit losses	**4,655,049**	**62,622**	**1,397**	**4,719,068**

The lessees of the Group are divided into 4 rating groups for credit quality analysis. The Group's rating scale reflects the credit quality of net investment in leases.

Prime credit rating: the lowest level of risk is assigned to a lessee and a leasing transaction. The lowest level of risk corresponds to counterparties with a high ability to fulfill financial obligations in a timely manner and with a low probability of default on a transaction.

Strong credit rating: low risk is assigned to a lessee and a leasing transaction. Low risk is determined by the stable ability to fulfill financial obligations in a timely manner and a slight probability of default.

Acceptable credit rating: average risk is assigned to a lessee and a leasing transaction. Average risk is determined by the moderate probability of default and the average ability to fulfill financial obligations in a timely manner.

Sufficient credit rating: the risk is higher than average. The higher than average risk is characterised by an increased probability of default on transactions with low property risk (mainly by the type of assets "Vehicles").

The ratings are determined and fixed at the time of a transaction.

The Group holds the title to the asset during the lease term. Risks related to the leased asset such as damage caused by various reasons and theft are insured. The beneficiary under the insurance policy in case of total loss or theft is the Group.

Estimates of collateral value are based on the value of collateral assessed at the time of lease origination, and generally are not updated except when a lease is individually assessed as impaired.

(in thousands of Russian roubles, unless otherwise stated)

7 Net investment in leases after allowance for expected credit losses (continued)

In the absence of possibility of repossession and selling a leased asset for net investment in leases, the allowance for expected credit losses on net investment in leases of Stage 3 as of 31 December 2019 and 31 December 2018 would be higher by:

	31 December 2019	*31 December 2018*
Automobile total	(165,890)	(42,549)
Mobile machinery and other	(13,051)	(717)
Total effect on the allowance for expected credit losses	**(178,941)**	**(43,266)**

During the year, the Group took possession of different assets in exchange of indebtness of respective lessees. The Group is in the process of selling of those assets. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not use repossessed assets for business use. The carrying value of the assets repossessed and held as at the reporting date is as follows:

	31 December 2019	*31 December 2018*
Other assets	699,010	258,374
Total repossessed collateral	**699,010**	**258,374**

Economic sector risk concentrations of net investment in leases are as follows:

	31 December 2019		*31 December 2018*	
	Amount	*%*	*Amount*	*%*
Freight tansportation and logistics	8,798,752	12.23	6,154,931	10.81
Development of construction projects	6,027,695	8.38	4,123,417	7.24
Wholesale operations – specialised	5,836,351	8.11	5,174,017	9.09
Ancillary transport activities	4,531,060	6.30	3,773,787	6.63
Wholesale operations – foods and beverages	2,297,481	3.19	2,036,717	3.58
Wholesale operations – non-food consumer goods	2,180,393	3.03	2,199,677	3.86
Wholesale operations – other machines and equipment	1,947,391	2.71	1,661,184	2.92
Passenger transportation	1,891,377	2.63	1,447,519	2.54
Wholesale operations – unspecialised	1,766,638	2.46	1,553,401	2.73
Construction of roads and railways	1,598,388	2.22	1,035,666	1.82
Leasing of vehicles	1,453,415	2.02	576,030	1.01
Car dealership	1,325,077	1.84	1,073,912	1.89
Leasing of other machines and equipment	1,324,975	1.84	881,172	1.55
Waste collection	1,229,100	1.71	416,096	0.73
Manufacture of electrical, plumbing and other construction and installation works	1,152,710	1.60	821,734	1.44
Preparation of construction site	1,005,939	1.40	960,057	1.69
Other specialised construction works	967,253	1.34	795,444	1.40
Growing annual crops	939,627	1.31	700,346	1.23
Renting and managing real estate	936,461	1.30	799,399	1.40
Mixed farming	868,979	1.21	390,085	0.69
Trade of motor vehicle parts and accessories	862,709	1.20	747,023	1.31
Wholesale operations – on a fee or contract basis	837,289	1.16	789,049	1.39
Activities in the field of architecture, engineering research and the provision of technical advice in these areas	723,661	1.01	623,271	1.10
Wholesale operations – agricultural raw materials and animals	669,594	0.93	692,446	1.22
Engineering communications construction	624,245	0.87	445,757	0.78
Other industries	20,132,391	28.00	17,045,658	29.95
Net investment in leases before allowance for expected credit losses	**71,928,951**	**100.00**	**56,917,795**	**100.00**

As at 31 December 2019 and 31 December 2018 the Group does not have lessees, the aggregate balances of which exceed 10% of equity.

(in thousands of Russian roubles, unless otherwise stated)

8 Assets purchased and advances to suppliers for lease operations

Assets purchased for lease operations represent assets which will be subsequently transferred to lessees. Advances to suppliers for lease operations represent payments to suppliers for assets which will be subsequently transferred to lessees. In accordance with the Russian Civil Code, the lessor is not liable to the lessee if the supplier fails to fulfil its obligations under the asset sales contract when the lessee chooses the supplier.

The Group is exposed to financial risks in relation to assets purchased for leasing purposes and advances to suppliers for lease operations as these assets represent the first stage of settlements under the leasing contracts which are performed after inception of the lease.

	31 December 2019	***31 December 2018***
Assets purchased for lease operations	**194,268**	**268,401**
Advances to suppliers for lease operations	823,915	350,887
Allowance for impairment	(908)	(5,671)
Total advances to suppliers for lease operations	**823,007**	**345,216**
Total assets purchased and advances to suppliers for lease operations	**1,017,275**	**613,617**

Movements in the allowance for impairment for the year ended 31 December 2019 and 31 December 2018 are as follows.

	2019	***2018***
Allowance for impairment as at 1 January	**(5,671)**	**(7,692)**
Decrease/(increase) in allowance for impairment	4,386	(178)
Write-offs	377	2,199
Allowance for impairment as at 31 December	**(908)**	**(5,671)**

Analysis by credit quality of advances to suppliers for lease operations as at 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019	***31 December 2018***
Advances to suppliers for lease operations		
Neither past due nor impaired	708,215	246,239
Past due		
- Less than 90 days overdue	113,512	98,574
- 91 days to 180 days overdue	2,188	673
- 181 days to 365 days overdue	–	–
- Over 365 days overdue	–	5,401
Total past due	**115,700**	**104,648**
Allowance for impairment	(908)	(5,671)
Total advances to suppliers for lease operations	**823,007**	**345,216**

(in thousands of Russian roubles, unless otherwise stated)

9 Debtors on leasing activity

Debtors on leasing activity consist of accounts receivable on terminated lease agreements.

	31 December 2019	*31 December 2018*
Debtors on leasing activity	89,579	44,116
Allowance for expected credit losses	(53,202)	(35,372)
Total debtors on leasing activity	**36,377**	**8,744**

Movements in the allowance for expected credit losses for debtors on leasing activity for the year ended 31 December 2019 are as follows. The Stages are described in Note 22.

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for expected credit losses as at 1 January	**(3)**	**(18)**	**(35,351)**	**(35,372)**
Effect of changes in the gross carrying amount, net	(47,409)	(7,238)	(59,718)	**(114,365)**
Write-offs	47,361	7,256	41,918	**96,535**
Allowance for expected credit losses as at 31 December	**(51)**	**–**	**(53,151)**	**(53,202)**

Movements in the allowance for impairment for debtors on leasing activity for the year ended 31 December 2018 are as follows.

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for expected credit losses as at 1 January	**(217)**	**(122)**	**(41,234)**	**(41,573)**
Effect of changes in the gross carrying amount, net	(17,683)	(202)	(11,185)	**(29,070)**
Changes to models and inputs used for ECL calculations	–	–	18	**18**
Write-offs	17,897	306	17,050	**35,253**
Allowance for expected credit losses as at 31 December	**(3)**	**(18)**	**(35,351)**	**(35,372)**

Changes in the gross carrying amount of debtors on leasing activity for the year ended 31 December 2019 are as follows.

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January	**770**	**573**	**42,773**	**44,116**
Effect of changes in the gross carrying amount, net	57,026	6,683	78,289	**141,998**
Write-offs	(47,361)	(7,256)	(41,918)	**(96,535)**
Gross carrying amount as at 31 December	**10,435**	**–**	**79,144**	**89,579**

(in thousands of Russian roubles, unless otherwise stated)

9 Debtors on leasing activity (continued)

Changes in the gross carrying amount of debtors on leasing activity for the year ended 31 December 2018 are as follows.

	2018			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount as at 1 January	**3,095**	**2,601**	**50,261**	**55,957**
Effect of changes in the gross carrying amount, net	15,572	(1,722)	9,562	**23,412**
Write-offs	(17,897)	(306)	(17,050)	**(35,253)**
Gross book value as at 31 December	**770**	**573**	**42,773**	**44,116**

Analysis by credit quality of debtors on leasing activity as at 31 December 2019 is as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
Debtors on leasing activity	10,435	–	79,144	**89,579**
Allowance for expected credit losses	(51)	–	(53,151)	**(53,202)**
Total debtors on leasing activity after allowance for expected credit losses	**10,384**	**–**	**25,993**	**36,377**

Analysis by credit quality of debtors on leasing activity as at 31 December 2018 is as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
Debtors on leasing activity	770	573	42,773	**44,116**
Allowance for expected credit losses	(3)	(18)	(35,351)	**(35,372)**
Total debtors on leasing activity after allowance for expected credit losses	**767**	**555**	**7,422**	**8,744**

In the absence of possibility of repossession and selling a leased asset for debtors on leasing activity, the allowance for expected credit losses on debtors on leasing activity of Stage 3 as at 31 December 2019 would be higher by RUB 16,961 thousand (31 December 2018: RUB 4,798 thousand).

(in thousands of Russian roubles, unless otherwise stated)

10 Property and equipment and right-of-use assets

The movements in property and equipment and right-of-use assets for the year ended 31 December 2019 and 31 December 2018 were as follows:

	Assets owned by the Group							*Right-of-use assets*	*Total property and equipment and right-of-use assets*
	Cars	*Computer equipment*	*Office equipment*	*Buildings and land*	*Assets under operating lease*	*Other*	*Capital expenditure*	*Rent of offices*	
Cost									
1 January 2018	**95,085**	**269,069**	**129,619**	**148,043**	**–**	**64,926**	**10,588**	**–**	**717,330**
Additions	32,870	94,519	33,266	–	–	23,618	2,944	–	**187,217**
Disposals	(18,619)	(43,669)	(17,707)	–	–	(5,159)	(23)	–	**(85,177)**
Transfer between categories	–	10,055	–	–	–	510	(10,565)	–	**–**
Transfer from other assets	699	–	–	–	–	–	–	–	**699**
31 December 2018	**110,035**	**329,974**	**145,178**	**148,043**	**–**	**83,895**	**2,944**	**–**	**820,069**
Additions	355,182	32,504	12,268	1,451	220,012	10,859	–	–	**632,276**
Recognition of the right-of-use assets	–	–	–	–	–	–	–	1,014,901	**1,014,901**
Disposals	(36,930)	(11,494)	(26,564)	–	(559)	(1,045)	–	(8,763)	**(85,355)**
Transfer between categories	–	22,689	54,171	–	–	(73,933)	(2,927)	–	**–**
Transfer from other assets	699	–	–	–	4,410	–	–	–	**5,109**
31 December 2019	**428,986**	**373,673**	**185,053**	**149,494**	**223,863**	**19,776**	**17**	**1,006,138**	**2,387,000**
Accumulated depreciation									
1 January 2018	**(48,614)**	**(163,953)**	**(95,161)**	**(31,213)**	**–**	**(40,067)**	**–**	**–**	**(379,008)**
Depreciation charge	(16,578)	(51,291)	(17,238)	(5,256)	–	(4,324)	–	–	**(94,687)**
Disposals	18,210	42,591	15,516	–	–	4,325	–	–	**80,642**
31 December 2018	**(46,982)**	**(172,653)**	**(96,883)**	**(36,469)**	**–**	**(40,066)**	**–**	**–**	**(393,053)**
Depreciation charge	(65,075)	(53,356)	(27,564)	(5,311)	(10,605)	(2,110)	–	(244,843)	**(408,864)**
Disposals	15,373	11,299	24,927	–	13	994	–	2,032	**54,638**
Transfer between categories	–	(7,379)	(27,357)	–	–	34,736	–	–	**–**
Transfer from other assets	–	–	–	–	(3)	–	–	–	**(3)**
31 December 2019	**(96,684)**	**(222,089)**	**(126,877)**	**(41,780)**	**(10,595)**	**(6,446)**	**–**	**(242,811)**	**(747,282)**
Carrying amount									
1 January 2018	**46,471**	**105,116**	**34,458**	**116,830**	**–**	**24,859**	**10,588**	**–**	**338,322**
31 December 2018	**63,053**	**157,321**	**48,295**	**111,574**	**–**	**43,829**	**2,944**	**–**	**427,016**
31 December 2019	**332,302**	**151,584**	**58,176**	**107,714**	**213,268**	**13,330**	**17**	**763,327**	**1,639,718**

(in thousands of Russian roubles, unless otherwise stated)

10 Property and equipment and right-of-use assets (continued)

Analysis of undiscounted lease payments (excluding VAT) receivable under operating lease agreements, where the Group acts as a lessor, by maturity as at 31 December 2019 is as follows.

	31 December 2019
Due in 1 year	75,828
Due between 1 and 2 years	76,021
Due between 2 and 3 years	48,623
Due between 3 and 4 years	7,477
Due between 4 and 5 years	842
Total undiscounted lease payments receivable	**208,791**

11 Other assets

	31 December 2019	*31 December 2018*
Other financial assets		
Insurance premium receivable	456,207	353,506
Insurance agency fee receivable	21,899	40,178
Settlements with counterparties	20,706	30,462
Loans issued	15,878	21,632
Other financial assets	56,003	18,058
Less impairment allowance	(29,486)	(247)
Total other financial assets	**541,207**	**463,589**
Other non-financial assets		
Leased objects repossessed/returned	706,757	261,962
Advance payments to counterparties	97,148	82,101
Intangible assets	62,905	64,924
Deferred expenses	56,551	42,670
Prepaid insurance cost	22,042	9,309
Prepaid taxes other than income tax	15,059	19,404
Other	14,017	22,306
Total other non-financial assets	**974,479**	**502,676**
Total other assets	**1,515,686**	**966,265**

Leased objects repossessed are assets repossessed by the Group from delinquent lessees under cancelled finance lease contracts. These leased objects repossessed are recognised at lower of their cost or net realisable value.

Other financial assets are classified as Stage 1. The Stages are described in Note 22. An analysis of changes in the allowances for expected credit losses during the year ended 31 December 2019 and 31 December 2018 is as follows:

	2019	*2018*
Allowance for expected credit losses as at 1 January	**(247)**	**(193)**
Increase in allowance for expected credit losses	(33,409)	(54)
Write-offs	4,170	–
Allowance for expected credit losses as at 31 December	**(29,486)**	**(247)**

(in thousands of Russian roubles, unless otherwise stated)

12 Borrowings

As at 31 December 2019 borrowings in the amount of RUB 38,055,638 thousand (31 December 2018: RUB 31,975,769 thousand) are loans attracted in roubles from banks registered on the territory of the Russian Federation.

As at 31 December 2019 the Group has four counterparties (31 December 2018: three counterparties), the aggregate amount of borrowings from which individually exceed 10% of equity. The gross value of these borrowings as at 31 December 2019 is RUB 32,832,223 thousand (31 December 2018: RUB 30,980,040 thousand).

As at 31 December 2019 net investment in leases before allowance for expected credit losses in the amount of RUB 29,606,788 thousand (31 December 2018: RUB 26,780,820 thousand) were pledged as collateral for borrowings amounting to RUB 35,743,617 thousand (31 December 2018: RUB 29,040,153 thousand).

13 Bonds issued

Bonds issued comprise the following:

	Date of placement	*Maturity*	*Offer date*	*Interest rate as at 31 December 2019*	*Interest rate as at 31 December 2018*	*31 December 2019*	*31 December 2018*
Series 04	February 2013	February 2019	–	–	12.00%	–	1,198,198
Series 05	April 2013	March 2019	–	–	9.30%	–	1,536,707
Series BO-01	October 2013	September 2019	–	–	9.50%	–	2,046,177
Series BO-02	August 2015	August 2021	–	8.60%	10.50%	1,889,666	1,907,201
Series BO-03	October 2019	September 2029	October 2022	8.80%	–	5,092,804	–
Series BO-05	February 2019	February 2029	March 2021	9.75%	–	3,093,131	–
Series BO-06	May 2019	May 2029	May 2021	9.40%	–	3,020,884	–
Series BO-07	October 2016	September 2026	October 2021	8.50%	9.50%	1,983,898	1,985,104
Series BO-08	July 2018	June 2028	July 2020	9.35%	9.35%	4,989,823	5,220,609
Total bonds issued						**20,070,206**	**13,893,996**

In 2019 the Group redeemed the bonds of the series BO-07 with nominal value of RUB 395,760 thousand, and the bonds of the series BO-07 with nominal value of RUB 396,137 thousand were realised again. As at 31 December 2019 the Group redeemed the bonds of the series BO-07 with nominal value of RUB 3,040,428 thousand (31 December 2018: RUB 3,040,805 thousand).

Bonds issued have put options that allow bondholders at their discretion to force repayment of principal amount of bond ahead of schedule at specified dates in 2020-2021. Bonds issued also may be repaid by agreement with the bondholders.

(in thousands of Russian roubles, unless otherwise stated)

14 Other liabilities

Other liabilities comprise the following:

	31 December 2019	*31 December 2018*
Other financial liabilities		
Settlements with insurance companies	514,831	450,675
Settlements with counterparties	302,175	208,337
Taxes payable other than income tax	47,797	34,417
Accrued expenses	5,099	5,031
Settlements with employees	–	649
Total other financial liabilities	**869,902**	**699,109**
Other non-financial liabilities		
Deferred remuneration to employees	1,208,184	1,227,183
Deferred income	363,019	11,780
Provision for possible legal claims payments	87,654	45,629
Other	13,658	11,756
Total other non-financial liabilities	**1,672,515**	**1,296,348**
Total other liabilities	**2,542,417**	**1,995,457**

Movements in the provision for deferred remuneration to employees for the year ended 31 December 2019 and 31 December 2018 are as follows:

	2019	*2018*
Provision for deferred remuneration to employees as at 1 January	**1,227,183**	**890,499**
Increase in provision for deferred remuneration to employees	891,759	761,382
Payments	(910,758)	(424,698)
Provision for deferred remuneration to employees as at 31 December	**1,208,184**	**1,227,183**

Movements in the provision for possible legal claims payments for the year ended 31 December 2019 and 31 December 2018 are as follows:

	2019	*2018*
Provision for possible legal claims payments as at 1 January	**45,629**	**–**
Increase in provision for possible legal claims payments	99,092	45,629
Payments	(57,067)	–
Provision for possible legal claims payments as at 31 December	**87,654**	**45,629**

15 Share capital

In June 2017 PJSC "Europlan" have been reorganised in the form of split-off of Joint Stock Company "Leasing company "Europlan". The issued share capital of JSC "LC "Europlan" in the amount of RUB 120,000 thousand comprises 120,000,000 ordinary shares with nominal value of RUB 1 each, as a result of the reorganisation.

During the year ended 31 December 2019 dividends in the amount of RUB 1,882,800 thousand were paid by the Group to the shareholders based on the results of the year 2018. During the year ended 31 December 2018 dividends in the amount of RUB 1,408,800 thousand were paid by the Group to the shareholders based on the results of the year 2017 and the six months ended 30 June 2018.

In accordance with Russian legislation, the source of dividend payment is retained earnings as shown in the financial statements prepared in accordance with Russian accounting standards. As of 31 December 2019 retained earnings of the Company amounted to RUB 11,417,670 thousand (31 December 2018: RUB 7,907,784 thousand).

(in thousands of Russian roubles, unless otherwise stated)

16 Interest income and expense

Interest income and expense are as follows:

	2019	*2018*
Interest income		
Net investment in leases (Note 7)	12,465,033	9,862,153
Deposits in banks	107,990	105,385
Other assets	1,073	1,686
Total interest income	**12,574,096**	**9,969,224**
Interest expense		
Borrowings	(3,389,080)	(2,529,251)
Bonds issued	(1,558,221)	(1,362,080)
Lease liabilities	(94,802)	–
Total interest expense	**(5,042,103)**	**(3,891,331)**
Total net interest income	**7,531,993**	**6,077,893**

As at 31 December 2019 interest income accrued on impaired net investment in leases comprised RUB 743 thousand (31 December 2018: RUB 1,581 thousand).

17 Other income and expense, net

Other income, net is as follows:

	2019	*2018*
Revenues from sale of lease objects repossessed	1,870,664	1,042,101
Cost of leased objects repossessed	(1,608,903)	(837,625)
Net result from sale of leased objects repossessed	**261,761**	**204,476**
Revenues from operating lease	34,882	–
Expenses from operating lease	(11,977)	–
Depreciation of assets under operating lease	(10,605)	–
Other income, net from operating lease	**12,300**	**–**
Insurance agency fee income	1,697,356	1,426,280
Revenues from services provided to lessees	818,392	676,261
Other gains from lease activities	590,949	282,122
One-off income in the form of a property tax refund from the budget	213,753	–
Other income	197,516	48,758
Other income, net	**3,517,966**	**2,433,421**
Total other income, net	**3,792,027**	**2,637,897**

Other expense, net is as follows:

	2019	*2018*
Expenses on leased objects repossessed	(63,056)	(40,867)
Transport tax expenses	(60,243)	(34,466)
Impairment of leased objects repossessed	(13,684)	(6,939)
Total other expense, net	**(136,983)**	**(82,272)**

(in thousands of Russian roubles, unless otherwise stated)

18 Changes in allowance for expected credit losses and other allowance for losses

Changes in allowance for expected credit losses and other allowance for losses are as follows:

	2019	*2018*
Changes in allowance for expected credit losses on leasing assets		
Net investment in leases – increase in allowance for expected credit losses, net	(85,202)	(109,848)
Debtors on leasing activity – increase in allowance for expected credit losses, net	(114,365)	(29,052)
Total changes in allowance for expected credit losses on leasing assets	**(199,567)**	**(138,900)**
Changes in allowance for expected credit losses on other assets		
Cash and cash equivalents – increase in allowance for expected credit losses, net	(10,501)	(1,973)
Deposits in banks – (increase)/decrease in allowance for expected credit losses, net	(30)	88
Other assets – increase in allowance for expected credit losses, net	(33,409)	(54)
Total changes in allowance for expected credit losses on other assets	**(43,940)**	**(1,939)**
Changes in other allowance for losses		
Assets purchased and advances to suppliers for lease operations – decrease/(increase) in allowance for impairment, net	4,386	(178)
Provision for possible legal claims payments – increase in provision, net	(99,092)	(45,629)
Total changes in other allowance for losses	**(94,706)**	**(45,807)**
Total changes in allowance for expected credit losses and other allowance for losses	**(338,213)**	**(186,646)**

19 Staff expenses

Staff expenses are as follows:

	2019	*2018*
Employee compensation	(2,795,402)	(2,565,821)
Payroll related taxes	(632,138)	(591,291)
Other staff expenses	(179,000)	(104,578)
Total staff expenses	**(3,606,540)**	**(3,261,690)**

20 Other operating expenses

Other operating expenses are as follows:

	2019	*2018*
Depreciation of property and equipment and right-of-use assets	(398,259)	(94,687)
Advertisement and marketing	(300,866)	(237,810)
General business expenses and other administrative expenses	(264,042)	(228,807)
Office maintenance	(130,442)	(404,527)
Professional services	(33,698)	(33,430)
Amortisation of intangible assets	(26,397)	(28,768)
Communication	(24,501)	(25,641)
Other	(5,449)	(7,205)
Total other operating expenses	**(1,183,654)**	**(1,060,875)**

(in thousands of Russian roubles, unless otherwise stated)

21 Income tax

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

	2019	*2018*
Current tax charge	(806,010)	(765,568)
Deferred tax charge	(433,389)	(77,389)
Total income tax expense	**(1,239,399)**	**(842,957)**

Current income tax rate applicable to the majority of the Group's income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

	2019	*2018*
Profit before income tax	**6,065,232**	**4,134,798**
Theoretical tax charge – the Russian Federation statutory rate: 20%	**(1,213,046)**	**(826,960)**
Non-deductible expenses and other permanent differences	(26,353)	(15,997)
Income tax expense	**(1,239,399)**	**(842,957)**

The effective income tax rate for the year ended 31 December 2019 is 20.4% (31 December 2018: 20.4%).

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

	1 January 2019	*Recognised in profit or loss*	*Effect of transition to IFRS 16*	*31 December 2019*
Other assets	258,344	(126,281)	–	132,063
Borrowings and bonds issued	3,768	(3,768)	–	–
Lease liabilities	–	(35,534)	200,014	164,480
Other liabilities	254,294	4,874	–	259,168
Deferred income tax asset	**516,406**	**(160,709)**	**200,014**	**555,711**
Net investment in leases after allowance for expected credit losses	(1,537,445)	(266,999)	–	(1,804,444)
Property and equipment and right-of-use assets	(46,375)	(4,383)	(200,014)	(250,772)
Borrowings and bonds issued	–	(1,298)	–	(1,298)
Deferred income tax liabilities	**(1,583,820)**	**(272,680)**	**(200,014)**	**(2,056,514)**
Net deferred income tax liabilities	**(1,067,414)**	**(433,389)**	**–**	**(1,500,803)**

	1 January 2018	*Recognised in profit or loss*	*Effect of transition to IFRS 9*	*31 December 2018*
Other assets	67,750	190,305	289	258,344
Borrowings and bonds issued	–	3,768	–	3,768
Other liabilities	181,869	72,425	–	254,294
Deferred income tax asset	**249,619**	**266,498**	**289**	**516,406**
Net investment in leases after allowance for expected credit losses	(1,185,819)	(356,793)	5,167	(1,537,445)
Property and equipment	(34,965)	(11,410)	–	(46,375)
Borrowings and bonds issued	(24,316)	24,316	–	–
Deferred income tax liabilities	**(1,245,100)**	**(343,887)**	**5,167**	**(1,583,820)**
Net deferred income tax liabilities	**(995,481)**	**(77,389)**	**5,456**	**(1,067,414)**

(in thousands of Russian roubles, unless otherwise stated)

22 Financial risk management

The risk management function within the Group is carried out in respect of financial risks (credit, market, and liquidity risks), operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Risk management structure

Risk management functions are implemented at all corporate governance levels and are allocated as follows.

The Executive committee for leasing activities ensures the implementation of strategy, approves the risk management policy, allocates the risk management functions between the governance bodies and business units of the Group and controls their performance. The responsibilities of the Executive committee include the approval of total risk limits by type of risk and type of business. The Executive committee reviews risk level reports on a regular basis and reallocates the risk limits where necessary.

Risk Management Department is responsible for:

- Consideration and structuring of applications for new leasing limits, supporting of applications approval by the Executive committee;
- Preparing internal documents on the risk management procedures, including the identification, evaluation and control of risks;
- Independent analyses and evaluation of all types of risk to which the Group is exposed, including risks associated with its lease portfolio;
- Determining categories of credit risks;
- Independent monitoring of the financial and business position of clients (corporate customers, middle market customers and small-business customers);
- Evaluating and monitoring of assets leased out (collateral).

The Credit Committee is responsible for:

- Review and approval of limits for finance lease contracts;
- Determination and approval of the terms of leasing products;
- Determination of categories of credit risks.

The Treasury Department is responsible for management of foreign currency risk, liquidity risk and interest rate risk.

The Portfolio Assets Department is responsible for notification of the customers about overdue lease payments (early collection) and monitoring the repayment of overdue net investment in leases.

Used Vehicles Sales Department is responsible for sale of problem assets.

(in thousands of Russian roubles, unless otherwise stated)

22 Financial risk management (continued)

Risk management strategy

The risk management strategy is approved by the Company's Management board. The objective of this strategy is to define standards for the composition of the leasing portfolio with regard to the exposure to certain industries and to define specific underwriting criteria, in particular with regard to the structure of risk limits and assets leased out (collateral).

The decision whether or not to conclude a leasing contract with small and medium businesses depends primarily on the lessee's credit quality as reflected by the credit rating assigned under the internal rating system and leasing object provided in the transaction. In assigning such a rating, the Group considers factors such as the customer's financial position, the market in which the customer operates, the marketability of the customer's products and the customer's management system.

The decision-making process is centralised in the Head office.

The Group applied the following approach to collateralised assets:

- The Group is the owner of the leased property;
- The Group funds liquid and highly liquid property (illiquid assets are not funded);
- The lessee is required to make a down payment on the lease agreement.

Additional collateral may be presented by:

- Corporate guarantee/surety;
- Personal guarantee of an owner/director.

There are procedures in place that help to determine acceptability and the amount of collateral depending on the type of transaction, and the procedures of monitoring of the fair value of the collateral, which include the request of additional collateral in case of impairment of the current collateral. In order to mitigate the risks, the Group requires insurance of the leased asset.

Lease approval policies and procedures

A basic feature of the lease application process is a clear separation between business origination and risk management activities. Risk assessments are performed by the business origination and the risk management units.

The credit quality group depends on the client's financial performance, the liquidity of the leased property, the client's share in the project and the availability of additional collateral. The subsequent support and monitoring of the lease transactions are carried out by client managers, managers of the payment control department, monitoring experts (debt servicing monitoring), credit experts (financial performance monitoring) and property risk assessment managers (leased assets monitoring).

Credit risk

The Group is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one lessee, or groups of related lessees. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

(in thousands of Russian roubles, unless otherwise stated)

22 Financial risk management (continued)

Credit risk (continued)

The Group holds collateral against net investment in leases and loans to customers. Estimates of value are based on the value assessed at the time of concluding the finance lease and loan agreement, and generally are not updated.

Credit quality per class of the following assets is disclosed in respective notes: Net investment in leases after allowance for expected credit losses – in the Note 7.

Impairment

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

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

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

Stage 1: When financial assets are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 financial assets also include facilities where the credit risk has decreased and the financial asset has been reclassified from Stage 2.

Stage 2: When a financial asset has shown a significant increase in credit risk since origination (overdue 31 days and more, decrease of external rating by 2 and more notches), the Group records an allowance for the LTECL. Stage 2 financial assets also include facilities, where the credit risk has decreased and the financial asset has been reclassified from Stage 3.

Stage 3: Financial assets are considered credit-impaired. The Group records an allowance for the LTECL.

The Group considers a financial instrument defaulted and therefore recognises it as Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments for at least one of the transactions with a counterparty, or there are other indicators of impairment. For example, financial instruments will be assigned to Stage 3 if the Group unilaterally terminates at its initiative one or more transactions with a counterparty irrespective of the period of overdue. Financial instruments with a sign of fraud are also recognised as Stage 3.

(in thousands of Russian roubles, unless otherwise stated)

22 Financial risk management (continued)

Credit risk (continued)

The Group calculates ECL on a collective basis for all other classes of financial assets which it groups into homogeneous portfolios, based on a combination of internal and external characteristics of the assets.

The key elements of the ECL calculations are outlined below:

PD	Is a calculated estimate of the probability of default over a given time interval and is determined based on the risk-segment and the overdue group for a relevant period (12 months or the lifetime of an instrument (Lifetime PD)). Values are determined based on internal statistics using migration matrices (Markov Chains). Current and expected changes in the macroeconomic situation are used as forecast information. A default may happen over the assessed period, if the financial asset has not been previously derecognised and is still in the portfolio.
EAD	The amount of assets at risk (EAD) is an estimate of the exposure at default.
LGD	Is the level of losses arising in the case where a default occurs and considering time value of money (discounting at effective interest rate). LGD is based on the difference between the contractual cash flows due and those that the Group receives and would expect to receive, taking into account the asset realisation experience. The values of LGD are determined using models developed on the basis of internal statistics.

The Group calculates the ECLs on the basis of three macroeconomic scenarios (a base case, an upside and a downside), weighted by probability. Each scenario is assigned by a weight based on a combination of statistical analysis and expert judgment regarding the range of possible outcomes represented by the scenarios. Current data and expected changes in macroeconomic variables are used as forecast information. In its ECL macroeconomic model, the Group relies on information of the Ministry of Economic Development of the Russian Federation and the Central Bank of the Russian Federation as economic inputs.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The liquidity is managed on a continuous basis and is designed to establish and maintain a diversified funding base. Liquidity risk is managed by the Treasury Department.

The Treasury Department performs day-to-day management of liquidity risk designed to maintain current and medium-term liquidity. Key management tools include the daily and long-term cash-flows planning, liquidity gap analysis and establishing portfolios (reserves) of liquid assets at different levels.

(in thousands of Russian roubles, unless otherwise stated)

22 Financial risk management (continued)

Liquidity risk (continued)

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

	Demand and less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*From 12 months to 5 years*	*Over 5 years / not stated maturity*	*Total*
Assets						
Cash and cash equivalents	2,762,117	–	–	–	–	**2,762,117**
Deposits in banks	–	49,703	–	–	–	**49,703**
Net investment in leases after allowance for expected credit losses	3,879,077	17,039,578	15,943,018	34,701,292	253	**71,563,218**
Assets purchased and advances to suppliers for lease operations	853,007	164,268	–	–	–	**1,017,275**
Debtors on leasing activity	–	36,377	–	–	–	**36,377**
Current income tax prepayment	5,954	–	–	–	–	**5,954**
VAT recoverable	831,354	–	–	–	–	**831,354**
Property and equipment and right-of-use assets	–	–	–	–	1,639,718	**1,639,718**
Other assets	358,660	946,261	117,243	30,617	62,905	**1,515,686**
Total assets	**8,690,169**	**18,236,187**	**16,060,261**	**34,731,909**	**1,702,876**	**79,421,402**
Liabilities						
Advances received from lessees	1,851,324	358,127	–	–	–	**2,209,451**
Borrowings	1,148,588	5,872,757	7,632,939	23,401,354	–	**38,055,638**
Bonds issued	–	287,664	2,494,912	8,333,347	8,954,283	**20,070,206**
Lease liabilities	16,457	88,960	111,877	603,290	1,816	**822,400**
Current income tax payable	198,205	–	–	–	–	**198,205**
Deferred income tax liabilities	–	–	–	–	1,500,803	**1,500,803**
VAT payable	30,504	61,009	–	–	–	**91,513**
Other liabilities	912,072	779,343	87,192	763,810	–	**2,542,417**
Total liabilities	**4,157,150**	**7,447,860**	**10,326,920**	**33,101,801**	**10,456,902**	**65,490,633**
Net position	**4,533,019**	**10,788,327**	**5,733,341**	**1,630,108**	**(8,754,026)**	**13,930,769**
Cumulative liquidity position	**4,533,019**	**15,321,346**	**21,054,687**	**22,684,795**	**13,930,769**	

As at 31 December 2019 bonds issued totalling RUB 8,954,283 thousand with maturity over 5 years can be repaid earlier at the put option exercise date in the amount of RUB 2,494,912 thousand in the period from 6 to 12 months and in the amount of RUB 6,459,371 thousand in the period from 12 months to 5 years.

(in thousands of Russian roubles, unless otherwise stated)

22 Financial risk management (continued)

Liquidity risk (continued)

The maturity analysis of assets and liabilities as at 31 December 2018 is as follows:

	Demand and less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*From 12 months to 5 years*	*Over 5 years / not stated maturity*	*Total*
Assets						
Cash and cash equivalents	1,490,035	–	–	–	–	**1,490,035**
Deposits in banks	306	–	49,735	–	–	**50,041**
Net investment in leases after allowance for expected credit losses	3,072,151	13,975,259	12,989,960	26,589,370	138	**56,626,878**
Assets purchased and advances to suppliers for lease operations	391,186	222,431	–	–	–	**613,617**
Debtors on leasing activity	–	8,744	–	–	–	**8,744**
Current income tax prepayment	–	9,902	–	–	–	**9,902**
VAT recoverable	1,523,986	–	–	–	–	**1,523,986**
Property and equipment and right-of-use assets	–	–	–	–	427,016	**427,016**
Other assets	242,495	535,769	90,550	32,188	65,263	**966,265**
Total assets	**6,720,159**	**14,752,105**	**13,130,245**	**26,621,558**	**492,417**	**61,716,484**
Liabilities						
Advances received from lessees	870,499	676,489	–	–	–	**1,546,988**
Borrowings	2,135,010	2,971,119	5,183,508	21,686,132	–	**31,975,769**
Bonds issued	231,323	2,845,392	3,912,145	3,438,929	3,466,207	**13,893,996**
Current income tax payable	–	176,148	–	–	–	**176,148**
Deferred income tax liabilities	–	–	–	–	1,067,414	**1,067,414**
VAT payable	–	72,976	–	–	–	**72,976**
Other liabilities	719,035	886,650	8,531	373,115	8,126	**1,995,457**
Total liabilities	**3,955,867**	**7,628,774**	**9,104,184**	**25,498,176**	**4,541,747**	**50,728,748**
Net position	**2,764,292**	**7,123,331**	**4,026,061**	**1,123,382**	**(4,049,330)**	**10,987,736**
Cumulative liquidity position	**2,764,292**	**9,887,623**	**13,913,684**	**15,037,066**	**10,987,736**	

As at 31 December 2018 bonds issued totalling RUB 944,286 thousand with maturity from 12 months to 5 years, bonds issued totalling RUB 971,563 thousand with maturity over 5 years can be repaid earlier at the put option exercise date in the period from 6 to 12 months; bonds issued totalling RUB 2,494,644 thousand with maturity over 5 years can be repaid earlier at the buyback option date in the period from 12 months to 5 years.

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

The table below shows financial liabilities as at 31 December 2019 and 31 December 2018 by their remaining contractual maturities. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows.

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

(in thousands of Russian roubles, unless otherwise stated)

22 Financial risk management (continued)

Liquidity risk (continued)

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

	Demand and less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Total*
Advances received from lessees	1,851,324	358,127	–	–	–	**2,209,451**
Borrowings	1,219,543	7,229,272	8,961,963	25,354,699	–	**42,765,477**
Bonds issued	–	901,345	5,672,095	16,272,479	–	**22,845,919**
Lease liabilities	23,488	121,914	146,297	677,269	1,840	**970,808**
Other financial liabilities	868,003	1,899	–	–	–	**869,902**
Total potential future payments for financial liabilities	**3,962,358**	**8,612,557**	**14,780,355**	**42,304,447**	**1,840**	**69,661,557**

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

	Demand and less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*From 12 months to 5 years*	*Total*
Advances received from lessees	870,499	676,489	–	–	**1,546,988**
Borrowings	2,213,745	4,163,968	6,438,800	24,235,855	**37,052,368**
Bonds issued	233,100	3,070,664	6,514,494	5,236,950	**15,055,208**
Other financial liabilities	694,078	5,031	–	–	**699,109**
Total potential future payments for financial liabilities	**4,011,422**	**7,916,152**	**12,953,294**	**29,472,805**	**54,353,673**

The maturity analysis of borrowings is based on contractual tranches of repayment.

The maturity of the borrowings is longer than maturity of the current lease portfolio and the Group is in compliance with covenant requirements set by loan agreements.

Geographical risk

All assets and liabilities relate to Russian entities.

Market risk

The Group is exposed to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements. The Group sets limits on the value of risk that may be accepted which is monitored on a daily basis. However, the use of this approach does not prevent from incurring losses outside of these limits in the event of more significant market movements.

Currency risk

The Group is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currency (primarily US dollars and euro).

The Group applies a foreign-currency risk-management strategy that uses derivative instruments to protect its interests from unanticipated fluctuations in earnings and cash flows that may arise from volatility in currency exchange rates. Movements in foreign-currency exchange rates pose a risk to the Group's operations and competitive position, since changes in exchange rates may affect the profitability and cash flows.

(in thousands of Russian roubles, unless otherwise stated)

22 Financial risk management (continued)

Market risk (continued)

As at 31 December 2019 and 31 December 2018 the Group is constrained by covenants under loan agreements to have a maximum open currency position of 15% of its equity. As at 31 December 2019 and 31 December 2018 the Group complied with this contractual obligation.

The table below summarises exposure to foreign currency exchange rate risk as at 31 December 2019:

	RUB	*USD*	*EUR*	*Total*
Financial assets				
Cash and cash equivalents	2,761,636	20	461	**2,762,117**
Deposits in banks	49,703	–	–	**49,703**
Net investment in leases after allowance for expected credit losses	71,561,006	–	2,212	**71,563,218**
Debtors on leasing activity	36,377	–	–	**36,377**
Other financial assets	541,207	–	–	**541,207**
Total financial assets	**74,949,929**	**20**	**2,673**	**74,952,622**
Financial liabilities				
Advances received from lessees	2,208,527	891	33	**2,209,451**
Borrowings	38,055,638	–	–	**38,055,638**
Bonds issued	20,070,206	–	–	**20,070,206**
Lease liabilities	822,400	–	–	**822,400**
Other financial liabilities	868,889	924	89	**869,902**
Total financial liabilities	**62,025,660**	**1,815**	**122**	**62,027,597**
Net position	**12,924,269**	**(1,795)**	**2,551**	

The table below summarises exposure to foreign currency exchange rate risk as at 31 December 2018:

	RUB	*USD*	*EUR*	*Total*
Financial assets				
Cash and cash equivalents	1,488,968	412	655	**1,490,035**
Deposits in banks	50,041	–	–	**50,041**
Net investment in leases after allowance for expected credit losses	56,622,761	–	4,117	**56,626,878**
Debtors on leasing activity	8,744	–	–	**8,744**
Other financial assets	110,046	–	–	**110,046**
Total financial assets	**58,280,560**	**412**	**4,772**	**58,285,744**
Financial liabilities				
Advances received from lessees	1,545,551	1,143	294	**1,546,988**
Borrowings	31,975,769	–	–	**31,975,769**
Bonds issued	13,893,996	–	–	**13,893,996**
Other financial liabilities	697,858	985	266	**699,109**
Total financial liabilities	**48,113,174**	**2,128**	**560**	**48,115,862**
Net position	**10,167,386**	**(1,716)**	**4,212**	

(in thousands of Russian roubles, unless otherwise stated)

22 Financial risk management (continued)

Market risk (continued)

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates calculated based on currency volatility in the reporting year applied to the positions at the end of reporting period with all other variables held constant:

	31 December 2019			***31 December 2018***		
	Change in currency rate in %	***Impact on profit before tax, gain/(loss)***	***Impact on net profit and equity, gain/(loss)***	***Change in currency rate in %***	***Impact on profit before tax, gain/(loss)***	***Impact on net profit and equity, gain/(loss)***
USD	13.00	(233)	(186)	10.00	(172)	(138)
USD	(11.00)	197	158	(10.00)	172	138
EUR	13.00	332	266	10.00	421	337
EUR	(11.00)	(281)	(225)	(10.00)	(421)	(337)

A strengthening of the rouble against the above currencies at 31 December 2019 and 31 December 2018 would have had the opposite effect on the above currencies if all other variables had remained constant.

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Margins between finance income earned and interest expenses paid may increase as a result of such changes but may reduce or create losses in the event unexpected movements arise.

The Treasury Department focuses mainly on the management of interest rate risk arising from a mismatch in the timing of the revision of the rates on net investment in leases and interest-bearing financial liabilities.

The sensitivity of profit and loss to changes in market interest rates (with other factors unchanged) calculated for interest-bearing financial assets and interest-bearing financial liabilities as at 31 December 2019 is following:

	Impact on profit before tax, gain/(loss)	***Impact on net profit and equity, gain/(loss)***
100 bps parallel rise	105,167	84,133
100 bps parallel fall	(105,167)	(84,133)

The sensitivity of profit and loss to changes in market interest rates (with other factors unchanged) calculated for interest-bearing financial assets and interest-bearing financial liabilities as at 31 December 2019 is following:

	Impact on profit before tax, gain/(loss)	***Impact on net profit and equity, gain/(loss)***
100 bps parallel rise	62,400	49,920
100 bps parallel fall	(62,400)	(49,920)

(in thousands of Russian roubles, unless otherwise stated)

22 Financial risk management (continued)

Operational risk

Operational risk is the risk of direct or indirect losses resulting from deficiencies or errors in internal processes, actions of employees, operations of information systems and technologies, and resulting from external events.

The Risk Management Department is engaged in the control over operational risks. Key tasks of this department include the day-to-day control over compliance with internal regulations, control over reporting by the employees of the Group and correct reporting on the impaired/potentially impaired debt by the employees of the Group. In addition, the Department controls compliance with the obligation to insure the leased assets, documentation and filing procedures. The Portfolio Assets Department controls over the client's payment discipline.

23 Management of capital

The objective when managing capital is to maintain healthy capital ratios in order to support its business and to maximise shareholder's value.

The Group considers total capital under management to be equity attributable to equity holders of the Group as shown in the consolidated statement of financial position. Certain loan agreements establish the minimum level of capital that the Group should maintain.

The amount of capital that the Group managed as at 31 December 2019 is equity attributable to equity holders of the Group of RUB 13,930,769 thousand (31 December 2018: RUB 10,987,736 thousand), which is in compliance with covenants under loan agreements.

In order to maintain or adjust the capital structure the Group attracts funding with maturity of not less than the average period of the lease contracts (36 months).

24 Fair value estimation

The estimated fair values of financial instruments at fair value through profit or loss is based on quoted market prices at the reporting date without any reduction for transaction costs. If quoted market prices are not available, the fair value is estimated using valuation techniques, which include discounted cash flow analysis and other valuation techniques commonly used by market participants.

Management believes that the fair value of its financial assets and financial liabilities as at 31 December 2019 is not materially different from their carrying values, except for the following financial assets and liabilities:

	Total carrying amount	***Fair value***
Net investment in leases after allowance for expected credit losses	71,563,218	72,434,131
Borrowings	38,055,638	38,666,478
Bonds issued	20,070,206	20,579,779

(in thousands of Russian roubles, unless otherwise stated)

24 Fair value estimation (continued)

Management believes that the fair value of its financial assets and financial liabilities as at 31 December 2018 is not materially different from their carrying values, except for the following financial assets and liabilities:

	Total carrying amount	***Fair value***
Net investment in leases after allowance for expected credit losses	56,626,878	58,105,608
Borrowings	31,975,769	32,823,075
Bonds issued	13,893,996	13,661,930

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as realisable in an immediate sale of the assets or transfer of liabilities.

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. Fair value of financial instruments is estimated by discounting future cash flows using external data such as interest rates currently available on financial instruments with similar conditions, credit risk and maturity.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments. Fair value of financial instruments is estimated by discounting future cash flows using internal non-observable data on the rates of placement of similar instruments.

As at 31 December 2019 and 31 December 2018 main financial instruments that are not carried at fair value are classified to the levels of fair value hierarchy as follows:

- Cash and cash equivalents are classified in Level 1.
- Deposits in banks and Borrowings are classified in Level 2.
- Net investment in leases after allowance for expected credit losses, Debtors on leasing activity, Other financial assets and Other financial liabilities are classified in Level 3.
- Bonds issued as at 31 December 2019 at fair value of RUB 18,669,553 thousand are classified in Level 1, RUB 1,910,226 thousand are classified in Level 2 (31 December 2018: RUB 6,993,787 thousand are classified in Level 1, RUB 6,668,143 thousand are classified in Level 2).

(in thousands of Russian roubles, unless otherwise stated)

24 Fair value estimation (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2019			***31 December 2018***		
	Carrying value	***Fair value***	***Unrecognised gains/(losses)***	***Carrying value***	***Fair value***	***Unrecognised gains/(losses)***
Financial assets						
Cash and cash equivalents	2,762,117	2,762,117	–	1,490,035	1,490,035	–
Deposits in banks	49,703	49,703	–	50,041	50,041	–
Net investment in leases after allowance for expected credit losses	71,563,218	72,434,131	870,913	56,626,878	58,105,608	1,478,730
Debtors on leasing activity	36,377	36,377	–	8,744	8,744	–
Other financial assets	541,207	541,207	–	110,046	110,046	–
Financial liabilities						
Borrowings	38,055,638	38,666,478	(610,840)	31,975,769	32,823,075	(847,306)
Bonds issued	20,070,206	20,579,779	(509,573)	13,893,996	13,661,930	232,066
Other financial liabilities	869,902	869,902	–	699,109	699,109	–
Total unrecognised change in fair value			**(249,500)**			**863,490**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the consolidated statement of financial position.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying amounts approximate to their fair value.

Financial assets and financial liabilities carried at amortised cost

Fair value of net investments in leases after allowance for expected credit losses is estimated by discounting future cash flows using internal non-observable data on the rates of placement of net investments in leases.

Fair value of borrowings is estimated by discounting future cash flows using external data currently available on financial instruments with similar conditions, credit risk and maturity.

Fair value of bonds issued, classified as level 2 in the hierarchy, is estimated using observable data on financial instruments with similar conditions, credit risk and maturity in the markets that are not considered active.

(in thousands of Russian roubles, unless otherwise stated)

25 Contingencies and commitments

Legal proceedings

From time to time and in the normal course of business, claims against the Group may be received. On the basis of own estimates and internal professional advice the Group has formed provision for possible legal claims payments of RUB 87,654 thousand (Note 14) in these consolidated financial statements as at 31 December 2019 (31 December 2018: RUB 45,629 thousand).

Taxation

Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. The tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open and subject to review by the tax authorities for a period up to three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

In accordance with the Russian transfer pricing legislation, tax authorities are entitled to apply tax base adjustments and impose additional income tax and value added tax (VAT) liabilities, penalties and fines in respect of income and expenses on transactions recognised as controlled in accordance with transfer pricing rules, where the transaction price differs from the market price and the Group's companies are not able to justify the price level in controlled transactions. Management believes that the Group fully complies with transfer pricing rules, and controlled transaction prices are consistent with market prices.

As at 31 December 2019 and 31 December 2018 management believes that its interpretation of the tax, currency and customs legislation as applied to the Group is appropriate.

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including a growth in the cost of borrowings and declaration of default. The Group is in compliance with covenants as at 31 December 2019 and 31 December 2018.

(in thousands of Russian roubles, unless otherwise stated)

26 Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Amounts of related party transactions as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019			***31 December 2018***		
	Share-holders	***Other related parties***	***Key management***	***Share-holders***	***Other related parties***	***Key management***
Interest income	–	27,814	125	–	24,427	–
Interest expense	(17,320)	(403,771)	–	(96,573)	(119,688)	–
Other income, net	–	892,162	44	–	790,263	–
Other expense, net	–	(45)	–	–	–	–
Changes in allowance for expected credit losses on leasing assets	–	(12)	8	–	(390)	–
Changes in allowance for expected credit losses on other assets	–	24	–	–	–	–
Staff expenses	–	(34,768)	(754,644)	–	(29,464)	(573,838)
Other operating expense	–	(21,646)	–	–	(264,061)	–
Other non-operating income	–	6,608	–	–	10,771	–

	31 December 2019			***31 December 2018***		
	Share-holders	***Other related parties***	***Key management***	***Share-holders***	***Other related parties***	***Key management***
Net investment in leases after allowance for expected credit losses	–	169,425	–	–	180,371	–
Other assets	–	58,152	–	–	25,124	–
Advances received from lessees	–	1,533	–	–	–	–
Bonds issued	–	3,588,578	–	819,555	3,118,582	–
Lease liabilities	–	777,663	–	–	–	–
Other liabilities	–	2,428	985,501	–	25,956	747,429

The Group has the long-team remuneration program for members of the key management, under which the Group establishes the reserve fund with payouts made resulting from achievement of determined key performance indicators.

(in thousands of Russian roubles, unless otherwise stated)

27 Changes in liabilities arising from financing activities

	Borrowings	***Bonds issued***	***Lease liabilities***	***Total liabilities from financing activities***
Carrying amount at 31 December 2017	**21,790,611**	**9,693,895**	**–**	**31,484,506**
Proceeds from raising/issue	12,321,739	9,589,375	–	**21,911,114**
Redemption	(2,078,064)	(5,572,805)	–	**(7,650,869)**
Other	(58,517)	183,531	–	**125,014**
Carrying amount at 31 December 2018	**31,975,769**	**13,893,996**	**–**	**45,869,765**
Proceeds from raising/issue	17,055,942	11,396,137	–	**28,452,079**
Recognition/derecognition of lease liabilities	–	–	1,007,989	**1,007,989**
Redemption	(11,007,932)	(5,043,760)	(185,589)	**(16,237,281)**
Other	31,859	(176,167)	–	**(144,308)**
Carrying amount at 31 December 2019	**38,055,638**	**20,070,206**	**822,400**	**58,948,244**

The "Other" line includes the effect of accrued but not yet paid interest on borrowings and bonds issued. The Group classifies interest paid as cash flows from operating activities.