Commercial Bank Garant-Invest
(Joint Stock Company)

Financial statements
for the year ended 31 December 2019

CONTENTS

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NOTES TO THE FINANCIAL STATEMENTS

Notes on pages 10 to 76 are forming part of the financial statements

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INDEPENDENT AUDITOR'S REPORT

on financial statements of Commercial Bank Garant-Invest (Joint Stock Company) for 2019

Translation of an official Russian version of the auditor's report issued on 30 April 2020.

INDEPENDENT AUDITOR'S REPORT

To the shareholders and Board of Directors of CB Garant-Invest (JSC)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Commercial bank Garant-Invest (Joint Stock Company) (hereinafter referred to as the "Bank") (OGRN 1027739127734, 127051, Moscow, 1-y Kolobovskiy pereulok, 23) which comprise:

- Statement of Financial Position at 31 December 2019;
- Statement of Profit or Loss and of Other Comprehensive Income for the year ended 31 December 2019;
- Statement of Changes in Equity for the year ended 31 December 2019;
- Statement of Cash Flows for the year ended 31 December 2019;
- Notes to the financial statements for the year ended 31 December 2019 with a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, its financial performance and its cash flows for 2019 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 Financial Statements section of our report. We are independent of the Bank in accordance with the Independence Rules of Auditors and Audit Firms and with the Code of Professional Ethics of Auditors that complies with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other responsibilities in accordance with these requirements of the professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

EMPHASIS OF MATTER

We draw your attention to Note 29 *Events after the Reporting Date* which states that the Bank operates under conditions of a significant volatility of the Rouble, oil price drop, coronavirus pandemic. The external factors which are beyond the Bank's control can have a significant effect on the Bank's operations in the future. The effect cannot be currently measured reliably.

We do not modify our opinion in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 the 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 internal control of the Bank.
- 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 Bank'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 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, further events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

REPORT ON AUDIT IN ACCORDANCE WITH THE REQUIREMENTS OF FEDERAL LAW OF 2 DECEMBER 1990 NO 395-1 BANKS AND BANKING ACTIVITIES

The Bank's management is responsible for compliance with the statutory ratios set by the Bank of Russia and for compliance of the internal control and arranging risk management systems of the Bank to the requirements of the Bank of Russia to such systems.

We have audited the following in the course of the audit of the financial statements of the Bank for 2019 in accordance with Art. 42 of Federal Law of 02 December 1990 No-395395 Banks and Banking Activities:

- Compliance by the Bank with the mandatory ratios set by the Bank of Russia as at 1 January 2020;
- Compliance of the quality control and risk management systems of the Bank with the requirements of the Bank of Russia to such systems.

The audit was limited by selected audit procedures based on our judgement as inquiries, analysis and study of documents, comparing the Bank's approved requirements, policies and procedures with the requirements of the Bank of Russia and recalculation and reconciliation of figures and other information.

Our audit resulted in the findings as follows:

1. Bank's compliance with the statutory ratios set by the Bank of Russia:

The Bank's statutory ratios as at 1 January 2020 were within the limits set by the Bank of Russia.

We have not performed any procedures with regard to the accounting records of the Bank except for those which we considered appropriate with the purposes to form an opinion whether the financial statements of the Bank present fairly, in all material respects, its financial position as at 31 December 2019, financial performance and cash flows for 2019 in accordance with IFRSs.

2. Compliance of the quality control and risk management systems of the Bank with the requirements of the Bank of Russia to such systems:

a) in accordance with the requirements and recommendations of the Bank of Russia as at 31 December 2019, the Bank's internal audit service is subordinated to and reports to the Bank's Board of Directors, the Bank's risk management departments are not subordinated to and do not report to the departments that take correspondent risks, directors of the internal audit service and risk management department of the Bank meet the qualification requirements as set out by the Bank of Russia.

b) the Bank's internal documents as at 31 December 2019 that set out the procedures to identify and manage significant risks for the Bank such as credit, operational, market, interest rate, legal, liquidity and goodwill risks as well as stress testing procedures have been approved by the authorised management bodies of the Bank in accordance with the requirements and recommendations of the Bank of Russia;

c) existence in the Bank as at 31 December 2019 of the reporting system with regard to significant for the Bank credit, operational, market, interest rate, legal, concentration, liquidity and goodwill risks as well as to the Bank's equity;

d) regular and consistent reports prepared by the Bank's risk management departments and internal audit service during 2019 regarding management of credit, operational, market, interest rate, liquidity and goodwill risks complied with the Bank's internal documents. These reports comprised observations made by the Bank's risk management departments and internal audit service on assessing whether the procedures adopted by the Bank are efficient as well as recommendations to improve the procedures;

e) as at 31 December 2019, the Bank's Board of Directors and its executive management bodies were responsible for control over the Bank's compliance with the maximum risk exposures and capital adequacy as set out in the Bank's internal documents. In order to control efficiency of the risk management procedures performed by the Bank and their consistency during 2019, the Bank's Board of Directors and its executive management bodies discussed the reports prepared by the Bank's risk management departments and internal audit service on a regular basis and considered action required to eliminate weaknesses.

We have performed audit procedures with regard to the quality control and risk management systems of the Bank for the purposes to verify compliance of the Bank's quality control and risk management systems to the requirements of the Bank of Russia for such systems.

Engagement Partner — Olga Pirozhenko
acting on the basis of power of attorney No OB/10719/20-FE-17
of 1 July 2019 valid through 30 June 2020

"ФинЭкспертиза" МОСКВА

Audit firm:
Limited Liability Company FinExpertiza
OGRN 1027739127734,
125167, Moscow, Leningradskiy prospekt, 47 bldg 3, premises X, floor 3, office 1,
a member of self-regulatory organization of auditors Association "Sodruzhestvo" (SRP AAS),
ORNZ 12006017998

30 April 2020

(in thousands of Russian Roubles)	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	7	756 221	872 303
Mandatory cash balances with the Central Bank of the Russian Federation		59 406	71 172
Due from banks and other financial institutions	8	9 386	59 544
Investments in debt securities	9	1 831 448	2 783 188
Investments in equity securities	10	194 815	-
Loans and prepayments to customers	11	6 122 155	6 502 045
Property equipment, intangible assets and right-of-use assets	12	37 403	8 312
Current income tax assets		12 896	11 755
Other financial assets	13	166 699	156 581
Other non-financial assets	13	43 961	46 941
TOTAL ASSETS		**9 234 390**	**10 511 841**
LIABILITIES			
Due to other banks	14	196 057	1 390 673
Customer accounts	15	5 488 388	6 737 961
Debt securities issued		-	14 634
Deferred tax liability	23	349 969	156 319
Current income tax liabilities		2 662	-
Other financial liabilities	17	36 498	15 239
Other non-financial liabilities	17	24 201	106 914
TOTAL LIABILITIES		**6 097 775**	**8 421 740**
EQUITY			
Share capital	18	909 512	909 512
Share premium		-	40 295
Additional capital	18	-	775 500
Indefinite-term subordinated loans	16	478 646	478 646
Revaluation reserve of investment securities at fair value through other comprehensive income		5 769	(17 072)
Retained earnings		1 742 688	(96 780)
TOTAL EQUITY		**3 136 615**	**2 090 101**
TOTAL LIABILITIES AND EQUITY		**9 234 390**	**10 511 841**

Approved and signed on 28 April 2020

I.L. Kasyanov
Chairman of the Board

N.P. Bagdashkina
Chief Accountant

КБ
"Гарант-Инвест"
(АО)

Notes on pages 10 to 76 are forming part of the financial statements

(in thousands of Russian Roubles)	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
Interest income calculated with use of the effective interest method	19	1 321 423	1 181 494
Interest expense calculated using the effective interest method	19	(315 137)	(508 696)
Net interest margin		**1 006 286**	**672 798**
Net interest expense on allowance for expected credit loss on loans and prepayments to customers, due from other banks and investments in debt securities	7, 8, 9,11	(230 682)	361 139
Net interest margin after provision for loan impairment		**775 604**	**1 033 937**
Fee and commission income	20	103 346	125 173
Fee and commission expense	20	(50 243)	(43 059)
Net gains from transactions with securities at fair value through profit or loss		19 361	-
Net gains from transactions with securities at fair value through other comprehensive income		17 249	8 154
Net gains from transactions with foreign currencies, currency derivatives and from revaluation of foreign currencies		4 440	21 539
Reversal/(origination) of provision for impairment of other assets, credit-related commitments	13, 24	84 736	(33 304)
Other operating income	21	580 577	18 203
Administrative and other operating expenses	22	(257 155)	(254 799)
Profit before income tax		**1 277 915**	**875 844**
Income tax expense	23	(229 113)	(425 436)
Net profit for the year		**1 048 802**	**450 408**
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive income			
- Net gains/(losses)		28 550	(54 753)
Income tax attributable to comprehensive income		(5 709)	10 951
Other comprehensive income / (loss) for the period		**22 841**	**(43 802)**
Total comprehensive income for the period		**1 071 643**	**406 606**

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МОСКВА

(in thousands of Russian Roubles)	Share capital	Share premium	Revaluation of securities at fair value through other comprehensive income	Additional capital	Indefinite-term subordinated loans	Retained earnings	Total equity
Balance at 1 January 2018	**909 512**	**40 295**	**26 730**	**775 500**	**-**	**(547 188)**	**1 204 849**
Profit for 2018	-	-	-	-	-	450 408	450 408
Other comprehensive loss for 2018	-	-	(43 802)	-	-	-	(43 802)
Indefinite-term subordinated loan	-	-	-	-	478 646	-	478 646
Balance at 31 December 2018	**909 512**	**40 295**	**(17 072)**	**775 500**	**478 646**	**(96 780)**	**2 090 101**
Profit for 2019	-	-	-	-	-	1 048 802	1 048 802
Other comprehensive income for 2019	-	-	22 841	-	-	-	22 841
Recovery of net loss for 2019 at expense of additional capital and share capital	-	(40 295)	-	(775 500)	-	815 795	-
Repaid interest on indefinite-term subordinated loans	-	-	-	-	-	(25 129)	(25 129)
Balance at 31 December 2019	**909 512**	**-**	**5 769**	**-**	**478 646**	**1 742 688**	**3 136 615**

Approved and signed on 28 April 2020

I.L. Kasyanov
Chairman of the Board

N.P. Bagdashkina
Chief Accountant

КБ
"Гарант-Инвест"
(АО)
МОСКВА

Notes on pages 10 to 76 are forming part of the financial statements

(unaudited, in thousands of Russian Roubles)	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
Cash flows from operating activities			
Interest received		1 323 831	1 362 759
Interest paid		(313 949)	(441 895)
Fees and commissions received		97 980	125 173
Fees and commissions paid		(50 193)	(42 644)
Net gains from transactions with securities at fair value through profit or loss		(11)	(629)
Net gains from transactions with securities at fair value through other comprehensive income		17 249	-
Net gains from foreign currency transactions, currency derivatives		51 209	(111 476)
Other operating income		580 577	27 054
Administrative and other operating expenses		(245 338)	(426 145)
Income tax paid		(38 455)	(20 597)
Cash flows from operating activities before changes in operating assets and liabilities		**1 422 900**	**471 600**
Net (increase) / decrease in:			
- mandatory cash balances with the Central Bank of the Russian Federation		8 151	(1 830)
- debt securities at fair value through profit or loss		(175 443)	-
- due from banks and other financial institutions		51 023	(42 769)
- loans and prepayments to customers		(179 097)	907 019
- other assets		(2 852)	(39 414)
Net increase / (decrease) in:			
- due to other banks		(1 197 478)	(539 943)
- customer accounts		(931 356)	21 633
- debt securities issued		(13 777)	-
- other liabilities		31 162	(154 136)
Net cash (used in)/provided from operating activities		**(986 767)**	**622 160**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		(40 961)	(1 207)
Acquisition of debt securities at fair value through other comprehensive income		(368 231)	(372 700)
Proceeds from disposal and redemption of financial assets at fair value through other comprehensive income		1 334 356	-
Proceeds from disposal of property and equipment and intangible assets		(15)	-
Net cash provided from / (used in) investing activities		**925 149**	**(373 907)**
Repayment of principal of lease liability		(9 474)	-
Dividends paid		-	(1)
Repaid interest on indefinite-term subordinated loans		(25 129)	-
Net cash used in financing activities		**(34 603)**	**(1)**
Effect of expected credit loss changes on cash and cash equivalents		(1 555)	-
Effect of exchange rate changes on cash and cash equivalents		(18 307)	139 633
Net (decrease) / increase in cash and cash equivalents		(116 083)	387 885
Cash and cash equivalents at the beginning of the year	7	**872 303**	**484 418**
Cash and cash equivalents at the end of the year	7	**756 220**	**872 303**

Approved and signed on 28 April 2020

I.L. Kasyanov
Chairman of the Board

N.P. Bagdashkina
Chief Accountant

Notes on pages 10 to 76 are forming part of the financial statements

1. Background

Commercial bank Garant-Invest (Joint Stock Company) (hereinafter referred to as "the Bank") is a credit organization established by reorganization of Commercial bank Garant-Invest (Limited Liability Company) based on decision of the general shareholders meeting (minutes No 19 of 9 June 1999). In November 2014, CB Garant-Invest CJSC was renamed into CB Garant-Invest (JSC).

The Bank operates on the basis of the license issued by the Bank of Russia on 24 October 2014 No 2567 to perform bank transactions with funds of corporations and individuals in Roubles and foreign currencies.

In addition the Bank has the following licenses: license to perform banking transactions in Roubles in foreign currencies No 2567 (with corporations and individuals) of 24 October 2014; license to perform broker activities No 077-07634-100000 of 23 April 2004 (unlimited); license to perform dealer activities No 077-07636-010000 of 23 April 2004 (unlimited); license to perform security management activities No 077-07638-001000 of 23 April 2004 (unlimited); license of a professional participant of security market for depositary activities No 045-14061-000100 issued by the Bank of Russia on 28 May 2018 (unlimited).

CB Garant-Invest (JSC) was registered in the system of obligatory deposit insurance on 15 July 2005 with registration number 838.

The Bank is member of Association of Russian Banks, Moscow Interbank Currency Exchange, International Payment Systems VISA, MasterCard Worldwide, National payment system MIR, Russian National Association SWIFT (ROSSWIFT), as well as the founder of Non-profit partnership Russian Trade Centres Council.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations of legal persons, including correspondent banks, and individuals as well as operations with securities and foreign exchange.

The Bank's registered address and location is 127051, Moscow, 1-y Kolobovskiy pereulok, 23.

The average number of the Bank's personnel for 2019 amounted to 99 persons (2018: 108 persons).

The following table provides information on the major Bank's shareholders as at 31 December 2019 and as at 31 December 2018:

Shareholder	31 December 2019	31 December 2018
A.Yu. Panfilov	57,24%	57,24%
ZAO Formulainvest	10,75%	10,75%
A.G. Kozovoy	9,00%	9,00%
V.A. Korobchenko	6,93%	6,93%
T.V. Bulavintseva	2,55%	2,55%
V.F. Smirnov	2,37%	2,37%
I.P. Biryukova	1,71%	1,71%
E.V. Biryukova	1,71%	1,71%
Yu.V. Panfilov	1,35%	1,35%
A.M. Sayglov	1,11%	1,11%
N.A. Gorbunova	1,09%	1,09%
T.G. Panfilova	1,03%	1,03%
O.P. Panfilova	0,91%	0,91%
Others with less than 1% of the share capital	2,25%	2,25%
Total	**100,00%**	**100,00%**

2. Operating Environment of the Bank

Russian Federation

The economy of Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory system is continuing to evolve and is subject to varying interpretations, and changes, which can occur frequently. The ongoing political tension and international sanctions against certain Russian companies and individuals still adversely impact the Russian economy. Stable oil prices, low unemployment rate and the growth in salary facilitated a moderate economic growth during 2019.

However the economic environment of the Bank during 2019 characterised by lower inflation rate, changes in domestic demand, credit policies, external economic conditions.

Annualised inflation amounted to 3% which is a characteristic of an economic environment with a low inflation. The monthly inflation rates adjusted for seasonality also evidence a low inflation pressure. The basic inflation rate and other indicators of stable dynamics are around 3% or lower p.a. The base forecast of the Bank of Russia estimates that the inflation will return to its target.

The key interest rate decreased during 2019 to 6.25% by the end of 2019 as compared to 7.75% in December 2018.

The economic environment significantly influences the Bank's operations and financial position. The management takes all necessary measures to ensure the Bank's stable development. However, the effect of the economic situation is hardly possible to forecast and the management's estimates and expectations may differ from actual results.

The Bank uses supportable forward-looking information including macroeconomic forecasts to measure estimated credited losses. However, as with any other economic forecast, assumptions and their possible outcomes are inherently related to a high uncertainty and hence, actual results may differ significantly from those forecasted.

3. Significant accounting policies

Basis of Preparation

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by revaluation of property and equipment, investment property, financial instruments at fair value through profit or loss and at fair value through other comprehensive income. The following accounting policies have been applied in the preparation of these financial statements. Except for the changes in the accounting policies due to adoption of IFRS 16 since 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated.

Financial instruments - key measurement terms. 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. Fair value of financial instruments is best represented by a quoted market price of the financial market. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

12

3. General accounting policies (continued)

Fair value of financial instruments quoted at an active market is measured at the amount reached by multiplying the quoted price for a certain asset or liability by their number held by the entity.

When a quoted price for a financial instrument is not available to measure the fair value, valuation techniques such as the discounted cash flow method, methods based on inputs for similar transaction or present value of an investment. Fair value measurements are analysed and categorised into the fair value levels as follows: (i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; (ii) Level 2 inputs are inputs that are observable for the asset or liability, either directly or indirectly; and (iii) Level 3 inputs are unobservable inputs for the asset or liability (i.e. a considerable amount of unobservable inputs is required for measurement).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include remuneration and commissions to agents (including employees acting as trade agents), consultants, brokers and dealers; levies to regulating bodies and stock exchanges as well as taxes and levies applicable for property transfer. Transaction costs do not include bonuses or discounts to debt liabilities, financing expenses or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was measured at initial recognition less any principal repayments, plus accrued interest, and for financial assets, adjusted for any expected credit loss. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items of the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the expected lifetime of the instrument. The present value considers all payments and remuneration paid or received which are inherent to the effective interest rate. For financial instruments that are purchased or originated credit-impaired (POCI) at initial recognition, the effective interest rate is adjusted for the credit risk i.e. it is calculated using the estimated future cash flows at initial recognition rather than based on contractual cash flows.

3. General accounting policies (continued)

Initial recognition of financial instruments

Financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. For financial assets at amortised cost and investments in debt securities at fair value through other comprehensive income, an allowance for expected credit loss is recognised which gives rise to recognition of accounting loss immediately after recognition of the asset.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other acquisitions are recognised when the Bank becomes a party to contract on the financial instrument.

Classification and measurement of financial assets: measurement categories

The Bank classifies financial assets into the following categories: those at fair value through profit or loss, those at fair value through other comprehensive income and those at amortised cost. Classification and measurement of financial assets depends on (i) the Bank's business model for management of the asset portfolio and (ii) nature of cash flows from the asset.

Classification and measurement of financial assets: business model

The Bank's business model reflects how it manages its financial assets in order to generate cash flows: whether the Bank's objectives are (i) to collect contractual cash flows from assets ("to hold financial assets in order to collect contractual cash flows"), or (ii) to collect contractual cash flows and to sell financial assets ("to hold financial assets in order to collect contractual cash flows and to sell); or if neither (i) nor (ii) is applicable financial assets are categorized within "other" business models and are measured at fair value through profit or loss.

A business model is determined for a group of assets (portfolio level) based on all correspondent evidence of activities that the Bank is planning to perform in order to achieve the objectives set for the portfolio as at the measurement date. The Bank assesses a business model through certain factors such as an objective and composition of the portfolio, historical experience to collect cash flows from assets, approaches to measurement and risk management, measurement methods of return on assets and management remuneration schemes.

Note 4 provides for significant assumptions taken by the Bank in business model assessment.

Classification and measurement of financial assets: assessment of cash flows. For the business model which objective is to hold assets in order to collect contractual cash flows or to collect contractual cash flows and to sell, the Bank assess whether contractual cash flows are solely payments of principal and interest (Solely payments of principal and interest test or SPPI test).

3. General accounting policies (continued)

Financial assets with embedded derivatives are considered in the aggregate in order to assess whether contractual flows from them are solely payments of principal and interest. At this assessment, the Bank considers whether the contractual cash flows correspond to the basic conditions of loan agreement, i.e. whether interest comprises solely consideration for credit risk, time value of money, other risks of credit agreement and profit margin.

If the contract provides for risk exposure or volatility that do not meet the criteria of a basic credit contract, the relevant financial asset is classified and measured at fair value through profit or loss. An asset is testes for SPPI at initial recognition only, no subsequent measurement is done.

Note 4 provides for significant assumptions that the Bank applies for SPPI tests of its financial assets.

Reclassification of financial assets

The Bank does not reclassify financial assets subsequent to initial recognition except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are not reclassified.

Impairment of financial assets: credit loss allowance for expected credit loss

The Bank assess, on a forward-looking basis, the expected credit losses for debt instruments at amortised cost and at fair value through other comprehensive income and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures expected credit losses and recognises credit loss allowance for each reporting date. The measurement of expected credit losses reflects (i) an unbiased and probability weighted amount that is determined be evaluating a range of possible outcomes, (ii) time value of money, and (iii) all reasonable and supportable information that is available without undue cost and effort at the reporting date. The Bank considers four components in order to assess expected credit losses: probability of default, exposure at default, loss given default and discount rate. Since an expected credit loss considers the amount and maturity, the credit loss arises even if the Bank expects to collect the whole amount but later than it is provided by the contract.

12 months ECL are a portion of lifetime ECL that represent the expected credit losses that result from default events that are possible within the 12 months after the reporting date (or within a shorter period if the expected life of a financial instruments is less than 12 months). Thus, 12 months ECL are not lifetime credit losses from financial instruments where the entity forecasts a default event within the next 12 months nor short payments which are forecasted within the next 12 months. Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of a financial instrument.

The total loss allowance shall be sufficient to cover expected losses related with the Bank's aggregate demands including potential ones which are expected by the Bank with consideration of the risk exposures as at the reporting date. Taking into consideration the subjective nature of estimates, it is recognised that the loss allowance made is sufficient to cover losses inherent to financial assets.

3. General accounting policies (continued)

If subsequently the loss impairment decreases which can be reasonably attributed to an event which occurred after recognition of the loss impairment, the recognised loss is reversed in the statement of profit or loss and other comprehensive income. The Bank assesses expected credit loss both individually (for each instrument) and collectively. Collective assessment is applied to financial assets with general characteristics of credit risk for which financial instruments are aggregated based on such characteristics.

Collective assessment applies to instruments when the Bank does not have reasonable and supportable information that is available without undue cost or cost for each individual instrument.

Estimated recoverable amount of financial assets at amortised cost and at fair value through other comprehensive income is determined as present value of estimated cash flows plus recoverable on guarantees and collateral discounted with use of the effective interest rate for the asset.

The Bank applies a three stage model for impairment based on changes in credit quality since initial recognition:

1. Instruments that are not credit-impaired (Stage 1).

2. Instruments with a significant increase in credit risk but are not credit-impaired (Stage 2).

3. Instruments with a significant increase in credit risk and credit-impaired (Stage 3).

Financial assets in Stage 1 have their ECL equal to 12 months.

If the Bank identifies a significant credit risk since initial recognition the asset is transferred to Stage 2 and the expected credit losses are measured at the lifetime of expected credit loss i.e. until the contractual maturity but with a consideration of expected prepayment, if any (lifetime ECL). If the Bank determines that a financial asset is impaired, it is transferred to Stage 3 and all the expected credit losses are measured as lifetime expected credit losses.

For assets within Stage 1 and Stage 2, interest income is based on the gross carrying amount, i.e. before loss allowance.

For assets within Stage 3, interest income is determined with use of the effective interest rate to amortised cost (less loss allowance) rather than to the gross carrying amount.

The Bank applies internal policies and procedures to identify indication of a significant credit risk and impairment as at each reporting date. Impairment is identified through such characteristics of an instrument as: number of past due days, significant difference between cash flows and original repayment schedule, internal and external credit ratings of customers, collective risk assessment of similar portfolios. For groups of financial assets at amortised cost and at fair value through other comprehensive income, an expected loss allowance is made. Financial assets at amortised cost are recognised in the amount less loss allowance. Loss allowance for financial assets at fair value through other comprehensive income is recognised in other comprehensive income and does not increase carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets

If it is not possible to collect credit assets including by means of collateral, these are subject to write down at the expense of the loss allowance. Writing down is performed after the Bank takes all possible measures to collect amounts due to the Bank in accordance with the decision to write-down made by the Bank's Management.

Modified financial assets. If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, the Bank remeasures the gross carrying amount of the asset and recognises gain or loss from modification within profit or loss. Gross carrying amount of the financial asset is remeasured as present value of renegotiated or modified contractual cash flows discounted at the original effective interest rate of the financial asset (or at the original effective interest rate adjusted for credit risk for purchased or originated credit-impaired financial assets) or, if applicable, at the adjusted effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

3. General accounting policies (continued)

If modification of a financial assets gives rise to its derecognition, the modified financial asset is recognised as a new financial asset.

A significant modification of contractual cash flows results in derecognition of an existing financial asset and recognition of a new financial asset. Modification is significant if there is:

- change in currency of a financial instrument;
- exchange of fixed interest rate into variable (or vice versa);
- excluding from / including into a contract conditions that impact a test of contractual cash flows that result in changes in the test of contractual cash flows.

Classification of financial liabilities. Financial liabilities are subsequently measured at amortised cost, except for: (i) financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held-for-trading (e.g. short positions on securities), contingent consideration recognised by acquirer at a business combination and other financial liabilities classified as such at initial recognition; and (ii) financial guarantee contracts and commitments to provide a loan.

Derecognition of financial assets and liabilities

A financial asset is derecognised if:

- the rights to receive cash flows from the asset expired; or
- The Bank has transferred the rights to the cash flows from the asset or entered into a qualifying pass-through agreement while
- (a) also transferring substantially all the risks and rewards of ownership of the asset or (b) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

When the Bank transferred the rights to receive the contractual cash flows on the financial asset or did not transfer but did not retain any risks and rewards from them and dif not transfer the control over the asset, recognition of such an asset is continued to the degree of the Bank's participation. Bank's participation in the asset which is then represented by a guarantee for the transferred asset is measured at the lower of initial carrying amount of the asset or its maximum recovery that the Bank might be claimed.

Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost and represent readily convertible assets which are subject to an insignificant risk of changes in value.

Mandatory cash balances with the Central Bank of the Russian Federation are not cash and cash equivalents since their use is restricted.

Total change in cash and cash equivalents for the period, i.e. the difference between the opening and closing balances is disclosed in the Statement of Cash Flows where cash inflows and outflows are broken down by operating, investing and financing activities.

Mandatory cash balances with the Central Bank of the Russian Federation are carried at amortized cost and represent non-interest bearing deposits of the Bank of Russia which are not available to finance the Bank's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Sale and repurchase agreements and lending of securities

In the normal course of business, the Bank enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Bank as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount

3. General accounting policies (continued)

equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions.

Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralised deposit received within depositary instruments with banks.

Securities acquired under reverse repo agreements are recorded as Due from banks and other financial institutions or Loans to customers based on the contractor.

The difference between the sale price and repurchase price adjusted for interest and dividend income received by contractor is recognised as interest income and accrued over the life of repo agreement using the effective interest rate.

In accordance with classification of securities sold at repo and reverse repo agreements, the Bank classifies its receivables from repo agreements within one of the categories: those to be measured at amortised cost, those to be measured at fair value through other comprehensive income and those to be measured at fair value through profit or loss.

3. **General accounting policies (continued)**

Due from banks and other financial institutions

Amounts due from banks and other financial institutions are recorded when the Bank advances money to counterparty banks. Amounts due from banks are carried at amortised cost when:

- they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and
- they are not designated at fair value through profit or loss.

Amounts due from other credit organizations comprise:

- placed interbank loans and deposits due within one day after origination;
- amounts paid to banks for securities and other assets acquired under reverse repo agreements due within more than day after origination;
- other placements with other banks including past due, to mature within more than one day after origination and amounts restricted for use.

Amounts due from banks are carried at fair value.

The Bank subsequently measures and presents interbank loans in its financial statements based on the business model used to manage financial assets and on characteristics of a financial asset related to its contractual cash flows.

Amounts due to banks are carried at amortised cost if they (i) are held to collect contractual cash flows and those cash flows represent SPPI and (ii) they are not designated at fair value through profit or loss.

Loans to customers

Loans to customers are financial assets that the Bank provides directly to borrower as cash, participation in syndicated loans and by other means when the Bank becomes a party to a contract on these financial assets.

Loans to customers comprise:

- loans provided,
- receivables from principals on amounts paid under bank guarantees and letters of credit,
- loans where receivables are acquired from third parties.

If receivables result from providing cash their cost is measured as the nominal amount of cash, if they result from providing non-cash means, its cost is measured as the fair value of assets transferred at the transfer date.

3. **General accounting policies (continued)**

Subsequently, based on the business model used by the Bank for managing financial assets and characteristics of the financial asset related to its contractual cash flows, receivables can be reclassified into the following categories:

- measured at amortised cost;
- measured at fair value through other comprehensive income;
- measured at fair value through profit and loss.

Subsequently interest income calculated with use of the effective interest rate, expected credit losses and reversal of amounts written down to losses, gains and losses from changes in exchange rates are recognised in profit or loss for the period from financial assets at amortised cost. At derecognition of a financial asset, the arising profit or loss is recognised within profit or loss for the period.

The loan receivables are grouped within Loans to customers of the Bank's balance sheet.

Financial investments

Recognition, accounting, measurement, derecognition and disclosures of financial investments are regulated by IAS 32 Financial Instruments: Presentation, IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: *Disclosures.*

The Bank classifies its financial investments based on:

- business model used by the Bank to manage financial investments and
- characteristics of a financial asset related to the contractual cash flows.

Financial investments can be classified into the categories:

- securities measured at amortised cost;
- Securities at fair value through other comprehensive income;
- securities at fair value through profit or loss.

The Bank recognises a financial investment in the balance sheet only when the Bank becomes a party to a contract related to the financial instrument.

The fair value is measured using the quotations at the active market.

Securities at fair value through profit or loss

Financial assets measured at fair value through profit or loss are financial instruments held for trading acquired for sale within a short period or financial instruments within a portfolio of identifiable financial instruments collectively managed and recent transactions with the instruments give evidence on actual profit earned on a short-time basis or derivatives (except for when a derivative is designated as a hedge instrument).

3. **General accounting policies (continued)**

The Bank classifies financial assets into this category if doing so significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases or if such classification at fair value through profit or loss complies with the Bank's approved strategy for risk management and investment strategy and information on the group of financial assets is submitted to the Bank's Management.

Interest income on financial assets at fair value through profit or loss is presented separately in the statement of profit and loss and other comprehensive income as other interest income.

Dividends received from equity securities are recognised in the statement of profit and loss and other comprehensive income.

Securities measured at amortised cost

The Bank classifies financial as measured at amortised cost if both of the following conditions are met:

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

Securities at amortised cost comprise securities with fixed maturity, fixed or identifiable payments where the Bank has an intention and ability to hold them upon repayment/offer term. Financial investments where an issuer has the right for early redemption meet the criteria of instruments measured at amortised cost if the Bank has intentions and ability to hold it until its repurchase or redemption and also if the Bank recovers nearly all its value.

When choosing a business model, the Bank analyses sales of instruments measured at amortised cost.

Sales themselves cannot determined a business model and hence cannot be taken isolated from other evidence which the Bank uses to determine a business model.

Initially securities at amortised cost are carried at fair value with subsequent measurement at amortised cost with use of the effective interest rate less loss allowance.

Interest income from such assets is calculated using the effective interest rate and is recognised in profit or loss. Loss allowance determined on the basis of the ECL model is recognised in profit or loss for the period.

21

3. General accounting policies (continued)

Property and equipment

Property and equipment are grouped as follows:

- land spots;
- buildings and constructions;
- office equipment and furniture;
- motor vehicles.

The Bank separately presents its investments in construction in progress that include construction expense and reequipment of the Bank's premises. This group also includes other capital investments of the Bank. Upon completion of construction and/or putting items into operation the assets are recognised in a relevant group of property and equipment.

Subsequently property and equipment are carried at cost less accumulated depreciation and provision for impairment.

Property and equipment acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Depreciation of property and equipment

For systematic depreciation charge over the useful lives the straight-line method is used with the following useful lives.

Group of items	Useful life, years
Buildings and constructions	30
Office equipment and furniture	2-20
Motor vehicles	3-6

Land is not depreciated.

Intangible assets

Intangible assets are identifiable non-monetary assets without a physical form that are controlled by the Bank and that do not result in future economic benefits.

Intangible assets are initially carried at cost. Subsequently intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Useful lives of intangible assets are finite or infinite.

Amortisation and annual impairment test

Intangible assets with a finite useful live are amortised on a straight-line basis and assessed for impairment either individually or by cash-generating units whenever there is an indication that the intangible asset may be impaired.

Intangible assets with a nonfinite useful live are not amortised but are assessed for impairment. Useful lives can be changes from nonfinite into finite when conditions that determined the useful live of an intangible asset have changed.

3. General accounting policies (continued)

Useful lives of software, licenses are determined in accordance with a contract. If a contract does not limit the useful live or no contract is available, the useful live is determined with help of professional judgement of the unit-initiator. Amortisation period of active intangible assets is from 1 to 50 years.

Right-of-use assets and lease liabilities

Since 1 January 2019, the date of transition to the new standard, lease agreements are recognised as right-of-use assets with a correspondent lease liability as at the date when the Bank receives the asset under the lease. Each lease payment is allocated between the liability and finance costs. Finance costs are charged to profit or loss over the lease term in order to ensure constant interest rate on the remaining portion of the liability for each period.

A right-of-use asset is depreciated using the straight-line method over the shorter of: its useful live or lease term.

Right-of-use assets are disclosed in line Property and Equipment, Intangible Assets and Right-of-use Assets of the statement of financial position; lease liabilities are disclosed in line Other Financial Liabilities of the statement of financial position. Finance costs are disclosed in line Interest Expense Calculated using the Effective Interest Method, depreciation of right-of-use assets is disclosed in line Administrative and Other Operating Expenses of the statement of profit or loss and other comprehensive income.

Assets and liabilities resulting from a lease agreement are initially measured at present value. Lease liabilities comprise net present value of the lease payments:

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

Lease payments are discounted with use of the lessee's incremental borrowing rate which is the rate of interest that a lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment.

The right-of-use assets are measured at cost which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred;
- cost of restoring (of an asset or the site on which it is located).

Payments under short-term leases or leases of low-value assets are recognised as expenses within profit or loss on a straight-line basis. A short-term lease is a lease with a lease term of twelve months or less.

23

3. **General accounting policies (continued)**

When determining the lease term, the Bank's management considers all facts and circumstances that form the economic base for extending the lease or to terminate it. Options to extend the lease (or periods of time after the option to terminate the lease is exercised) are included in the lease term only if there is a reasonably certainty that the contract will be extended (or will not be terminated).

A lease term is revised if there is a significant event or a significant change in conditions that impacts the determination and is under the lessee's control.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

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

Deferred income tax

The deferred tax represents tax assets or income tax liabilities and is recorded by the balance method of liability accounting in relation to the time differences between the tax accounting data and the data included in the financial statements, as well as appropriate tax accounting data used for calculation of the taxable income. Deferred tax liabilities, as a rule, are recorded in relation to all temporary differences that increase the taxable income, and deferred tax assets are recorded with account of the taxable income availability in future, from which temporary differences accepted for the purposes of taxation may be deducted.

Other taxes chargeable in the Russian Federation are recognised in the statement of profit or loss and other comprehensive income within operating expenses.

Other assets

Other assets comprise:

- prepaid expenses and other receivables;
- taxes receivable other than income tax;
- receivables under transaction with securities, precious metals and foreign currencies;
- guarantee deposits;
- balances on transfer accounts;
- assets held for sale;
- broker accounts (amounts with clearing organizations);
- others.

3. **General accounting policies (continued)**

Due to other banks

Amounts due to other banks comprise deposits of customers (term and on demand), deposits of banks, correspondent accounts of other banks, repo transactions. Due to other banks are initially recognized at fair value, which is the consideration received less transaction costs. Subsequently they are measured at cost. The difference between the consideration received and the redemption value is recognized in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

Current accounts are carried at carrying amount. Deposits of customers, banks and other financial institutions are measured at amortised cost with accrued interest.

Debt securities issued

Debt securities issued comprise interest-free promissory notes, interest-bearing promissory notes issued by the Bank.

Debt securities are initially measured at fair value which is the consideration received less transactions costs.

Subsequently debt securities issued are measured at amortised cost. Any difference between their historical cost and the cost at maturity date is recorded in the statement of profit and loss and other comprehensive income over the circulation period of the debt security using the effective interest method.

Other liabilities

Other liabilities comprise taxes other than income payable, accrued employee benefits, deferred income from contractual obligations, deferred recovery from acquisitions, other liabilities of the Bank.

Contingencies

The Bank issues financial guarantees, letters of credit and credit related commitments.

Financial guarantees are initially measured at fair value, in the amount of the premium received. Subsequently, the Bank measures its liability on each guarantee at the higher of initial amount less accumulated amortisation recognised in the statement of profit or loss and other comprehensive income and, in accordance with IFRS 9 (since 1 January 2018) - loss allowance for ECL.

Credit related commitments and letters of credit are contractual obligations under which the Bank is obliged to grant a customer with a loan under certain agreement conditions during the term of the obligation. Since 1 January 2018, such obligations have been subject to the requirements of excepted credit loss assessment.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts in addition to credit risk transfer the performance risk of the contractual obligation. Performance guarantees are initially carried at fair value of the confirmed as a rule consideration received. This amount is amortised on a straight line basis over the life of the guarantee.

3. General accounting policies (continued)

At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best measurement of expenditure to settle the contract at the end of the reporting period discounted to present value. Where the Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

Estimated liabilities

Estimated liabilities are uncertain liabilities as for the volume and terms. An estimated liability is recognised when:

- a liability arises due a past event;
- outflows from settlement of the liability are probable;
- the liability can be reliably measured.

An estimated liability is recognised only when the three conditions are met.

Share capital and share premium

Share capital and share premium paid before 1 January 2003 are carried at cost adjusted for inflation. Share capital and share premium paid after 1 January 2003 are carried at cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Profit or loss from sale of own shares is attributed to share premium.

Ordinary and preference shares not redeemable where dividend payments are made at the discretion of the management are recognised as equity. Dividends declared after the reporting date are presented and disclosed as events subsequent to the reporting date in accordance with IAS 10 *Events after the Reporting Period.*

Termless instruments recognised as equity

Termless subordinated loans do not have definite maturity and bear interest at a fixed interest rate. Since termless subordinated loans do not have a definite maturity, the Bank classifies them as an equity instrument. Termless subordinated loans are initially measured at fair value.

Interest expense on such instruments is recognised within the statement of changes in equity.

Income and expense recognition

Interest income and expense

Interest income and expense are recorded for all debt instruments except for those measured at fair value through profit or loss on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income for debt instruments measured at fair value through profit or loss calculated at nominal interest rate is recognised in Other Interest Income within profit or loss.

3. General accounting policies (continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not classify commitments to originate loans as financial liabilities at fair value through profit or loss.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for: (i) Financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (net of the expected credit loss allowance); and (ii) Financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the amortized cost.

Interest income and expenses are disclosed in Note 19.

Fee and commission income and expense

Fee and commission income are recognised on a straight-line bases over the period in which the services are rendered as the customer simultaneously received and consumes the benefit as the Bank performs. Such income comprise recurring payments for maintaining the account, payment for service of account, subscription fee, payment for consultation and portfolio and other assets management service, custody management, etc. Variable fees are recognised only in the amount where, in the management's opinion, a significant reversal is highly improbable.

Other commission income is recognised when the Bank exercises its performance obligation usually after performance of a correspondent transaction. Fees and commissions received or receivable are the transaction cost for services identified as performance obligations. Such income is payment for organization of sale or purchase of foreign currencies on behalf of a customer, payment for processing payments, payment for settlement in cash, acceptance or provision of cash as well as fees and commissions for negotiating or participating in the negotiation of a transactions for a third party, such as acquisition of loans, shares or other securities. Fee and commission income and expenses are disclosed in Note 20.

Foreign currency translation

Items included in the financial statements of the Bank are measured in a currency of primary economic environment where the entity functions. The presentation currency of the financial statements is the Russian Rouble i.e. the functional and presentation currency of the financial statements is the Russian Rouble.

Transactions in foreign currency are translated into Russian Roubles at the official exchange rate of the Bank of Russia at the transaction date. Exchange differences are recognised in the statement of profit or loss and other comprehensive income. Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Bank of Russia at the reporting date. Gains or losses from translation are recognised in net gains from transactions with foreign currencies or in net gains from transactions with precious metals.

3. General accounting policies (continued)

Foreign exchange gains and losses resulting from transactions with debt securities and other monetary financial assets at fair value are included in income and expenses from revaluation of foreign currency.

Below are the key exchange rates used by the Bank when preparing the financial statements:

	31 December 2019	31 December 2018
RUB/USD	61,9057	69,4706
RUB/EUR	69,3406	79,4605

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Going concern. The management have prepared the financial statements on the going concern assumption. Upon making this assumption, the management considered the current financial position of the Bank, the Bank's ability to sustain the capital ratio in accordance with the requirements of the Central Bank under the circumstances and with consideration of the effect of COVID-19 (Coronavirus) and its adverse effect on the economic environment in the world and in the Russian Federation on the Bank's strategy and its future operations.

As at the date of these financial statements, there has been a considerable change in exchange rates, drop in financial quotations, and a fall in oil and gas prices. With regard to these adverse market trends, the Bank has assessed the influence of the changes in market quotations and exchange rates and has come to a conclusion that these events have not had a significant impact on the Bank's operations and its ability to continue operations and comply with the regulatory requirements.

Based on the information stated above, the Bank's management does not see a significant uncertainty in the Bank's ability to continue as a going concern during the foreseeable future and, therefore, the going concern assumption on which the financial statements have been prepared is considered proper.

Measurement of expected credit loss (ECL) allowance. The measurement of expected credit losses is a significant measurement for which measurement methods, models and inputs are used. Detailed procedure of measuring expected credit losses is disclosed in Note 27. The key components that have a significant effect on the loss allowance are as follows: determining a default, significant increase in credit risk, probability of default, exposure at default, loss given at default and modelling of macroeconomic scenarios. The bank regularly reviews and confirms models and inputs for models in order to mitigate mismatch between the estimated credit loss and actual credit losses and makes a decision to retain or revise measurement approach with consideration of whether the effect on the allowance and relative degree of changes is significant.

The Bank has applied supportable forward-looking information for measurement of expected credit loss mainly results of its own forecast macroeconomic model.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Exposure to credit risk of renewable loan mechanisms (e.g. credit cards, overdrafts). With regard to certain loan mechanisms, the Bank's exposure to credit loss risk may go beyond the maximum term of the loan agreement. This exception is applied to certain renewable loan mechanisms which include the loan and the unused commitment and to events when the Bank's contractual ability to require repayment and eliminate the unused component does not limit its exposure to credit loss risk (within the portion of used credit limit).

For such loan mechanisms, the Bank measures expected credit losses over the time when the Bank is exposed to credit risk, and the expected credit losses are not reduced due to the credit risk management measures - within the portion of used credit limit.

Significant increase in credit risk. The Bank analyses at each reporting date, whether the credit risk for the financial instrument has significantly increased since initial recognition.

The Bank considers the following factors to identify a significant increase in credit risk:

- past due amounts of 31-90 days;
- existence of objective data of the portfolio analysis and / or monitoring evidencing unfavorable changes in commercial, financial or economic conditions which will adversely affect payment abilities of the customer.

The Bank considers all reasonable and supportable forward-looking information available without undue cost and effort including a number of factors such as the behavior of customers. The Bank identifies behavior characteristics of increase in credit risk before the default event and includes relevant forward-looking information in assessing credit risk for an individual instrument or portfolio.

Business model assessment. Financial assets are classified in accordance with a business model. Based on the business model used by the Bank for managing financial assets and characteristics of the financial asset related to its contractual cash flows, receivables can be reclassified into the following categories:

- measured at amortised cost;
- measured at fair value through other comprehensive income;
- measured at fair value through profit and loss.

100% of the debt securities was determined as a liquid portfolio and categorised as those measured at fair value through other comprehensive income. Equity securities were classified as measured at fair value through profit or loss based on the assumption that equity securities are managed with the objective to sell cash flows, used for earning profit. This business model is frequently related to collection of contractual cash flows.

Assessment whether cash flows are solely payments of principal and interest (SPPI). Cash flows are assessed whether they are solely payments of principal and interest with use of judgement.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

The time value of money can be modified, e.g. upon variable interest rates that do not reflect the time value of money for the currency in which the instrument is denominated, variable interest rates where reviews of them for contract purposes do not match the basic period of interest rate or the value of which is revised to the average variable interest rate for a certain period of time, leverage effect, i.e. there is a multiplying ratio for the variable component of the interest rate, payments linked to inflation rate. The objective of measuring the modified element of the time value of money is to determine the difference the contractual (non-discounted) cash flows and (non-discounted) cash flows that would arise if the time value of money had not been modified (basic cash flows). The Bank considers the effect of modified time value of money in each reporting period and collectively over the life of the financial instrument. When analysing the effect of the modified time value of money collectively over the life of the financial instrument, the significant difference between the contractual (non-discounted) cash flows and (non-discounted) basic cash flows is 5% max.

Modification of financial assets. When financial assets are modified in accordance with a contract (e.g. after their revision), the Bank assesses whether the modification is significant and whether it will result in derecognition of the original financial asset and in recognition of a new asset at fair value. This assessment is primarily based on quantity factors stated in a relevant internal document and requires significant judgements. Namely, the Bank makes judgements when making a decision whether it is required to derecognise impaired loan agreements for which conditions have been modified and whether it is required to consider the newly recognised loans as impaired at initial recognition. The decision that it is required to derecognise an asset depends on whether risks and rewards i.e. expected cash flows (rather than contractual cash flows) will change after the modification. The Bank determined that the risks and rewards of such loans have not changed after the modification and therefore neither derecognition of all such modification and loans nor their reclassification out of impaired occurred.

Write offs. Any loan agreement where the Bank has taken all necessary and sufficient legal and actual measures to collect debt and to exercise rights inherent to the security and any assets where the Bank has taken all certain action to collect debt but the Bank's reasonably estimated costs to ensure collection will be in excess of the amount to be collected shall be written off.

Fair value of financial instruments that are not quotes at an active market or have no quotations available. Information on fair value of financial instruments which are measured with help of assumptions where observable market prices are not used is given in Note 28.

Recognition of a deferred tax asset

A deferred tax asset is income tax that can be offset against future income tax and is recognised in a statement of financial position. A deferred tax asset is recognised to the extent that correspondent income tax benefit is probable with consideration of regulatory restrictions to utilise against the taxable profit or deferred tax assets arisen from differences between the IFRS accounting treatments and tax accounting of transactions to recognise loss provisions, transactions with securities, recognition of interest on loans given and other placements.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

In accordance with the Russian tax regulations, time restrictions to use of tax losses carried forward do not exist however during the period from 2019 to 2020 the Bank can utilise losses in the amount that does not exceed half of the annual taxable profit of the relevant reporting period.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Related party transactions are disclosed in Note 29.

Determination of lease term. The Bank leases office premises from third parties under contracts of 11 months which are automatically extended unless any party sends to the other party a notification to terminate the agreement several months before the termination date.

5. Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16 *Leases.* The Bank has adopted IFRS 16 retrospectively since 1 January 2019 with certain expedients and remained the comparatives for 2018 unrestated in accordance with the transition provisions of IFRS 16. Thus, restatements and adjustments due to the new accounting treatments of leases are recognised as at 1 January 2019 as an adjustment for the retained earnings as at the end of the period.

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases.* These liabilities were measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was from 6.67% to 7.78% based on a lease term.

At the first-time adoption of IFRS 16 the Bank has used the following practical expedients permitted by the standard:

- using a single discounting rate for the portfolio of leases with similar characteristics;
- using previous measurement for onerous leases as an alternative for impairment testing; onerous leases did not occur as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use assets at the first-time adoption date;
- making retrospective judgement at determining a lease term if the contract contains an option to extend or to terminate the lease.

The Bank's management has also elected not to reassess whether a contract is, or contains a lease at the first-time adoption. Instead, the Bank relies on its assessment made applying IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease.

5. Adoption of New or Revised Standards and Interpretations (continued)

With regard to leases previously classified as finance leases, the Bank recognised carrying amounts of the underlying assets equal to the carrying amount of the right-of-use asset and lease liabilities equal to the lease liability as at the first-time adoption date. The measurement principles of IFRS 16 have been applied since 1 January 2019 only.

A reconciliation of the operating lease commitments as at 31 December 2018 to the lease liability recognised as at 1 January 2019 is as follows:

(in thousands of Russian Roubles)	**1 January 2019**
Total future lease payments under operating leases not subject to termination option as at 31 December 2018	
Total finance lease liabilities recognised as at 31 December 2018	14 240
Future lease payments due to changes in accounting treatments of options to extend and to terminate contracts	26 347
Effect of discounting	(6 809)
Lease liability recognised as at 1 January 2019	**33 778**
Right-of-use assets as at 1 January 2019	**33 778**

The right-of-use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment for the right-of-use assets as at the first-time adoption date.

The recognised right-of-use assets related to the following types of assets:

(in thousands of Russian Roubles)	**31 December 2019**	**31 December 2018**
Premises for own use	24 585	32 122
Motor vehicles	1 201	1 656
Total right-of-use assets	**25 786**	**33 778**

The following standards have become effective for the Bank since 1 January 2019 but did not have a material impact on the Bank:

- Amendments to IAS 12 *Income Tax* within the annual improvements Cycle 2015-2017, become effective on 1 January 2019.
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- *Prepayment features with negative compensation* - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 01 January 2019).
- Amendments to IFRS 28 - Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 Cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

32

5. Adoption of New or Revised Standards and Interpretations (continued)

- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

6. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 and which the Bank has not early adopted.

IFRS 17 *Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4 which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence it was difficult for investors to compare and contract the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfillment cash flows) that incorporates all of the available information about the fulfillment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

***Definition of a Business* - Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisition from the beginning of annual reporting period starting on or after 1 January 2020).** The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present including for early stage companies that have not generated outputs. An organized workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a "concentration test". The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

***Definition of Material* - Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).** The amendments clarify the definition of material and how it should be applied by including the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. The amendments provide consistency in use of the definition of materiality throughout the IFRS. 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.

6. New Accounting Pronouncements (continued)

Amendments to IFRS 10 and IAS 28 - *Sale of Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on 11 September 2014 and effective for the periods beginning on or after the date to be determined by IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark onwhich the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. BOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the relieves will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the relieves are applied, any significant assumptions or judgements made in applying the relieves, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process.

6. New Accounting Pronouncements (continued)

Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

If not stated otherwise, the Bank expects no significant impact of the new standards and interpretations on its financial statements.

7. Cash and cash equivalents

Cash and cash equivalents comprise:

(in thousands of Russian Roubles)	**31 December 2019**	**31 December 2018**
Cash balances with the Central Bank of RF (other than mandatory balances)	376 110	328 078
Cash on hand	263 748	439 903
Correspondent accounts and overnight placements with other banks and non-banking financial organizations:		
- Russian Federation	107 822	102 125
- other countries	9 155	2 075
Short-term settlements with c settlement centres and brokers	941	122
Less loss allowance	(1 555)	-
Total cash and cash equivalents	756 221	872 303
Mandatory cash balances with the Central Bank	**59 406**	**71 172**

As at 31 December 2019, the Bank placed RUB 376,110 thousand at Nostro account with the Central Bank of the Russian Federation which exceeds 10% of the Bank's equity (31 December 2018: RUB 328,078 thousand).

For measuring expected credit losses, balances of cash and cash equivalents are included in Stage 1 with the expected credit loss allowance of RUB 1,555 thousand (31 December 2018: nil).

The estimated fair value of cash and cash equivalents is disclosed in Note 28. Maturity analysis of cash and cash equivalents is disclosed in Note 26.

8. Due from banks and other financial institutions

Due from banks and other financial institutions comprise:

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Loans to credit organizations	8 731	11 053
Current accounts of credit organizations	1 054	1 054
Settlements on broker transactions and other amounts due	848	50 856
Less loss allowance	(1 247)	(3 419)
Total due from banks and other financial institutions	**9 386**	**59 544**

As at 31 December 2019 and 31 December 2018, the Bank had no deposits exceeding 10% of the Bank's equity.

As at 31 December 2019, the most portion of the due from banks and other financial institutions was included in Stage 1 with the expected credit loss allowance of RUB 133 thousand. (31 December 2018: RUB 2,305 thousand). Stage 3 included amounts due from banks and other financial institutions of RUB 1,114 thousand fully provided for (31 December 2018: RUB 1,114 thousand).

The estimated fair value of due from banks and other financial institutions is disclosed in Note 28. Maturity analysis of due from banks and other financial institutions is disclosed in Note 26.

9. Investments in securities

Securities at fair value through other comprehensive income comprise:

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Debt securities at fair value through other comprehensive income		
Russian Government bonds	606 827	569 619
Corporate bonds	169 373	60 244
Total debt securities at fair value through other comprehensive income	**776 200**	**629 863**
Securities at fair value through other comprehensive income sold under repo and reverse repo agreements		
Russian Government bonds	1 055 248	1 043 608
Corporate bonds	-	1 109 717
Total debt securities at fair value through other comprehensive income sold under repo and reverse repo agreements	**1 055 248**	**2 153 325**
Total investments in securities	**1 831 448**	**2 783 188**

As at 31 December 2019, debt securities at fair value through other comprehensive income of RUB 606,827 thousand comprise bonds of the Finance Ministry of the Russian Federation (31 December 2018: RUB 569,619 thousand)

9. Investments in securities (continued)

which is 78.18% (31 December 2018: 90.44%) of the total securities at fair value through other comprehensive income.

As at 31 December 2019, debt securities at fair value through other comprehensive sold under repo and reverse repo agreements comprise exclusively bonds of the Finance Ministry of the Russian Federation denominated in the Russian Roubles.

As at 31 December 2018, debt securities at fair value through other comprehensive income sold under repo and reverse repo agreements comprised:

- corporate interest bearing bonds denominated in USD issued by GAZ CAPTIAL S.A., TMK Capital S.A., MMC FINANCE DAC, SB Capital S.A., ALFA BOND Issuance PLC, RZD CAPITAL PLC;

- bonds of the Finance Ministry of the Russian Federation denominated in the Russian Rouble.

The table below discloses credit risk exposure of debt securities at fair value through other comprehensive income as at 31 December 2019 where the expected credit loss allowance is recognised based on credit risk grades.

(in thousands of Russian Roubles)	Stage 1	Total
Russian Government bonds		
- Excellent grade	606 827	606 827
Total fair value	**606 827**	**606 827**
Corporate bonds		
- Excellent grade	69 893	69 893
- Good grade	99 480	99 480
Total fair value	**169 373**	**169 373**
Total debt securities at fair value through other comprehensive income	**776 200**	**776 200**

The table below discloses credit risk exposure of debt securities at fair value through other comprehensive income as at 31 December 2018 where the expected credit loss allowance is recognised based on credit risk grade.

(in thousands of Russian Roubles)	Stage 1	Total
Russian Government bonds		
- Excellent grade	569 619	569 619
Total fair value	**569 619**	**569 619**
Corporate bonds		
- Excellent grade	9 047	9 047
- Satisfactory grade	51 197	51 197
Total fair value	**60 244**	**60 244**
Total debt securities at fair value through other comprehensive income	**629 863**	**629 863**

The following table explains the changes in the credit loss allowance of debt securities at fair value through other comprehensive income during 2019:

(in thousands of Russian Roubles)	Stage 1	Total
Credit loss allowance at 1 January 2019	15 968	15 968
Reversal of credit loss allowance	(13 752)	(13 752)
Credit loss allowance at 31 December 2019	**2 216**	**2 216**

9. Investments in securities (continued)

The following table explains the changes in the credit loss allowance of debt securities at fair value through other comprehensive income during 2018:

(in thousands of Russian Roubles)	Stage 1	Total
Credit loss allowance at 1 January 2018	-	-
Credit loss allowance made	15 968	15 968
Credit loss allowance at 31 December 2018	**15 968**	**15 968**

The following table discloses an analysis of credit risk exposure of debt securities at fair value through other comprehensive income sold under repo and reverse repo agreements as at 31 December 2019 based on credit risk grades:

(in thousands of Russian Roubles)	Stage 1	Total
Russian Government bonds		
- Excellent grade	1 055 248	1 055 248
Total fair value	**1 055 248**	**1 055 248**
Total debt securities at fair value through other comprehensive income sold under repo and reverse repo agreements	**1 055 248**	**1 055 248**

The following table discloses an analysis of credit risk exposure of debt securities at fair value through other comprehensive income sold under repo and reverse repo agreements as at 31 December 2018 based on credit risk grades.

(in thousands of Russian Roubles)	Stage 1	Total
Russian Government bonds		
- Excellent grade	1 043 608	1 043 608
Total fair value	**1 043 608**	**1 043 608**
Corporate bonds		
- Excellent grade	**854 161**	**854 161**
- Good grade	**255 556**	**255 556**
Total fair value	**1 109 717**	**1 109 717**
Total debt securities at fair value through other comprehensive income sold under repo and reverse repo agreements	**2 153 325**	**2 153 325**

The following table explains the changes in the credit loss allowance of debt securities at fair value through other comprehensive income sold under repo and reverse repo agreements during 2019:

(in thousands of Russian Roubles)	Stage 1	Total
Credit loss allowance at 1 January 2019	43 362	43 362
Credit loss allowance made	(43 362)	(43 362)
Credit loss allowance at 31 December 2019	-	-

9. Investments in securities (continued)

The following table explains the changes in the credit loss allowance of debt securities at fair value through other comprehensive income sold under repo and reverse repo agreements during 2018:

(in thousands of Russian Roubles)	Stage 1	Total
Credit loss allowance at 1 January 2018	-	-
Credit loss allowance made	43 362	43 362
Credit loss allowance at 31 December 2018	**43 362**	**43 362**

Maturity analysis of debt securities is disclosed in Note 26. Related party transactions are disclosed in Note 29.

10. Investments in equity securities

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Equity securities at fair value through profit or loss		
Corporate shares	194 815	-
Total investments in equity securities	**194 815**	**-**

Equity securities at fair value through profit or loss are securities held for trading and equity securities that were not designated as measured at fair value through other comprehensive income initially.

Maturity analysis of equity securities is disclosed in Note 26.

11. Loans and prepayments to customers

Loans and prepayments to customers comprise:

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Loans to corporations	10 434 550	11 281 203
Loans to individuals	383 998	364 835
Total loans and prepayments to customers (before credit loss allowance)	**10 818 548**	**11 646 038**
Less credit loss allowance	(4 696 393)	(5 143 993)
Total loans and prepayments to customers	**6 122 155**	**6 502 045**

The Bank provides loans to legal entities for current purposes (working capital increase, acquisition of movable and immovable property and others). Loans are settled with cash flows from current production and financing activities of the borrower.

Loans to individuals represent loans given to individuals to purchase real estate and for consumer purposes.

As at 31 December 2019 and 31 December 2018, the Bank provided no loans with 5% share of the comprehensive loans to customers.

11. Loans and prepayments to customers (continued)

The following tables disclose changes in the credit loss allowance and gross carrying amount of loans and prepayments to customers measured at amortised cost during 2019 and 2018:

	Credit loss allowance				Gross carrying amount			
(in thousands of Russian Roubles)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to corporations								
As at 1 January 2019	**163 563**	**2 981 284**	**1 641 452**	**4 786 299**	**1 276 226**	**8 362 791**	**1 642 186**	**11 281 203**
Movements with impact on ECL								
Change in gross carrying amount and net loss on origination/(gain from reversal) of credit loss allowance	(116 123)	(1 144 736)	1 580 930	320 071	(900 166)	(1 837 446)	2 628 672	(108 940)
Movements without impact on ECL:								
Sale of loans	-	-	(736 013)	(736 013)	-	-	(737 713)	(737 713)
As at 31 December 2019	**47 440**	**1 836 548**	**2 486 369**	**4 370 357**	**376 060**	**6 525 345**	**3 533 145**	**10 434 550**
Loans to individuals								
As at 1 January 2019	**61**	**1 436**	**356 197**	**357 694**	**2 240**	**6 398**	**356 197**	**364 835**
Movements with impact on ECL								
Change in gross carrying amount and net loss on origination/(gain from reversal) of credit loss allowance	21	6 985	(38 664)	(31 658)	(1 606)	59 433	(38 664)	19 163
As at 31 December 2019	**82**	**8 421**	**317 533**	**326 036**	**634**	**65 831**	**317 533**	**383 998**

	Credit loss allowance				Gross carrying amount			
(in thousands of Russian Roubles)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to corporations								
As at 1 January 2018	**956 546**	**1 770 056**	**2 525 323**	**5 251 925**	**1 874 229**	**6 820 765**	**3 481 917**	**12 176 911**
Movements with impact on ECL								
Change in gross carrying amount and net loss on origination/(gain from reversal) of credit loss allowance	(792 983)	1 211 228	(883 871)	(465 626)	(598 003)	1 542 026	(1 839 731)	(895 708)
As at 31 December 2018	**163 563**	**2 981 284**	**1 641 452**	**4 786 299**	**1 276 226**	**8 362 791**	**1 642 186**	**11 281 203**
Loans to individuals								
As at 1 January 2018	**2 632**	**-**	**295 629**	**298 261**	**5 586**	**9 272**	**309 108**	**323 966**
Movements with impact on ECL								
Change in gross carrying amount and net loss on origination/(gain from reversal) of credit loss allowance	(2 571)	1 436	60 568	59 433	(3 346)	(2 874)	47 089	40 869
As at 31 December 2018	**61**	**1 436**	**356 197**	**357 694**	**2 240**	**6 398**	**356 197**	**364 835**

11. Loans and prepayments to customers (continued)

During 2019, the Bank sold loans with carrying amount after credit loss allowance of RUB 1,700 thousand, the fair value of the consideration received amounted to RUB 571,573 thousand. Net gain from disposal of loans amounted to RUB 569,872 thousand. The Bank did not sell loans during 2018.

Economic sector risk concentrations within loans and prepayments to customers are as follows:

	31 December 2019		31 December 2018	
(in thousands of Russian Roubles)	Amount	%	Amount	%
Trade	2 823 707	26,1	3 292 006	28,3
Construction, leases out and maintenance	2 803 071	25,9	3 053 041	26,2
Restaurants	2 044 799	18,9	1 776 194	15,3
Advertising, marketing and entertainment	1 220 350	11,3	1 365 366	11,7
Services	626 091	5,8	791 829	6,8
Individuals	383 998	3,5	364 835	3,1
Production	225 728	2,1	259 500	2,2
Consulting services	-	-	70 800	0,6
Other	690 804	6,4	672 467	5,8
Total loans and prepayments to customers (before credit loss allowance)	**10 818 548**	**100**	**11 646 038**	**100**

The following table discloses loan collaterals as at 31 December 2019:

(in thousands of Russian Roubles)	Loans to corporations	Loans to individuals	Total
Secured loans:			
- by real estate items	574 557	35 691	610 248
- by guarantees	808 699	204 945	1 013 644
- by cash deposits and securities	500	296	796
- by goods in circulation	-	-	-
- by other property	136 767	-	136 767
Total secured loans and prepayments to customers	**1 520 523**	**240 932**	**1 761 455**

The following table discloses loan collaterals as at 31 December 2018:

(in thousands of Russian Roubles)	Loans to corporations	Loans to individuals	Total
Secured loans:			
- real estate items	1 176 431	34 526	1 210 957
- by guarantees	1 761 965	2 489	1 764 454
- by securities	142 367	-	142 367
- by goods in circulation	40 095	-	40 095
- by other property	751 587	458	752 045
Total secured loans and prepayments to customers	**3 872 445**	**37 473**	**3 909 918**

Collateral value of security may insignificantly differ from its fair value.

41

11. Loans and prepayments to customers (continued)

The table below discloses credit risk exposure of loans and prepayments to customers at amortised cost where the expected credit loss allowance is recognised based on credit risk grade. The carrying amount of loans and prepayments to customers reflects maximal credit risk exposure of the Bank on the loans.

The following table provides credit quality analysis for loans and prepayments to customers as at 31 December 2019:

(in thousands of Russian Roubles)	Stage 1	Stage 2	Stage 3	Total
Loans to corporations				
- Excellent grade	20 000	-	-	20 000
- Good grade	356 060	-	-	356 060
- Satisfactory grade	-	6 525 345	-	6 525 345
- Requires special monitoring	-	-	2 398 903	2 398 903
- default	-	-	1 134 242	1 134 242
Total loans to corporations before credit loss allowance	**376 060**	**6 525 345**	**3 533 145**	**10 434 550**
Credit loss allowance	(47 440)	(1 836 548)	(2 486 369)	(4 370 357)
Total loans to corporations less credit loss allowance	**328 620**	**4 688 797**	**1 046 776**	**6 064 193**
Loans to individuals				
- Excellent grade	40	-	-	40
- Good grade	594	-	-	594
- Satisfactory grade	-	65 831	-	65 831
- default	-	-	317 533	317 533
Total loans to individuals before credit loss allowance	**634**	**65 831**	**317 533**	**383 998**
Credit loss allowance	(82)	(8 421)	(317 533)	(326 036)
Total loans to individuals less credit loss allowance	**552**	**57 410**	**-**	**57 962**

The following table provides credit quality analysis for loans and prepayments to customers as at 31 December 2018:

(in thousands of Russian Roubles)	Stage 1	Stage 2	Stage 3	Total
Loans to corporations				
- Good grade	1 276 226	-	-	1 276 226
- Satisfactory grade	-	8 362 791	-	8 362 791
- Requires special monitoring	-	-	250 000	250 000
- default	-	-	1 392 186	1 392 186
Total loans to corporations before credit loss allowance	**1 276 226**	**8 362 791**	**1 642 186**	**11 281 203**
Credit loss allowance	(163 563)	(2 981 284)	(1 641 452)	(4 786 299)
Total loans to corporations less credit loss allowance	**1 112 663**	**5 381 507**	**734**	**6 494 904**
Loans to individuals				
- Good grade	2 240	-	-	2 240
- Satisfactory grade	-	6 398	-	6 398
- default	-	-	356 197	356 197
Total loans to individuals before credit loss allowance	**2 240**	**6 398**	**356 197**	**364 835**
Credit loss allowance	(61)	(1 436)	(356 197)	(357 694)
Total loans to individuals less credit loss allowance	**2 179**	**4 962**	**-**	**7 141**

42

11. Loans and prepayments to customers (continued)

The fair value of loans and prepayments to customers is disclosed in Note 28. Maturity analysis of loans and prepayments to customers is disclosed in Note 26. Related party transactions are disclosed in Note 29.

12. Property and equipment, intangible assets and right-of-use assets

(in thousands of Russian Roubles)	Right-of-use assets	Buildings	Office equipment and furniture	Motor vehicles	Capital investments	Intangible assets	Total
Carrying amount at 31 December 2017	**-**	**1 701**	**3 625**	**194**	**100**	**4 331**	**9 951**
Cost	-	2 097	8 947	15 207	100	5 000	31 351
Accumulated depreciation	-	(396)	(5 322)	(15 013)	-	(669)	(21 400)
Carrying amount at 31 December 2017	**-**	**1 701**	**3 625**	**194**	**100**	**4 331**	**9 951**
Additions	-	-	-	-	-	1 207	1 207
Disposals	-	-	(787)	(3 377)	-	(1 475)	(5 639)
Depreciation charge	-	(69)	(679)	(68)	-	(747)	(1 563)
Disposal of accumulated depreciation	-	-	787	3 360	-	209	4 356
Carrying amount at 31 December 2018	**-**	**1 632**	**2 846**	**109**	**100**	**3 525**	**8 212**
Cost	-	2 097	8 160	11 830	100	4 732	26 919
Accumulated depreciation	-	(465)	(5 214)	(11 721)	-	(1 207)	(18 607)
Carrying amount at 31 December 2018	**-**	**1 632**	**2 946**	**109**	**100**	**3 525**	**8 312**
Additions	33 778	-	5 838	-	1 136	209	40 961
Disposals	-	-	(87)	-	-	-	(87)
Transfers	-	-	-	(109)	109	-	-
Depreciation charge	(7 943)	(70)	(2 939)	-	-	(869)	(11 821)
Modification of leases	(49)	-	-	-	-	-	(49)
Disposal of accumulated depreciation	-	-	87	-	-	-	87
Carrying amount at 31 December 2019	**25 786**	**1 562**	**5 845**	**-**	**1 345**	**2 865**	**37 403**
Cost	33 729	2 097	13 911	11 721	1 345	4 941	67 744
Accumulated depreciation	(7 943)	(535)	(8 066)	(11 721)	-	(2 076)	(30 341)
Carrying amount at 31 December 2019	**25 786**	**1 562**	**5 845**	**-**	**1 345**	**2 865**	**37 403**

The fully depreciated property and equipment as at 31 December 2019 and 31 December 2018 amounted to RUB 15,424 thousand and RUB 14,734 thousand, respectively.

Intangible assets comprise software and licenses.

The fully amortised intangible assets as at 31 December 2019 and 31 December 2018 amounted to RUB 100 thousand and RUB 15 thousand, respectively.

12. Property and equipment, intangible assets and right-of-use assets (continued)

Since 1 January 2019, lease agreements are recognised as right-of-use assets with a correspondent lease liability as at the date when the Bank receives the asset under the lease.

Interest expense on lease liabilities for 2019 amounted to RUB 2,105 thousand.

13. Other assets

Other financial assets

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Other financial assets at amortized cost		
Receivables collectable	409 666	410 782
Return of mandatory cash balances	3 615	-
Receivables and prepayments	1 067	29
Fee and commission income	358	-
Outstanding payments	98	926
Less provision for impairment	(248 777)	(255 156)
Total other financial assets at amortized cost	**166 027**	**156 581**
Other financial assets at fair value through profit or loss		
Derivative financial instruments	672	-
Total other financial assets at fair value through profit or loss	**672**	**-**
Total other financial assets	**166 699**	**156 581**

As at 31 December 2019, other financial assets at amortised cost of RUB 4,914 thousand are included in Stage 1 (31 December 2018: RUB 955 thousand); of RUB 409,890 thousand are included in Stage 3 (31 December 2018: RUB 410,782 thousand). The credit loss allowance for other financial assets at amortised cost relates to Stage 3 and amounts to RUB 248,777 thousand (31 December 2018: RUB 255,156 thousand). During 2019, the Bank wrote down other fees and commissions of RUB 65 thousand at the expense of the credit loss allowance.

Other financial assets at fair value comprise payments under conversion transactions which are the fair value of currency swaps.

Other non-financial assets

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Security received for failures to pay	48 255	48 255
Taxes prepaid	4 654	1 560
Receivables and prepayments	2 540	3 449
Less provision for impairment	(11 488)	(6 323)
Total other non-financial assets	**43 961**	**46 941**

13. Other assets (continued)

As at 31 December 2019, other non-financial assets of RUB 48,058 thousand are included in Stage 1 (31 December 2018: RUB 46,766 thousand), of RUB 1,123 thousand are included in Stage 2 (31 December 2018: RUB 4,993 thousand), of RUB 6,268 thousand are included in Stage 3 (31 December 2018: RUB 1,505 thousand). The total credit loss allowance for other non-financial assets amounts to RUB 11,488 thousand (31 December 2018: RUB 6,323 thousand).

Security received for failure to pay comprises real estate received by the Bank as collection of loans where borrowers failed to repay their debt. The carrying amount of the security received for failure to pay will be recovered through sale.

The Bank tests the carrying amount of securities received for failure to pay for impairment. Fair value is measured both by individual appraisers and by the Bank individually. The Bank applies comparative method to measure fair value. The Bank uses current prices for similar real estate items at an active market, information on prices available from mass media and special literature, expert opinions on fair values of items and other resources to measure the fair value.

Maturity analysis of other financial assets is disclosed in Note 26.

14. Due to other banks

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Repo and reverse repo agreements with other banks	195 722	1 390 673
Other	335	-
Total due to other banks	**196 057**	**1 390 673**

As at 31 December 2019, amounts due to other banks comprise liabilities of RUB 195,722 thousand (31 December 2018: RUB 1,390,673 thousand) under repo and reverse repo agreements disclosed in Note 9. Maturity analysis of amounts due to other banks is disclosed in Note 26.

15. Customer accounts

Customer accounts comprise:

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Corporations		
- Term deposits	1 135 303	2 047 730
- Amounts raised under REPO transactions	803 845	-
- Current/settlement accounts	583 713	856 479
Individuals		
- Term deposits	2 495 501	3 399 971
- Current/settlement accounts	470 026	433 781
Total customer accounts	**5 488 388**	**6 737 961**

15. Customer accounts (continued)

Analysis of customer accounts by economic sectors is as follows:

(in thousands of Russian Roubles)	31 December 2019 Amount	%	31 December 2018 Amount	%
Individuals	2 965 527	54,0	3 833 752	56,9
Financial services	882 793	16,1	435 981	6,5
Education	473 208	8,6	568 964	8,4
Real estate	253 060	4,6	289 004	4,3
Trade	154 680	2,8	197 564	2,9
Other services	154 472	2,8	443 093	6,6
Construction	124 611	2,4	280 400	4,2
Architecture and design	100 254	1,8	-	-
Other	379 783	6,9	689 203	10,2
Total customer accounts	**5 488 388**	**100**	**6 737 961**	**100**

As at 31 December 2019, the Bank raised amounts from ten large customers of total RUB 2,414,982 thousand (31 December 2018: RUB 2,322,829 thousand) which represents 44% of the total customer accounts (31 December 2018: 34.47%).

The estimated fair value of customer accounts is disclosed in Note 28. Maturity analysis of customer accounts is disclosed in Note 26. Related party transactions are disclosed in Note 29.

16. Subordinated borrowings

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Subordinated borrowing	478 646	478 646
Total subordinated borrowings	**478 646**	**478 646**

In June 2007, the Bank raised a subordinated borrowing from a non-resident entity with an annual interest rate of 5.25% to mature in June 2022.

In 2017, the creditor's rights under the subordinated borrowing were assigned to a resident company where the interest rate remained the same but to mature in June 2042.

In May 2018, the Bank entered into an additional agreement to amend terms of granting a subordinated borrowing. In accordance with the additional agreement, the subordinated borrowing has an indefinite maturity.

Under the contract, the Bank has the right to unilaterally refuse from repayment of interest. At this, when the Bank exercises this right, this shall not arise financial sanctions for failure to settle the obligation to repay loan interest.

Taking into consideration the indefinite maturity of the termless subordinated borrowing, the Bank recognises the termless subordinated borrowing as an equity instrument that can be included in 1-tier capital with the purpose to calculate capital adequacy ratio in accordance with Basel requirements. It should be noted the Central Bank of the Russian Federation has improved that the subordinated borrowing was included in the capital adequacy ratio of the Bank.

The termless subordinated loan has been recognised within equity of the Bank since 2018.

17. Other liabilities

Other financial liabilities

(in thousands of Russian Roubles)	Note	31 December 2019	31 December 2018
Other financial liabilities at amortized cost			
Lease liabilities		26 616	-
Provision for credit related commitments	24	6 810	8 353
Deferred income from guarantees		797	5 805
Outstanding payments		-	40
Total other financial liabilities at amortized cost		**34 223**	**14 198**
Other financial liabilities at fair value through profit or loss			
Derivative financial instruments		2 275	1 041
Total other financial liabilities at fair value through profit or loss		**2 275**	**1 041**
Total other financial liabilities		**36 498**	**15 239**

Maturity analysis of other financial liabilities is disclosed in Note 26.

Other non-financial liabilities

(in thousands of Russian Roubles)	*Note*	31 December 2019	31 December 2018
Provision for performance guarantees	24	14 825	96 871
Taxes payable other than income tax		3 458	4 851
Accrued employee benefits		2 938	2 194
Trade and other payables and prepayments received		2 247	2 590
Other		733	408
Total other non-financial liabilities		**24 201**	**106 914**

18. Shareholders' equity

The authorised, issued and fully paid share capital comprises:

	31 December 2019	31 December 2018
Ordinary shares:		
Number of shares	725 035 190	725 035 190
Face value (RUB)	1	1
Inflation adjusted amount (thousand of roubles)	909 512	909 512

In September 2017, the Bank issued additional shares of RUB 222,472 thousand. The additional issue under close subscription comprised 222,471,910 ordinary uncertified shares with par value of RUB 1 each (offer price of RUB 1).

18. Share capital (continued)

In 2016, the Bank received assistance from the shareholders, free of charge, recognised in additional capital of RUB 775,000 thousand at the expense of which the Bank has covered loss for 2018.

The maximum dividends payable by the Bank is limited by the retained earnings of the Bank to be determined under the Russian laws and regulations. As at 31 December 2019, the funds available for distribution amount to RUB 1,490,958 thousand (31 December 2018: RUB 828,625 thousand). The Bank did not distribute dividends to its shareholders in 2019 and 2018.

The Bank's capital management is aimed at as follows: adherence to capital requirements set by the Central Bank of the Russian Federation; ensuring the Bank's ability to operate continuously and maintaining capital base at a level necessary to ensure capital adequacy level of 8% as set by the Bank of Russia.

Monthly reports with regard to calculation of the capital adequacy level set by the Central Bank of Russian Federation are reviewed. Under the current capital requirements set by the Bank of Russia the Bank maintains a ratio of capital to risk weighted assets above the prescribed minimum level.

As at 31 December 2019, the capital ratio (N1.0) amounted to 19.8%; as at 31 December 2018 – 13.2%.

19. Net interest income

(in thousands of Russian Roubles)	For the year ended 31 December 2019	For the year ended 31 December 2018
Interest income calculated with use of the effective interest method		
Loans and prepayments to customers	1 167 037	1 020 884
Debt securities at fair value through other comprehensive income	147 243	160 337
Due from other banks	7 143	273
Total interest income calculated with use of the effective interest method	**1 321 423**	**1 181 494**
Interest expense calculated using the effective interest method		
Customer accounts	248 499	363 734
Due to other banks	62 693	142 594
Current/(settlement) accounts	1 654	-
Debt securities issued	186	2 368
Other	2 105	-
Total interest expense calculated with use of the effective interest method	**315 137**	**508 696**
Net interest margin	**1 006 286**	**672 798**

20. Fee and commission income and expense

Fee and commission income and expenses comprise:

(in thousands of Russian Roubles)	For the year ended 31 December 2019	For the year ended 31 December 2018
Fee and commission income		
Acquiring services for banking cards	42 090	33 884
Settlement and cash services	28 312	31 360
Transactions with currency assets	12 620	15 523
Commission on guarantees issued	6 045	22 831
Bank account opening and maintaining	4 631	4 899
Agency services on broker and similar contracts	3 275	1 000
Other	6 373	15 676
Total fee and commission income	**103 346**	**125 173**
Fee and commission expense		
Processing transactions for banking cards	30 186	26 943
Commissions to settlement and payment systems	6 637	9 928
Settlement and cash services	5 247	3 891
Agency services on broker and similar contracts	2 191	499
Bank account opening and maintaining	1 279	1 034
Other	4 703	764
Total fee and commission expense	**50 243**	**43 059**
Net fee and commission income	**53 103**	**82 114**

21. Other operating income

Other operating income comprises:

(in thousands of Russian Roubles)	For the year ended 31 December 2019	For the year ended 31 December 2018
Gains from transactions with loans received and loans with acquired receivables	569 872	6 485
Gains from raised deposits and other raised amounts from individuals	4 495	9 739
Gains from raised deposits and other raised amounts from corporations	1 068	841
Rental income	692	741
Other operating income	4 450	397
Total other operating income	**580 577**	**18 203**

22. Administrative and other operating expenses

Administrative and other operating expenses comprise:

(in thousands of Russian Roubles)	**For the year ended 31 December 2019**	**For the year ended 31 December 2018**
Staff costs	106 815	94 978
Insurance	86 704	91 794
Depreciation of property, plant and equipment	11 821	1 564
Security	10 710	10 704
Other organization and administrative expenses	14 937	27 209
Communication services	6 513	7 563
Taxes other than on income	5 898	5 161
Right to use intellectual property	3 141	4 203
Expenses on transactions with property and equipment and intangible assets	1 089	969
Advertising, marketing	1 050	1 169
Other operating expenses	2 012	9 455
Other expenses to ensure operations of the credit organization	6 465	30
Total administrative and other operating expenses	**257 155**	**254 799**

23. Income tax

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the RF where the Bank operates, which may differ from IFRS.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2019 and 2018 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets. Temporary differences as at 31 December 2019 and 2018 comprise:

Income tax expense recognised within profit or loss for the period comprises:

(in thousands of Russian Roubles)	**31 December 2019**	**31 December 2018**
Current income tax expense	41 173	20 993
Change in deferred taxes:		
Deferred taxes due to origination and write-off of temporary differences recognised in profit or loss	348 527	160 586
Deferred taxes recognised in prior period	(160 587)	243 857
Total income tax expense	**229 113**	**425 436**
For reference:		
Deferred taxes recognised in equity	*1 442*	*(4 267)*

23. Income Tax (Continued)

Reconciliation between the income tax expense with the accounting profit multiplied by the application tax rate is as follows:

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
IFRS profit before tax	**1 277 915**	**875 844**
Theoretical tax charge at statutory rate (2019: 20%; 2018: 20%)	**255 583**	**175 169**
Income from state securities taxable at 15% rate	(7 273)	(20 761)
Non-deductible expenses less non-taxable income	(19 197)	271 028
Income tax expense	**229 113**	**425 436**

Differences between IFRS and Russian statutory taxation regulations give rise to some temporary differences between the carrying amount of some assets and liabilities for financial reporting purposes and their tax bases. Below is the tax effect of the movement of the temporary differences.

(in thousands of Russian Roubles)	31 December 2018	Recognized in profit or loss	Recognised in statement of comprehensive income	31 December 2019
Tax effect of temporal differences deducting tax base				
Securities at fair value through other comprehensive income	4 267	7 742	(4 267)	7 742
Lease liability	-	5 323	-	5 323
Due from other financial institutions	461	(434)	-	27
Property and equipment and right-of-use assets	-	77	-	77
Other assets and liabilities	-	1 638	-	1 638
Total deferred tax assets	**4 728**	**14 346**	**(4 267)**	**14 807**
Tax effect of temporal differences increasing tax base				
Loans to clients	(148 467)	(203 264)	-	(351 731)
Securities at fair value through other comprehensive income	-	-	(1 442)	(1 442)
Securities at fair value through profit or loss	-	(3 874)	-	(3 874)
Property and equipment and right-of-use assets	(31)	(5 223)	-	(5 254)
Other	(12 549)	10 074	-	(2 475)
Total deferred tax liabilities	**(161 047)**	**(202 287)**	**(1 442)**	**(364 776)**
Net deferred tax liability	**(156 319)**	**(187 941)**	**(5 709)**	**(349 969)**
including				
Deferred tax liability recognised in equity	*4 267*	*-*	*(5 709)*	*(1 442)*

51

23. Income Tax (Continued)

(in thousands of Russian Roubles)	31 December 2017	Recognized in profit or loss	Recognised in statement of comprehensive income	31 December 2018
Tax effect of temporal differences deducting tax base				
Loans to clients	27 611	(27 611)	-	-
Securities at fair value through other comprehensive income	-	-	4 267	4 267
Due from other financial institutions	-	461	-	461
Other	18 928	(18 928)	-	-
Total deferred tax assets	**46 539**	**(46 078)**	**4 267**	**4 728**
Tax effect of temporal differences increasing tax base				
Loans to clients	-	(148 467)	-	(148 467)
Customer accounts	(15 122)	15 122	-	-
Financial assets measured at fair value through other comprehensive income	(3 574)	-	3 574	-
Property and equipment	(191)	160	-	(31)
Other	-	(12 549)	-	(12 549)
Total deferred tax liabilities	**(18 887)**	**(145 734)**	**3 574**	**(161 047)**
Net deferred tax (asset) / liability	**27 652**	**(191 812)**	**7 841**	**(156 319)**
including				
Deferred tax liability recognised in equity	*(3 574)*	-	*7 841*	*4 267*

24. Contingencies

Credit related commitments. The primary purpose of credit related commitments instruments is to ensure that funds are available to a customer when required. Credit related commitments comprise the unused portion of amounts approved by the management for granting credits represented by loans, guarantees and letters of credit. With regard to credit related commitments, the Bank is potentially exposed to loss risk in the amount of the commitments unused if the unused amounts must be utilised. However the likely amount of losses is less than the total amount of unused commitments since the most part of credit related commitments is caused by meeting certain creditworthiness criteria by customers.

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Bank faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Bank uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within a shorter term. This allows the Bank to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Bank manages such risks by constantly monitoring the level of payments of such products and has an ability to adjust its fees in the future to reflect any change in claim payment experience.

24. Contingencies (continued)

The Bank has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

Outstanding credit related commitments and performance guarantees as at 31 December 2019 and 31 December 2018 comprised:

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Credit related commitments	32 274	51 230
Performance guarantees	58 811	504 379
Less provision for impairment	(21 635)	(105 224)
Total contingencies	**69 450**	**450 385**

Credit related commitments and performance guarantees are denominated in the foreign currencies as follows:

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Contingencies		
RUB	80 703	535 307
USD	6 915	16 847
EUR	3 467	3 455
Total contingencies	**91 085**	**555 609**

Credit risk exposure of credit related commitments and performance guarantees as at 31 December 2019 is as follows:

(in thousands of Russian Roubles)	Stage 1	Stage 2	Total
Credit related commitments	16 708	15 566	32 274
Performance guarantees	34 147	24 664	58 811
Non recognised gross amount	**50 855**	**40 230**	**91 085**
Credit loss allowance	(5 822)	(15 813)	(21 635)
Non recognised net value	**45 033**	**24 417**	**69 450**

Credit risk exposure of credit related commitments and performance guarantees as at 31 December 2018 is as follows:

(in thousands of Russian Roubles)	Stage 1	Total
Credit related commitments	51 230	51 230
Performance guarantees	504 379	504 379
Non recognised gross amount	**555 609**	**555 609**
Credit loss allowance	(105 224)	(105 224)
Non recognised net value	**450 385**	**450 385**

24. Contingencies (continued)

The table below discloses changes in credit loss allowance for credit related commitments for 2019:

(in thousands of Russian Roubles)	Stage 1	Stage 2	Total
Credit loss allowance at 1 January 2019	8 543	-	8 543
Origination / (reversal) of credit loss allowance	(5 213)	3 480	(1 733)
Credit loss allowance at 31 December 2019	**3 330**	**3 480**	**6 810**

The table below discloses changes in credit loss allowance for credit related commitments for 2018:

(in thousands of Russian Roubles)	Stage 1	Total
Credit loss allowance at 1 January 2018	9 242	9 242
(Reversal) of credit loss allowance	(699)	(699)
Credit loss allowance at 31 December 2018	**8 543**	**8 543**

The table below discloses changes in credit loss allowance for performance guarantees for 2019:

(in thousands of Russian Roubles)	Stage 1	Stage 2	Total
Credit loss allowance at 1 January 2019	96 681	-	96 681
Origination / (reversal) of credit loss allowance	(94 188)	12 332	(81 856)
Credit loss allowance at 31 December 2019	**2 493**	**12 332**	**14 825**

The table below discloses changes in credit loss allowance for performance guarantees for 2018:

(in thousands of Russian Roubles)	Stage 1	Total
Credit loss allowance at 1 January 2018	68 059	68 059
Credit loss allowance made	28 622	28 622
Credit loss allowance at 31 December 2018	**96 681**	**96 681**

Assets pledged and assets limited for use. As at 31 December 2019 and 31 December 2018, the Bank had assets pledged as collateral as follows:

		31 December 2019		31 December 2018	
(in thousands of Russian Roubles)	Note	Assets pledged	Related liability	Assets pledged	Related liability
Securities at fair value through other comprehensive income sold under repo and reverse repo agreements	9	1 055 248	999 567	2 153 325	1 973 988
Total		**1 055 248**	**999 567**	**2 153 325**	**1 973 988**

24. Contingencies (continued)

Capital investments commitments. As at 31 December 2019 and 31 December 2018, the Bank did not have capital investments commitments.

Legal proceedings. The Bank is involved in legal proceedings with customers and contractors from time to time in the operation process. The management believes the Bank will not occur significant losses from them.

Taxation. For the reason of existence of provisions in the Russian commercial and tax legislation that can be interpreted in more than one way, as well as because of the tax authorities' habit to make arbitrary judgments concerning the taxpayer's activity, in case if some certain actions based on the interpretation of the law in relation to the Bank's activity on the part of the management will be questioned by the tax authorities, it can lead to the accrual of additional fines, taxes and penalties. Such indefiniteness can be connected with the determination of the financial instrument value, creation of provisions for losses and market price levels on transactions. The Bank management is sure that all necessary tax charges are made and, accordingly, any reserves were not accrued in the statements. The tax authorities can make taxation data inspection for the last three years.

Pension benefit plans. In accordance with the laws of the Russian Federation all employees of the Bank have the right to the state pension benefits. As at 31 December 2019 and 31 December 2018, the Bank had no liabilities to the present or former employees on additional pension benefit plans, medical care coverage after retirement, insurance payments or other benefits after retirement.

Economic environment. The main economic activity of the Bank is carried out in the Russian Federation. Legislation and normative documents that affect the economic circumstances in the Russian Federation are subject to frequent changes, and the Bank's assets and operations may be exposed to the risk in case of the worsening of the political and economic situation.

25. Reconciliation of liabilities arising from financing activities

The table below discloses changes in the Bank's liabilities arising from financing activities for each reported period. The liabilities are recognised in the statement of cash flows as financing activities

	Liabilities from financing activities				
(in thousands of Russian Roubles)	Share capital and share premium	Dividends paid and interest on subordinated loans	Subordinated loan	Lease liability	Total
Finance liability recognised as at 1 January 2018	1 725 307	-	478 646	-	2 203 953
Cash flows	-	(1)	-	-	(1)
Changes other than cash flows	-	1	-	-	1
Finance liability recognised as at 31 January 2018	**1 725 307**	**-**	**478 646**	**-**	**2 203 953**
Adoption of IFRS 16 Leases	-	-	-	33 778	33 778
Finance liability recognised as at 1 January 2019	**1 725 307**	**-**	**478 646**	**33 778**	**2 237 731**
Cash flows	-	(25 129)	-	(9 474)	(34 603)
Changes other than cash flows	(815 795)	25 129	-	2 312	(788 354)
Finance liability recognised as at 31 January 2019	**909 512**	**-**	**478 646**	**26 616**	**1 414 774**

35

26. Risk management policies

Risk management throughout the Bank is maintained with use of Risk and Capital Management System. Risk and Capital Management System is a part of the overall management system of the Bank which aims to provide sustainable development of the Bank within the Risk and Capital Management Strategy approved by the Board of Directors of the Bank.

The main objectives of the risk and capital management system are:

- identification, assessment, aggregation of significant risks, other risks which together with the significant risks can cause losses with a significant impact on adequacy level and control over capital level;
- assessment of adequate capital to cover significant risks and potential losses inherent to events provided by the development strategy;
- planning capital based on overall significant risk assessment, testing the Bank's stability against internal and external risk factors, sustainable development of business within the Bank's development strategy, compliance with the capital adequacy level set forth by the Bank of Russia and phases of the business development cycle.

Capital management is maintained throughout the Bank and is based on realisation of the internal capital adequacy assessment process (ICAAP). The main objectives of the capital management system are:

- ensuring compliance with the requirements of the Bank of Russia and with open currency position of the Bank;
- ensuring capital adequacy to cover significant risks;
- ensuring an effective allocation of resources to optimise the risk to return ratio;
- ensuring planning the Bank's capital.

The Bank manages its capital through:

- business planning including with regard to management of capital adequacy;
- making a limit system for the capital adequacy;
- preparing a plan for managing capital adequacy in case of a crisis.

The main goals of the Bank's risk management system are:

- development of policies and procedures for management of significant risks;
- control over risk of unexpected losses including implementing standards and instruments recommended by the Basel committee for banks supervision and by the Bank of Russia into the risk management strategy;
- forecasting expected losses on significant risks;
- minimising losses from unfavourable events;
- adaptation of the Bank to internal and external business environment factors and adding value to business for the Bank's owners;
- restriction to risk levels of the Bank's risks for all kinds of operations;
- development and application of adjusting events to recover liquidity, financial stability and maintaining going concern;
- development of the culture of understanding and management of risks by the Bank's employees.

With the purpose to control adequacy of capital the Bank sets up risk appetite and levels of required capital based on a phase of business cycle, aggregate acceptable risk level which the Bank is ready to accept within the goals of the development strategy and planned development indices.

25. Risk management policies (continued)

The identification of risks and their assessment allows the Bank to identify risks which the Bank is or may be exposed to, to identify significant risks for the Bank and determine control measures of significant risks.

For each significant risk, the Bank has designed methods to manage them which comprise assessment methods, limit system, minimization method, stress testing procedures and frequency (at least each year), risk control procedures, financial reporting process.

The procedures to manage certain risks are as follows:

- *methods to identify significant risks* - a number of procedures aimed at identification of those risks that can cause losses with a material impact on the Bank's capital adequacy ("significant risks");
- *methods to assess and aggregate significant risks* - a number of procedures aimed at quantity assessment of capital adequacy to cover significant risks.
- *methods to plan and control significant risks* - a number of procedures aimed at taking control over the Bank's significant risks and at determining target risk levels and target risk structure.

All identified risks are classified as follows based on their significance for the Bank:

- *significant risks* - risks that upon realization can cause losses with a material impact on the Bank's capital adequacy.
- *other risks* - risks that upon realization will not cause losses with a material impact on the Bank's capital adequacy.

Risk management in accordance with the Bank's organization structure is based on three defense lines:

- The *first line* - functional units that take current action to manage risks. These actions are a part of ongoing activities of the units. Thus, they ensure ongoing process of identification and assessment of risks, implementation and performance assessment of controlling procedures.
- The *second line* - units of the Bank that ensure and coordinate the risk management process including development of methods, policies and procedures, implementation of effective instrument for identification, assessment, monitoring, control and reporting in risk management and that control and coordinate action taken by the first line.
- The *third line* - Internal Audit Service that aims at an independent assessment and verification of effectiveness of the risk management system both at the first line and at the second lines.

Risk and capital at their strategic level are managed by the Board of Directors and by the Management Board. Risk and capital at control level are managed by the Internal Audit Service (IAS).

26. Risk management policies (continued)

The functions of risk management are performed, on an ongoing basis, by the risk management unit - Risk Management Department which is reportable to Director for Risk Control Department. Director for risk management is reportable directly to Chairman of the Board.

Taking into consideration the nature and scale of the Bank's operations and in accordance with the internal methods of identification and assessment of risks, the significant risks for the Bank are as follows:

- *credit risk, including contractor's credit risk, concentration risk;*
- *market risk;*
- *operational risk, including market risk;*
- *interest risk of bank portfolio;*
- *liquidity risk including concentration risk;*
- *regulatory risk.*

Credit risk

Credit risk is the risk of losses caused by failure to complete, untimely completion or not full completion of financial obligations of a borrower to the Bank.

The Bank is exposed to credit risk through corporate crediting, individual crediting, receivables, issued letters of credit, guarantees, interbank crediting, repo transactions, transactions with derivatives, investments in securities and other transactions exposed to credit risk.

Credit risk management comprises assessment and control over credit risk exposed by a certain borrower of the Bank and by a group of related borrowers. The process of risk assessment and of decision making is strictly regulated. The Bank has set up collegial bodies which effectively function with the object to set up limits for contractors and to make decisions to grant loans or to make other investments. For assessing credit risk, the Bank classifies loans and equivalents in accordance with Regulations of the Bank of Russia of 28 June 2017 No590-P Procedures to Make Provisions on Possible Losses from Loans and Equivalents by Credit Organizations (Regulations of the Bank of Russia No 590-P).

The Board of Directors and the Management Board of the Bank are communicated about any non-compliance with the procedures of credit risk management upon identification.

Credit risk is managed in accordance with the Bank's internal documents that regulate the credit risk management procedures.

Credit risk of a contractor is a default by contractor before completion of settlements on transactions with derivatives, repo transactions and similar transactions.

Organization and functioning of credit risk management system by the Bank's contractor. The principles and procedures of credit risks management of a contractor are set forth in the Regulation on Organization of Credit Risk Management. The document specifies a range of contractor's credit risk management principles, types of transactions exposed to credit risk of the contractor, the procedures to manage the risk including procedures to identify, assess, control and reporting.

26. Risk management policies (continued)

The process of credit risk management with a contractor includes a package of procedures and methods to identify, assessment, monitoring, control and reporting on contractor's credit risk as a whole and individually. Credit risk is managed with use of the limit system for certain contractors and groups of contractors based on a transaction type, risk level and term of a transaction where decisions are made in accordance with applicable decision-making procedures, a regular monitoring of contractor quality and contractor's credit risk is performed.

Credit risk of the contractor is monitored in relation to market risk, operational (including legal) risk, liquidity (of a security or another financial asset in an transaction with contractors) risk and their interrelation by various units responsible for identification and assessment of the risks.

Credit risk management procedures of a contractor are as follows:

- ensure that transactions with contractors are not performed without a prior assessment of the contractor's financial position, valuation of the amount at risk and probability that the contractor's credit risk is realized both before settlement and during the settlement;

- credit limits and trading limits for contractors are considered in credit risk limits of a contractor;

- identify current and potential credit risk on derivatives with consideration of the netting agreement (due to security available) and without consideration of the netting agreement (due to security available);

- assess credit risk of a contractor with consideration of concentration risk by types of transactions, with regard to groups of related contractors, with account of country risk, etc.

The limit system is based on types of operations performed by business units of the Bank. Limits are set up so as to most effectively and promptly control ongoing processes in the Bank and to manage credit risk of the contractor. Limits are regularly reviewed (at least each year). Beside that, the limit system can be revised to introduce new limits for risk control of new transactions.

Methods to assess credit ability of the contractor are as follows: credit ability of the contractor is assessed through segmenting contractors by types first. Each segment is assessed in accordance with the approved methods. At this, the depth and completeness of analysis of selected instruments to assess credit ability shall correspond to the nature and scale of transactions, level and combination of accepted risks. Assessment of credit quality of a contractor is based on analysis of financial information available from open public and other sources.

All transactions with contractors exposed to credit risk of a contractor are made after assessment of the financial position (credit ability) of the contractor, risks of transactions/products and their calculation; and in case of transactions with securities, market risk, liquidity and credit ability of the issuer are also analysed.

Credit risk concentration management

The procedures to manage credit risk of the Bank include management and control over of concentration risk - exposure of the Bank to large risks where realization can cause significant losses which can create a threat to credit ability of the Group member and its ability to continue as a going concern.

26. Risk management policies (continued)

The procedures comprise:

- concentration risk identification and assessment;

- setting up limits of concentration;

- procedures to manage concentration risk must correspond to the business model and complexity of operations, cover significant forms of concentrations (e.g. industry, geographical).

The Bank controls maximal risk per one borrower or a group of related borrowers (Ratio N6), maximum large credit risks (Ratio N7), maximum risk per person related to the Bank or a group of persons related to the Bank (Ratio N25).

Maximum risk per borrower or group of related borrowers (N6) regulates (limits) the Bank's credit risk per one borrower or a group of related borrowers and states the maximum ratio of total liabilities of a borrower (borrowers within a group of related borrowers) to the Bank and to third parties due to which the Bank obtains receivables from such a borrower (a group of related borrowers) to the Bank's equity.

Maximum large credit risk (N7) regulates (limits) the total amount of the Bank's large credit risk and states the maximal ratio of the total large credit risks to the Bank's equity.

Maximum risk per person related to the Bank (group of persons related to the Bank) (N25) regulates (limits) the Bank's credit risk per one person related to the Bank (a group of related persons) and states the maximum ratio of total liabilities of the person (persons within a group of persons) to the Bank and to third parties due to which the Bank obtains receivables from such a person (a group of persons) to the Bank's equity.

Impairment

Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights. A credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The Bank considers four components in order to assess expected credit losses:

probability of default (PD), exposure at default (EAD), loss given default (LGD) and discount rate.

Probability of default (PD)	Probability of default (PD) is an estimation of default over a certain period of time. Default can occur only a certain period of time during the period under consideration if the asset has not been derecognised and it is still a part of the portfolio.
Exposure at default (EAD)	Exposure at default (EAD) is the estimation of exposure at default at any date in the future based on the expected changes in the amount after the reporting date including repayment of the contractual principal amount and interest or otherwise and repayment of loans granted and interest accrued due to delays in payments.
Loss given default (LGD)	A loss given default is the amount of losses of the debt at a time of possible default. LGD is based on the difference between contractual and expected cash flows also as a result of selling collateral. It is usually expressed as a percentage of the EAD.

26. Risk management policies (continued)

Since an expected credit loss considers the amount and maturity, the credit loss arises even if the Bank expects to collect the whole amount but later than it is provided by the contract.

12 months ECL are a portion of lifetime ECL that represent the expected credit losses that result from default events that are possible within the 12 months after the reporting date (or within a shorter period if the expected lifetime of a financial instruments is less than 12 months). Thus, 12 months ECL are not lifetime credit losses from financial instruments where the entity forecasts a default event within the next 12 months nor short payments which are forecasted within the next 12 months. Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of a financial instrument.

For purchased or originated credit-impaired financial assets the credit loss allowance represents the amount of cumulative changes of expected credit losses from initial recognition. At each reporting date for purchased or originated credit-impaired financial assets, the Bank recognises the amount of changes in expected credit losses for entire life as impairment gain or loss within profit or loss. The Bank recognises favourable changes in expected credit losses for the lifetime as impairment gain even if the lifetime expected credit losses are below the expected credit losses as included in estimated cash flows at initial recognition.

Significant increase in credit risk (SICR) is assessed individually and collectively. The Bank applies internal policies and procedures to identify indication of a significant credit risk and impairment as at each reporting date. Impairment is identified through such characteristics of an instrument as: number of past due days, significant difference between cash flows and original repayment schedule, internal and external credit ratings of customers, collective risk assessment of similar portfolios.

26. Risk management policies (continued)

For the purposes of ECL, a default of customers is defined as:

- overdue payments for a financial instrument for the period of more than 90 calendar days;
- a financial instrument is designated to quality category V;
- forced restructuring;
- realization of financial instrument of a customer with a potentially problematic or problematic status at the selling date;
- The Bank has claimed the customer for bankruptcy to the court;
- The customer has claimed for bankruptcy;
- The customer is recognised as a bankrupt or a bankruptcy procedure has been initiated;
- The customer has taken action/measures aimed at failure to complete its obligations to the Bank;
- the customer has been assigned with the status "problematic";
- assigning with an internal or external default rating;
- overdue public debt;
- liquidation of the customer;
- a default of a group of related borrowers (at identification of default signs with a customer).

The Bank distinguished approaches to assessment of expected credit losses based on exposure of financial assets to credit impairment signs as at the reporting date. The Bank groups assets into three categories by exposure to impairment signs (Stages).

- Instruments that are not credit-impaired (Stage 1).
- Instruments with a significant increase in credit risk but not credit-impaired (Stage 2).
- Instruments with a significant increase in credit risk and credit-impaired (Stage 3).

Financial assets in Stage 1 have their ECL equal to 12 months. Financial assets in Stage 2 and Stage 3 have their lifetime ECL. For assets within Stage 1 and Stage 2, interest income is based on the gross carrying amount, i.e. before credit loss allowance. For assets within Stage 3, interest income is determined with use of the effective interest rate to amortised cost (less loss allowance) rather than to the gross carrying amount.

The Bank assesses expected credit loss both individually (for each instrument) and collectively. Collective assessment is applied to financial assets with general characteristics of credit risk for which financial instruments are aggregated based on such characteristics. Collective assessment applies to instruments when the Bank does not have reasonable and supportable information that is available without undue cost or cost for each individual instrument.

The Bank assesses individually the following types of loans to corporations: loans with unique characteristics of credit risk, individually significant loans and impaired loans.

62

26. Risk management policies (continued)

The Bank assesses collectively the following types of assets: loans and credit related commitments to corporations (large, small and medium business), retail loans, receivables from credit organizations, payment systems, reverse repo transactions and other. The approach includes aggregation of a portfolio into similar segments based on information on the borrower.

Below is the general approach to calculate ECL.

ECL = PD x LGD x EAD

For financial assets that are not credit impaired (Stage 1), EAD is the carrying amount of the asset and the expected cash flows within 12 months if the difference between the amortised cost and the carrying amount is no more than 10%, otherwise the amortised cost within 12 months is used to measure ECL.

For financial assets that are credit impaired (Stage 2 and Stage 3), EAD is the carrying amount of the asset and the expected cash flows over the life of the financial asset if the difference between the amortised cost and the carrying amount is no more than 10%, otherwise the amortised cost over the life of the financial asset is used to measure ECL.

Amortised cost for the purposes of the measurement approach is the carrying amount of the asset and the expected cash flows using the EIR; at which the amortised cost and the EIR of the asset within Stage 1 the cash flows for the 12 months is used which follow the date of estimation of expected credit losses and with consideration of the expiration date of the asset as at the latest date of the analysed period.

Maximum credit risk exposure

The carrying amounts of the items of the financial position less impact on decrease in risk due to general netting agreements and security agreements best reflects the maximum credit risk exposure on these items.

For financial instruments at fair value, the carrying amounts represent current credit risk rather than maximum that may arise in the future due to changes in their value.

Maximum credit risk exposures of certain classes of financial instruments are disclosed in corresponding notes. Impact of security and other methods to mitigate the risk is presented in Note 11.

Credit quality per class of financial assets

The Bank manages credit quality of financial assets with help of credit risk level system.

For the purposes of credit risk assessment and classification of financial instruments by credit risk level, the Bank applies risk levels assigned by international rating agencies (Standard & Poor's [S&P], Fitch, Moody's) or correspondent intervals of default probability as disclosed in the table below:

Single scale credit risk level	Correspondent ratings of international rating agencies (S&P)	Correspondent interval of default probability
Excellent grade	AAA+ to BBB -	0,01% - 4%;
Good grade	BB+ to B+	4% - 21%;
Satisfactory grade	B, B-	21% - 51%;
Requires special monitoring	CCC+ to CC-	51% - 99,9%;
Default	C, D-I, D-II	100%

26. Risk management policies (continued)

Each credit risk level under the single scale is assigned with a certain degree of credit ability.

- *Excellent level* - high credit quality with an expected low credit risk.
- *Good level* - sufficient credit quality with a moderate credit risk.
- *Satisfactory level* - moderate credit quality with a satisfactory credit risk.
- *Requires special monitoring* - crediting mechanisms that require a more thorough monitoring and a recovery management.
- *Default* - crediting mechanisms at default.

Liquidity risk

Liquidity risk is risk of the Bank's failure to finance its activities i.e. to ensure an increase in assets and settle liabilities when due without losses beyond financial stability.

To manage the liquidity risk the Bank:

- distinguishes responsibilities of the Board of Directors, executive bodies and structural divisions of the Bank when managing the liquidity risk, procedures of interrelations between the units and sets up a procedures to settle disputes between them;
- sets up procedures to analyse liquidity by various timing periods (short-term, current, long-term liquidity);
- sets up liquidity limits and determines methods of control over compliance with the limits set up, communicates with the Board of Directors and Management Board of the Bank about the limits exceeded and the manners to recover them;
- performs daily procedures to manage liquidity and procedures with a longer time scale;
- analyses liquidity of assets and stability of liabilities;
- makes decisions in case of conflict of interest between liquidity and return.

The liquidity risk management methods are revised if the Bank changes its business model or in case of changes in the market environment, other external and internal events. The Bank analyses liquidity by timing periods - short-term, current, long-term. With the purpose to maintain liquidity and to determine the Bank's actions in case of an unexpected fall in liquidity, the Bank has designed a plan to ensure the continuous operation.

Liquidity risk is managed in accordance with the Bank's internal documents that regulate the liquidity risk management procedures.

26. Risk management policies (continued)

The tables below disclose the liquidity risk by contractual maturities as at 31 December 2019 and 31 December 2018:

(in thousands of Russian Roubles)	Less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Indefinite	Total
FINANCIAL ASSETS						
Cash and cash equivalents	48 343	-	-	-	-	48 343
Debt securities at fair value through other comprehensive income	-	-	-	776 200	-	776 200
Debt securities at fair value through other comprehensive income sold under repo and reverse repo agreements	-	-	-	1 055 248	-	1 055 248
Loans and prepayments to customers	25 939	438 190	783 768	4 874 258	-	6 122 155
Total financial interest bearing assets	**74 282**	**438 190**	**783 768**	**6 705 706**	**-**	**8 001 946**
Cash and cash equivalents	707 878	-	-	-	-	707 878
Mandatory cash balances with the Central Bank	-	-	-	-	59 406	59 406
Due from banks and other financial institutions	9 386	-	-	-	-	9 386
Equity securities at fair value through profit or loss	194 815	-	-	-	-	194 815
Other financial assets	5 584	-	-	-	161 115	166 699
TOTAL FINANCIAL ASSETS	**991 945**	**438 190**	**783 768**	**6 705 706**	**220 521**	**9 140 130**
FINANCIAL LIABILITIES						
Due to other banks	195 722	-	-	-	-	195 722
Customer accounts	887 772	1 979 674	1 411 790	215 331	-	4 494 567
Total interest bearing financial liabilities	**1 083 494**	**1 979 674**	**1 411 790**	**215 331**	**-**	**4 690 289**
Due to other banks	335	-	-	-	-	335
Customer accounts	993 821	-	-	-	-	993 821
Other financial liabilities	9 170	-	712	-	-	9 882
Lease liabilities	603	2 920	3 982	19 111	-	26 616
TOTAL FINANCIAL LIABILITIES	**2 087 423**	**1 982 594**	**1 416 485**	**234 442**	**-**	**5 720 943**
Liquidity gap	(1 095 478)	(1 544 404)	(632 716)	6 471 264	220 521	3 419 187
Interest sensitivity gap	(1 009 212)	(1 541 484)	(628 022)	6 490 375	-	3 311 657
Cumulative interest sensitivity gap	(1 009 212)	(2 550 696)	(3 178 718)	3 311 657	3 311 657	

26. Risk management policies (continued)

(in thousands of Russian Roubles)	Less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Past due	Indefinite	Total
FINANCIAL ASSETS							
Due from banks and other financial institutions	59 544	-	-	-	-	-	59 544
Debt securities at fair value through other comprehensive income	2 783 188	-	-	-	-	-	2 783 188
Loans and prepayments to customers	74 955	869 062	753 978	4 744 106	59 944	-	6 502 045
Total financial interest bearing assets	**2 917 687**	**869 062**	**753 978**	**4 744 106**	**59 944**	**-**	**9 344 777**
Cash and cash equivalents	872 303	-	-	-	-	-	872 303
Mandatory cash balances with the Central Bank	-	-	-	-	-	71 172	71 172
Other financial assets	-	-	-	-	-	156 581	156 581
TOTAL FINANCIAL ASSETS	**3 789 990**	**869 062**	**753 978**	**4 744 106**	**59 944**	**227 753**	**10 444 833**
FINANCIAL LIABILITIES							
Due to other banks	1 390 673	-	-	-	-	-	1 390 673
Customer accounts	1 418 262	1 812 885	2 144 281	127 391	-	895	5 503 714
Debt securities issued	8 926	4 505	1 203	-	-	-	14 634
Total interest bearing financial liabilities	**2 817 861**	**1 817 390**	**2 145 484**	**127 391**	**-**	**895**	**6 909 021**
Customer accounts	1 234 247	-	-	-	-	-	1 234 247
Other financial liabilities	10 324	51	595	4 269	-	-	15 239
TOTAL FINANCIAL LIABILITIES	**4 062 432**	**1 817 441**	**2 146 079**	**131 660**	**-**	**895**	**8 158 507**
Liquidity gap	(272 442)	(948 379)	(1 392 101)	4 612 446	59 944	226 858	2 286 326
Interest sensitivity gap	99 826	(948 328)	(1 391 506)	4 616 715	59 944	(895)	2 435 756
Cumulative interest sensitivity gap	99 826	(848 502)	(2 240 008)	2 376 707	2 436 651	2 435 756	

26. Risk management policies (continued)

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

In accordance with the liquidity measurement at 31 December 2019, debt securities at fair value through other comprehensive income are designated within category "more than 1 year" by their maturity. However, the Bank can at any time make a decision to sell the assets. The portfolio comprises high-liquid securities which are also used to cover the liquidity gaps by repo transactions at an open market. The maturities given in the table with regard to deposits of individuals are contractual maturities. However, an individual can early terminate a deposit agreement in accordance with the law.

The amounts disclosed below do not correspond to the amounts presented in the statement of financial position as they include maturity analysis of financial liabilities (with additional agreements to amend conditions of the previous agreements) that shows the remaining total payments by contractors (with interest) but not recognised in the statement of financial position with use of the effective interest rate. When the amount payable is not fixed, the amount in the table is based on the conditions valid at the reporting date. Foreign currency amounts are recalculated at the exchange rate at the balance sheet date.

The table below discloses the Bank's financial liabilities by maturity as at 31 December 2019:

(in thousands of Russian Roubles)	Less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Total
Non-discounted financial liabilities					
Due to other banks	196 358	-	-	-	196 358
Customer accounts	1 883 794	2 050 159	1 431 867	215 990	5 581 810
Total potential future payments related to financial liabilities	**2 080 152**	**2 050 159**	**1 431 867**	**215 990**	**5 778 168**

The table below discloses the Bank's financial liabilities by maturity as at 31 December 2018:

(in thousands of Russian Roubles)	Less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Total
Non-discounted financial liabilities					
Due to other banks	1 390 673	-	-	-	1 390 673
Customer accounts	2 655 150	1 828 743	2 221 173	139 934	6 845 000
Debt securities issued	8 926	4 604	1 284	-	14 814
Total potential future payments related to financial liabilities	**4 054 749**	**1 833 347**	**2 222 457**	**139 934**	**8 250 487**

26. Risk management policies (continued)

Market risk

The Bank is exposed to market risks associated with its (a) currency, (b) interest rate, and (c) equity instruments which are subject to general and specific market fluctuations.

For market risk management the Bank analyses sensitivity of financial performance to fluctuations in interest rates, exchange rates, market prices of securities and other financial instruments.

Risk Management Department 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 losses outside of these limits in the event of more significant market movements.

Market risk is managed in accordance with the Bank's internal documents that regulate the market risk management procedures.

Interest rate sensitivity

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Such fluctuations may increase the interest margin; however, unexpected changes of interest rates may cause a decrease in the interest margin or lead to losses.

Losses arisen from interest risk exposure are measured as:

- probable decrease in the difference between interest received and interest paid;
- probable decrease in the fair value of the Bank's assets measured with use of future cash flows formed as the difference between interest paid and received.

Market risk is managed for all assets and liabilities of the Bank and for off-balance sheet items which are related to market risk exposure. The Bank uses GAP analysis to assess the potential interest risk. Credit contracts provide for a periodic revision of interest rate in accordance with the market interest rate fluctuations in order to minimise interest risk. The Management monitors on a regular basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The financial assets of the Bank are exposed to the following sources of interest risk:

- mismatching of settlement of assets and liabilities, off-balance sheet liabilities with a fixed interest rate;
- mismatching of settlement of assets and liabilities, off-balance sheet liabilities with a variable interest rate;
- mismatching of changes in interest rate at allocation and borrowing of funds by the Bank (for financial instruments with a fixed interest rate - if maturities match);
- mismatching of changes in interest rate (for financial instruments with a variable interest rate if revision periods of variable interest rates match).

26. Risk management policies (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank takes on exposure to effects of fluctuations of exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currency (USD and EUR) by economic sectors and as a whole. These limits are adherent to the regulative requirements of the Bank of Russia.

The Bank's exposure to currency risk as at 31 December 2019 is provided below:

(in thousands of Russian Roubles)	RUB	USD	EUR	Other	Total
FINANCIAL ASSETS					
Cash and cash equivalents	658 236	38 780	55 034	4 171	756 221
Mandatory cash balances with the Central Bank	59 406	-	-	-	59 406
Due from banks and other financial institutions	9 317	69	-	-	9 386
Investments in debt securities	1 761 555	69 893	-	-	1 831 448
Investments in equity securities	194 815	-	-	-	194 815
Loans and prepayments to customers	5 047 015	979 643	95 497	-	6 122 155
Other financial assets	166 027	-	672	-	166 699
Total financial assets	**7 896 371**	**1 088 385**	**151 203**	**4 171**	**9 140 130**
FINANCIAL LIABILITIES					
Due to other banks	196 057	-	-	-	196 057
Customer accounts	3 910 015	1 059 953	515 490	2 930	5 488 388
Other financial liabilities	34 223	2 275	-	-	36 498
Total financial liabilities	**4 140 295**	**1 062 228**	**515 490**	**2 930**	**5 720 943**
OPEN BALANCE POSITION	**3 756 076**	**26 157**	**(364 287)**	**1 241**	**3 419 187**

The Bank's exposure to currency risk as at 31 December 2018 is provided below:

(in thousands of Russian Roubles)	RUB	USD	EUR	Other	Total
FINANCIAL ASSETS					
Cash and cash equivalents	773 606	45 517	40 903	12 277	872 303
Mandatory cash balances with the Central Bank	71 172	-	-	-	71 172
Due from banks and other financial institutions	43 628	15 916	-	-	59 544
Investments in debt securities	1 664 425	1 118 763	-	-	2 783 188
Loans and prepayments to customers	5 025 671	1 371 340	105 034	-	6 502 045
Other financial assets	156 581	-	-	-	156 581
Total financial assets	**7 735 083**	**2 551 536**	**145 937**	**12 277**	**10 444 833**
FINANCIAL LIABILITIES					
Due to other banks	1 390 673	-	-	-	1 390 673
Customer accounts	3 392 274	2 750 059	588 376	7 252	6 737 961
Debt securities issued	14 634	-	-	-	14 634
Other financial liabilities	15 239	-	-	-	15 239
Total financial liabilities	**4 812 820**	**2 750 059**	**588 376**	**7 252**	**8 158 507**
OPEN BALANCE POSITION	**2 922 263**	**(198 523)**	**(442 439)**	**5 025**	**2 286 326**

26. Risk management policies (continued)

Operational risk

Operational risk is a possibility of losses due to weaknesses in the Group's internal management procedures, default of information and other systems as a result of the effect of external events on the Group's operation.

Operational risk management is aimed at minimizing possible risks of the Bank from realization of operational risks with consideration of the economical reasonability principle i.e. the cost of events to minimize the operational risk should not exceed possible losses from its realization.

The Bank pays special attention to involvement of each employee in the process of operational risk management. The basis of the notion "culture of operational risk management" is a clear and complete understanding by each employee of the essence of operational risk, importance and necessity to perform procedures aimed at identification and assessment of operational risk, its monitoring, control and mitigation as well as reporting.

The Bank's procedures to manage the operational risk within the three defense lines are as follows:

- authorities of heads of structural units in the area of operational risk management and their responsibilities for identification of operational risk inherent to operations of the units;
- existence of a unit (an employee) responsible for design of procedures to manage the operational risk including assessment procedures, reporting and performing the procedures;
- performance of control over the procedures to manage the operational risk and measuring their effectiveness by the internal audit service.

The operational risk management procedures comprise methods to identify and assess the accepted operational risk in various lines of operation including methods of assessment and analysis of probability that the operational risk realizes.

The Board of Directors approves the risk appetite for operational risk. The volume of the risk appetite reflects maximal acceptable loss on operational risks both realized and potential which the Bank is ready to accept.

Operational risk. Mitigation measures. When making decision on whether it is reasonable to take measures to mitigate the operational risk, the economic effect from mitigating the operational risk is considered - the cost of measures to mitigate the risk should not exceed the possible loss on realization of the operational risk.

The Bank has designed a set of measures to mitigate the operational risk such as:

- designing of procedures to perform transactions, procedures to distinguish responsibilities and reporting on transactions which allow to prevent from origination of the operational risk;
- control over compliance to the set up procedures;
- development of automated systems of banking technologies and information security.

Operational risk is mitigated with help of better regulation of activities, optimization of processes, redistribution of functions, responsibilities and workload, automation and security measures for information, staff training and an effective organization of the internal control system.

26. Risk management policies (continued)

Interest risk of bank portfolio

Interest risk of bank portfolio is the risk of deteriorating of the Bank's financial position arisen from decrease in capital, income level, value of assets as a result of market interest rate fluctuations.

Management of interest rate in the Bank comprises:

- Setting rates of placement, maximal rates of raising by maturity and currency aimed at supporting the interest margin.
- Transfer funding for raising / placement of funds between business units and the Treasury.
- A complex of measures to mitigate the risk including an agreement of terms of assets and liabilities, diversification of liabilities by types of instruments, maturities (revision of rates) and reference interest rates, etc.

The Bank's methods to assess the interest risk of bank portfolio cover all significant sources of interest risk inherent to the Bank's transactions which are sensitive to changes in interest rates.

Assumptions taken in the methods of assessment of interest rates are set forth in the internal documents that regulate assessment of interest risk of the balance structure. The Bank analyses sensitivity of interest rate assessment against the assumptions made.

The key assessment methods are: sensitivity analysis of net interest income to changes in interest rates and measurement of changes in capital.

The average weighted effective interest rates based on closing balances for the years ended 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019			31 December 2018		
% p.a.	RUB	USD	EUR	RUB	USD	EUR
Assets						
Due from banks and other financial institutions	-	-	-	0,25	-	-
Debt securities at fair value through other comprehensive income	9,03	4,95	-	8,50	6,13	-
Loans and prepayments to customers	10,91	9,04	8,23	11,07	9,12	8,82
Liabilities						
Due to other banks	6,23	-	-	8,57	-	-
Customer accounts						
Term deposits of individuals	7,58	2,41	0,69	6,03	1,30	0,57
- term deposits of corporations	7,50	-	4,50	5,82	5,00	2,88
Debt securities issued	-	-	-	7,6	-	-

The Bank limits the accepted level of interest rate of bank portfolio through setting various limits including limits on the absolute value in cash and on the Bank's capital to cover interest risk of bank portfolio.

The acceptable risk of the interest risk of bank portfolio is a part of the total risk appetite of the Bank.

71

26. Risk management policies (continued)

The table below discloses changes in the financial performance and equity (less tax effect) as a result of possible changes in exchange rates at the reporting date if the other variables remain unchanged:

	31 December 2019		31 December 2018	
(in thousands of Russian Roubles)	Effect on profit or loss	Effect on equity	Effect on profit or loss	Effect on equity
5% appreciation of USD (2018: 5% appreciation)	1 308	1 308	9 926	9 926
5% depreciation of USD (2018: 5% depreciation)	(1 308)	(1 308)	(9 926)	(9 926)
5% appreciation of EUR (2018: 5% appreciation)	18 214	18 214	22 122	22 122
5% depreciation of EUR (2018: 5% depreciation)	(18 214)	(18 214)	(22 122)	(22 122)

The Bank provides loans to clients denominated in foreign currencies. Depending on cash flows received by borrower, increase in foreign currency rates to the currency of the Russian Federation may adversely affect the borrowers' repayment ability.

Other price risks

The Bank is exposed to repayment risk at the expense of loans with a fixed interest rate including mortgages that allow the borrower to repay the debt early. The Bank's financial performance and equity for the current year and as at the current balance sheet date would not have significantly depend on changes in the rates at early repayment as such loans are carried at amortized cost and the repayment amount corresponds or almost corresponds to the amortized cost of loans and accounts receivable.

Geographic concentration

The following table provides geographic concentration of the assets and liabilities as at 31 December 2019:

(in thousands of Russian Roubles)	Russian Federation	OECD	Non OECD	Total
ASSETS				
Cash and cash equivalents	747 084	9 137	-	756 221
Mandatory cash balances with the Central Bank	59 406	-	-	59 406
Due from banks and other financial institutions	9 386	-	-	9 386
Investments in debt securities	1 761 555	69 893	-	1 831 448
Investments in equity securities	194 815	-	-	194 815
Loans and prepayments to customers	6 122 155	-	-	6 122 155
Other financial assets	166 699	-	-	166 699
Total financial assets	**9 061 100**	**79 030**	**-**	**9 140 130**
LIABILITIES				
Due to other banks	196 057	-	-	196 057
Customer accounts	5 438 380	1 619	48 389	5 488 388
Other financial liabilities	36 498	-	-	36 498
Total financial liabilities	**5 670 935**	**1 619**	**48 389**	**5 720 943**
Net position for financial instruments	**3 390 165**	**77 411**	**(48 389)**	**3 419 187**

26. Risk management policies (continued)

The following table provides geographic concentration of the assets and liabilities as at 31 December 2018:

(in thousands of Russian Roubles)	Russian Federation	OECD	Non OECD	Total
ASSETS				
Cash and cash equivalents	870 180	2 123	-	872 303
Mandatory cash balances with the Central Bank	71 172	-	-	71 172
Due from banks and other financial institutions	59 544	-	-	59 544
Investments in debt securities	1 664 425	1 118 763	-	2 783 188
Loans and prepayments to customers	6 502 045	-	-	6 502 045
Other financial assets	156 581	-	-	156 581
Total financial assets	**9 323 947**	**1 120 886**	**-**	**10 444 833**
LIABILITIES				
Due to other banks	1 390 673	-	-	1 390 673
Customer accounts	6 223 749	51 698	462 514	6 737 961
Debt securities issued	14 634	-	-	14 634
Other financial liabilities	15 239	-	-	15 239
Total financial liabilities	**7 644 295**	**51 698**	**462 514**	**8 158 507**
Net position for financial instruments	**1 679 652**	**1 069 188**	**(462 514)**	**2 286 326**

27. Capital management

The Bank's objectives in capital management are as follows: adherence to capital requirements set by the Bank of Russia; ensuring the Bank's ability to operate continuously and maintaining capital base at a level necessary to ensure capital adequacy level in accordance with the Basel agreement.

The Bank performs the procedures to realize and achieve the goal in capital management as follows:

- forecasting of major indices;
- planning demand in capital;
- monitoring capital adequacy.

As at 31 December 2019, the normative capital calculated in accordance with the methods of determining and assessment of capital adequacy (Basel III) set up by the Bank of Russian amounted to RUB 1,725,962 thousand (31 December 2018: RUB 1,572,711 thousand).

The Bank monitors the capital ratio set by the Bank of Russia on a daily basis.
Monthly reports with regard to calculation of the capital adequacy level set by the Bank of Russia are reviewed and signed by the Chairman of the Board and the Chief Accountant of the Bank. Other aims of capital management are assessed on an annual basis.
Under the current capital requirements set by the Bank of Russia banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") at the level of 8%.

27. Capital management (continued)

The Bank monitors the capital ratio set by the Bank of Russia on a daily basis.
Monthly reports with regard to calculation of the capital adequacy level set by the Bank of Russia are reviewed and signed by the manager and chief accountant of the Bank. Other aims of capital management are assessed on an annual basis.
Under the current capital requirements set by the Bank of Russia banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") at the level of 8%.

Item	31.12.2019	31.12.2018
Base capital adequacy ratio (N1.1)	13.258	9.187
Core capital adequacy ratio (N1.2)	18.761	13.206
Equity (capital) adequacy ratio (N1.3)	19.843	13.206

Under the current capital requirements set by the Bank of Russia the Bank maintains a ratio of capital to risk weighted assets above the prescribed minimum level.

28. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank adopts the following fair value hierarchy to measure and disclose fair value of financial instruments based on valuation techniques:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: are inputs that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs are unobservable inputs for the asset or liability (i.e. a considerable amount of unobservable inputs is required for measurement).

The management applies professional judgements to designate financial instruments by categories of the fair value hierarchy. If observable inputs where significant adjustments are required for measurement of fair value, this is Level 3. Significance of inputs is determined for the total measurement of fair value.

(a) Assets and liabilities measured at fair value on a regular basis

Regular measurements of fair value are measurements required or acceptable by other IFRSs in the statement of financial position as at the end of each reporting period.

28. Fair value of financial instruments (continued)

The table below discloses levels within the fair value hierarchy of the regular fair value measurements:

	31 December 2019		31 December 2018	
(in thousands of Russian Roubles)	Level 1	Level 2	Level 1	Level 2
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Receivables under repo agreements related to securities at fair value through other comprehensive income				
- Russian Government bonds	1 055 248	-	1 043 608	-
- Corporate bonds	-	-	1 109 717	-
Debt securities at fair value through other comprehensive income				
- Russian Government bonds	606 827	-	569 619	-
- Corporate bonds	169 373	-	60 244	-
Equity securities at fair value through other comprehensive income				
- Corporate shares	194 815	-	-	-
Other financial assets				
- Derivative financial instruments	-	672	-	-
TOTAL ASSETS MEASURED AT FAIR VALUE ON A REGULAR BASIS	**2 026 263**	**672**	**2 783 188**	**-**
LIABILITIES AT FAIR VALUE				
FINANCIAL LIABILITIES				
Other financial liabilities				
- Derivative financial instruments	**-**	**2 275**	**-**	**1 041**
TOTAL LIABILITIES MEASURED AT FAIR VALUE ON A REGULAR BASIS	**-**	**2 275**	**-**	**1 041**

To measure fair value of currency swaps not active at a market, the Bank applies valuation techniques. Since transactions are performed under market conditions, the fair value of the instruments is, as a rule, equal to the transaction price.

(b) Assets and liabilities not measured at fair value

Loans and receivables measured at amortised cost. The fair value of instruments with a variable interest rate is, as a rule, equal to their present value. If the market environment significantly changes, the interest rates on loans to customers and due to other banks with fixed interest rates may be reviewed. Interest rates of loans issued close before the reporting date do not significantly differ from the current interest rates for new instruments with a similar credit risk and similar maturity. In case the Bank considers the rates on previously given loans are significantly different from those which are applicable for similar instruments, the estimated fair value of such loans is measured. The measurement is based on the method of discounted cash flows with current interest rates for new instruments with a similar credit risk and similar maturity. The discount rates to be applied are based on the currency, maturity and credit risk of the contractor.

28. Fair value of financial instruments (continued)

The table below compares the carrying amount and fair value by class of financial instruments of the Bank that are not measured at fair value in the statement of financial position.

	31 December 2019		31 December 2018	
(in thousands of Russian Roubles)	Fair Value	Carrying amount	Fair Value	Carrying amount
FINANCIAL ASSETS				
Cash and cash equivalents	756 221	756 221	872 303	872 303
Mandatory cash balances with the Central Bank	59 406	59 406	71 172	71 172
Due from banks and other financial institutions	9 386	9 386	59 544	59 544
Loans and prepayments to customers	6 260 277	6 122 155	6 502 045	6 502 045
Other financial assets	166 027	166 027	156 581	156 581
FINANCIAL LIABILITIES				
Due to other banks	196 057	196 057	1 390 673	1 390 673
Customer accounts	5 499 598	5 488 388	6 737 961	6 737 961
Debt securities issued	-	-	14 634	14 634
Other financial liabilities	34 223	34 223	14 198	14 198

The fair value was measured with use of the discounted cash flows method. The fair value of instruments with a fixed interest rate without quotations at an active market was measured with use of the estimated future discounted cash flows method with current interest rates for new instruments with a similar credit risk and maturity.

For financial instruments to mature within more than one year, the Bank discounts monthly payments at the average weighted rate for types of product and currency whish is based on contractual rates for relevant financial instruments issued/received by the Bank during the last two weeks before the reporting date. The Bank uses the assumption that the fair value of financial instruments due within less than one year is equal to the carrying amount as the effect of revaluation at the fair value based on the current market rates is insignificant.

29. Related party transactions

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

In the normal course of operation the Bank performs transactions with its major shareholders, managers and other related parties. These transactions include payments, loans granting, raising placements and deposits, and transactions with foreign currency. The Bank's policy prescribes to perform related party transactions under similar conditions to those with third parties.

29. Related party transactions (continued)

The outstanding balances with related parties were as follows as at 31 December 2019 and 31 December 2018:

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Loans and prepayments to customers	**3 131 738**	**731 095**
including:		
- shareholders	457 643	190 155
- key management personnel	1 342	30
- other related parties	2 672 753	540 910
Securities at fair value through other comprehensive income	**99 480**	**-**
including:		
- other related parties	99 480	-
Customers' accounts	**50 186**	**211 033**
including:		
- shareholders	25 694	54 133
- key management personnel	14 752	1 953
- other related parties	9 740	154 947

The income and expense items with related parties for the years ended 31 December 2019 and 31 December 2018 were as follows:

(in thousands of Russian Roubles)	31 December 2019	31 December 2018
Interest income	**289 109**	**63 228**
including:		
- shareholders	12 190	14 914
- key management personnel	137	13
- other related parties	276 782	48 301
Interest expense	**71**	**20 968**
including:		
- shareholders	-	12 354
- key management personnel	71	1 495
- other related parties	-	7 119
Fee and commission income	**13 246**	**8 961**
including:		
- shareholders	5 772	2 463
- key management personnel	2 276	38
- other related parties	5 198	6 460

The key management remuneration amounted to RUB 27,245 thousand in 2019 (2018: RUB 20,159 thousand).

As at 1 January 2020, the Bank has no past due or recognised bad debts on related party transactions and as at 1 January 2020, the Bank has no contractual obligations under future related party transactions.

30. Events after the reporting date

The Bank operates under conditions which are characterised by a significant volatility of the Rouble, oil price drop, coronavirus pandemic. The external factors which are beyond the Bank's control can have a significant effect on the Bank's operations in the future. The effect cannot be currently measured reliably.

Approved and signed on 28 April 2020

I.L. Kasyanov
Chairman of the Board

КБ
"Гарант-Инвест"
(АО)

N.P. Bagdashkina
Chief Accountant