Financial Statements and Independent Auditor's Report

JSC Denizbank Moscow

31 December 2019

Contents

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Denizbank Moscow, Joint-Stock Company

Details of auditor

Name: Baker Tilly Rus JSC

Address: Russia, 123007, Moscow, Khoroshevskoye Shosse 32A, premise VII, office 57

State Registration number: 1027700115409

Baker Tilly Rus JSC is a member of Self-Regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS).

Baker Tilly Rus JSC is included in the control copy of the register of auditors and audit organizations, main registration number 12006010438.

Details of the audited entity

Denizbank Moscow, Joint-Stock Company

13, bld.42, 2-nd Zvenigorodskaya st, 123022, Moscow, Russian Federation

Included in the United State Register of Legal Entities on 24 October 2002 by Moscow Division of the Ministry of taxes and duties of the Russian Federation. Registration No. 1027739453390. Certificate series 77 No. 005391806.

Registered by the Central Bank of the Russian Federation on 15 June 1998.

Registration No.3330

JSC Baker Tilly Rus is a member of the group of the companies trading in Russia as Baker Tilly. Members of the global network of Baker Tilly International Ltd. are separate and independent legal entities.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Denizbank Moscow, Joint-Stock Company

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Denizbank Moscow, Joint-Stock Company, which comprise of the statement of financial position as at 31 December 2019 and the statement of profit and loss and comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Denizbank Moscow, Joint-Stock Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). 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 Denizbank Moscow, Joint-Stock Company (the Bank) with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Credit loss allowance on loans to customers

Given the significance of loans to customers, the complexity and judgments related to the estimation of expected credit losses under IFRS 9 Financial instruments, we considered this area as a key audit matter.

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Assessment of whether a significant increase in credit risk has occurred since initial recognition and calculation of expected credit losses require judgment. The calculation of expected credit losses involves estimation techniques that use significant unobservable inputs and factors, statistical modeling and expert judgment. These techniques are used to determine the probability of default, exposure at default, loss given default based on historic data and external information adjusted for forecast.

We assessed the key methodology for calculation of the allowance for consistency with the requirements of IFRS 9, credit risk factors selected by the management to determine whether significant increase in credit risk has occurred. We assessed and analyzed on a sample basis the basis and operation of models and calculations used for collective or individual assessment of expected credit losses, as well as key inputs and assumptions used and forward-looking information. For significant credit exposures, we evaluated credit risk factors and staging; for a sample of significant credit-impaired loans, we analyzed assumptions on estimated future cash flows, including value of collateral and the probabilities of expected outcomes.

We also assessed the disclosures in the financial statements about the Bank's allowance for expected credit losses on loans to customers.

Information on the allowances for expected credit losses on loans to customers is presented in Notes 13 "Loans to Customers" and 25 "Risk Management" to the financial statement.

Responsibilities of Management and Those Charged with Governance for the Financial Statement

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 about 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 judgment and maintain professional scepticism throughout the audit. We also:

a) 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 internal control.

b) 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 Bank's internal control.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

d) 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, future events or conditions may cause the Bank to cease to continue as a going concern.

e) 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, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on examination in accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity"

Management of the Bank is responsible for compliance of the Bank with the statutory ratios set by the Bank of Russia and for compliance of internal controls and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

In accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity", we have examined the following during the audit of the financial statements of the Bank for the year ended 31 December 2019:

- compliance of the Bank as at 31 December 2019 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

Our examination was limited to procedures selected based on our judgment such as inquires, analysis and examination of documents, comparison of requirements, procedures and methodologies adopted by the Bank with the Bank of Russia's requirements, as well as recalculation, comparison and reconciliation of figures and other information.

We have identified the following based on our examination:

1) as related to compliance of the Bank with the statutory ratios by the Bank of Russia:

as at 31 December 2019, the Bank statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

We draw your attention to the fact that we have not performed any procedures related to the underlying accounting data of the Bank other than the procedures we considered necessary to express our opinion on whether or not the financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as at 31 December 2019 A and its financial performance and its cash flows for the year ended in accordance with IFRS.

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2) as related to compliance of internal control and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems:

a) in accordance with the Bank of Russia's requirements and recommendation, as at 31 December 2019, subdivisions of the Bank for managing significant risk of the Bank were not subordinated or accountable to subdivisions assuming corresponding risks;

b) internal documentations of the Bank effective as at 31 December 2019 which presented the methodologies to identify and manage significant credit, operational, market and liquidity risk of the Bank, and the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;

c) as at 31 December 2019, the Bank had in place a reporting system for significant credit, operational, market and liquidity risks, and for equity (capital) of the Bank;

d) frequency and consistency of reports prepared by risk management subdivisions of the Bank and its internal audit function during 2019 as related to management of credit, operational, market and liquidity risks of the Bank complied with internal documents of the Bank; those reports included observations made by risk management subdivisions of the Bank and its internal audit functions as related to the assessment of the effectiveness of the respective methodologies of the Bank as well as recommendations on their improvement;

e) as at 31 December 2019, the authority of the Board of Directors and its executive bodies included control over compliance of the Bank with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2019, the Board of Directors of the Bank and its executive bodies regularly discussed the reports prepared by the risk management subdivisions of the Bank and its internal function and considered proposed measures to eliminate weaknesses.

We have performed the above procedures related to internal control and organization of risk management systems of the Bank solely to examine compliance of internal control and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

The engagement partner on the audit resulting in this independent auditor's report is Mary Karapetyan.

25 May 2020

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JSC Denizbank Moscow

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2019 USD'000	2018 USD'000
Interest income	5	18,935	19,199
Interest expense	5	(3,832)	(2,644)
Net interest income		**15,103**	**16,555**
Net loss after impairment provisions for debt financial assets	13	(3,960)	(359)
Net interest income after impairment provisions for debt financial assets		**11,143**	**16,196**
Fee and commission income	6	3,464	3,147
Fee and commission expense	6	(877)	(600)
Net gains / (losses) on financial assets at fair value through profit or loss	7	3,919	191
Net gains / (losses) on financial assets at fair value through other comprehensive income		(24)	325
Net gains / (losses) from foreign exchange translation		(2,294)	(780)
Net gains on foreign exchange transactions		1,789	1,540
Other operating income		15	29
Other operating expenses		(2)	(5)
Operating income		**17,133**	**20,043**
General administrative expenses	8	(4,731)	(4,597)
Profit before tax		**12,402**	**15,446**
Income tax expense	9	(2,386)	(3,076)
Net profit for the year		**10,016**	**12,370**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Net gains on financial assets at fair value through other comprehensive income disposed of during the year		24	(325)
Unrealised profit on financial assets at fair value through other comprehensive income		410	(560)
Deferred tax relating to components of other comprehensive income		(82)	177
Effect of translation		10,135	(15,218)
Other comprehensive income / (loss) for the period, net of tax		**10,487**	**(15,926)**
Total comprehensive income for the year		**20,503**	**(3,556)**

The financial statements were approved by the Board of Management of the Bank on 25 May 2020.

Vice-president

Makar GAVRILOV

Chief Accountant

Natalia ELMANOVA

The accompanying notes on pages 5 to 66 form an integral part of these financial statements.

Statement of Financial Position

	Notes	31 December 2019 USD'000	31 December 2018 USD'000
ASSETS			
Cash		873	1,801
Amounts due from the Central Bank of Russia	10	19,467	35,668
Amounts due from banks	11	13,855	20,625
Derivative financial instruments	12	37	32
Loans to customers	13	205,005	185,285
Financial assets at fair value through other comprehensive income			
- unpledged	14	44,471	18,663
- pledged under repurchase agreements	14	11,852	-
Fixed assets and right-of-use assets	15	317	112
Intangible assets	16	718	630
Current tax assets		1,074	70
Other assets	17	333	328
Total Assets		**298,002**	**263,214**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Derivative financial instruments	12	23	101
Amounts payable under repurchase agreements	18	9,694	-
Amounts due to banks	19	121,460	111,392
Amounts due to customers	20	52,591	59,407
Subordinated loans	21	9,020	9,133
Current tax liabilities		383	-
Deferred tax liabilities	23	4,137	3,415
Other liabilities	22	948	523
Total Liabilities		**198,256**	**183,971**
Shareholders' Equity			
Share capital	24	49,269	49,269
Share premium		683	683
Revaluation reserve for financial assets at fair value through other comprehensive income		425	73
Translation reserve		(48,626)	(58,761)
Retained earnings		97,995	87,979
Total Shareholder's Equity		**99,746**	**79,243**
Total Liabilities and Shareholders' Equity		**298,002**	**263,214**

Vice-president

Makar GAVRILOV

Chief Accountant

Natalia ELMANOVA

Statement of Cash Flows

	Notes	2019 USD'000	2018 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		10,016	12,370
Adjustments for non-cash items			
Depreciation		430	163
Interest expense		(11)	244
Interest income		(693)	214
Fee and commission income		29	-
Fee and commission expense		23	-
Allowance for credit losses		3,960	359
Income tax expense		2,439	3,076
Foreign currency transaction		(3,053)	(17,024)
Other income / (expense)		75	(29)
Cash flow from operating activities before increase/ (decrease) in operating assets and liabilities		**13,215**	**(627)**
(Increase) / decrease in operating assets			
Amounts due from banks		755	(535)
Derivative financial instruments		-	13
Loans to customers		(1,230)	(50,972)
Other assets		36	(170)
Increase / (decrease) in operating liabilities			
Derivative financial instruments		-	(9)
Amounts payable under repo agreements		9,692	-
Amounts due to banks		(3,457)	(18,922)
Amounts due to customers		(14,132)	23,334
Debt securities issued		-	(270)
Other liabilities		(6)	(45)
Net cash received from / (used in) operating activities before income taxes paid		**4,873**	**(48,203)**
Income taxes paid		(2,415)	(2,251)
Net cash received from / (used in) operating activities		**2,458**	**(50,454)**
CASH FLOWS FROM INVESTING ACTIVITIES			
(Acquisition) / repayment of financial assets at fair value through other comprehensive income		(34,149)	15,088
Acquisition of fixed assets		(66)	(48)
Acquisition of other non-current assets		(67)	(52)
Net cash from investing activities		**(34,282)**	**14,988**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash outflow from lease		**(314)**	**-**
Net cash from financing activities		**(314)**	**-**
Effect of translation to presentation currency		10,654	18,370
Effect of changes in exchange rates in cash and cash equivalents		(1,945)	(16,505)
Net increase / (decrease) in cash and cash equivalents		**(23,429)**	**(33,601)**
Cash and cash equivalents as at the beginning of the year	30	**55,539**	**89,140**
Cash and cash equivalents as at the end of the year	30	**32,110**	**55,539**

Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Revaluation reserve for financial assets at fair value through other comprehensive income	Translation reserve	Retained earnings	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance as at 1 January 2018	**49,269**	**683**	**781**	**(43,543)**	**75,609**	**82,799**
Profit for the year	-	**-**	-	-	12,370	**12,370**
Other comprehensive income	-	-	(708)	(15,218)	-	**(15,926)**
Total comprehensive income for the year	**-**	**-**	**(708)**	**(15,218)**	**-**	**(15,926)**
Balance as at 31 December 2018	**49,269**	**683**	**73**	**(58,761)**	**87,979**	**79,243**
Balance as at 1 January 2019	**49,269**	**683**	**73**	**(58,761)**	**87,979**	**79,243**
Profit for the year	-	**-**	-	-	10,016	**10,016**
Other comprehensive income	-	-	352	10,135	-	**10,487**
Total comprehensive income for the year	**-**	**-**	**352**	**10,135**	**10,016**	**20,503**
Balance as at 31 December 2019	**49,269**	**683**	**425**	**(48,626)**	**97,995**	**99,746**

The accompanying notes on pages 5 to 66 form an integral part of these financial statements.

1. Introduction

1.1 Principal activities

JSC Denizbank Moscow (the “Bank”) was re-established on 19 May 2003 as CJSC Denizbank Moscow through the acquirement of CJSC Iktisat Bank (Moscow) and was re-registered on 19 September 2003. The Bank’s predecessor, CJSC Iktisat Bank (Moscow), was initially established by Iktisat Bankasi T.A.Sh. as a joint stock company under the legislation of the Russian Federation and was granted its general banking license in 1998. By the decision of the General Meeting of Shareholders dated November 15, 2007, the Bank was renamed into CJSC Dexia Bank. By the decision of the General Meeting of Shareholders dated February 21, 2012, the Bank was renamed to CJSC Denizbank Moscow. In connection with the adoption of the Federal Law of 05.05.2014 No. 99-FZ, which amended Chapter 4 of Part 1 of the Civil Code of the Russian Federation, the name of the Bank was changed to JSC Denizbank Moscow.

The Bank is a part of DenizBank Financial Services Group, which before October 2006 was part of Zorlu Group - a significant financial and industrial group in Turkey, specialising in textile, electronics, energy production and financial services. In October 2006, Dexia Participation Belgique SA, 100% of which was directly and indirectly owned by Dexia SA/NV, became the main shareholder of the DenizBank Financial Services Group, after acquisition of the 75% of the total outstanding shares from Zorlu Holding A.Ş. In December 2006 Dexia acquired the remaining shares listed on Istanbul stock exchange, and the shareholding of Dexia Group came to 99,85%. In September 2012, Sberbank of Russia, more than 50% of which are owned by the Central Bank of the Russian Federation, became the main shareholder of the DenizBank Financial Services Group, after acquisition all 99,85% shares from Dexia Group.

On 31 July 2019, Emirates NBD Bank PJSC (Emirates NBD) and Sberbank of Russia (Sberbank) announced that on 30 June 2019 the regulatory authorities in Turkey, Austria, Russia and the United Arab Emirates approved acquisition of 99,85% shares of Denizbank A.S. (Turkey) by Emirates NBD from Sberbank of Russia. On 13 December 2019 the acquisition of the remained shares by Emirates NBD was announced which made Emirates NBD the 100% owner of Denizbank A.S. (Turkey). Therefore, as at 31 December 2019 the DenizBank Financial Services Group is owned by Emirates NBD.

As at 31 December 2019 and 31 December 2018 the Bank’s parent companies were DenizBank A.S. (Turkey), the owner of 49% shares of the Bank, and DenizBank AG (Austria), the owner of 51% shares of the Bank.

As at 31 December 2019 the Bank does not have ultimate controlling parties since the Bank is a part of Emirates NBD Bank P.J.S.C Group. Emirates NBD Bank P.J.S.C Group is controlled by the Investment Corporation of Dubai (55,76% shares), and Investment Corporation of Dubai is controlled by the Government of Dubai.

As at today, the principal activities of the Bank are deposit taking, corporate lending, documentary business, customer settlements and operations with securities and foreign exchange.

The activities of the Bank are regulated by the Central Bank of the Russian Federation (“the CBR”).

The Bank is a member of the state deposit insurance scheme in the Russian Federation.

As at 31 December 2019 the Bank is located and carried out its activities in Moscow.

The average number of persons employed by the Bank during the year was approximately 72 (2018: 72).

1.2 Operating Environment

In 2019 the Bank continued to provide its customers with a wide range of financial services in sectors of the Russian economy. The Bank is still focused on working with Turkish companies in Russia.

The rapid slowdown in inflation to a historic low of 2.5% allowed the Central Bank of Russia to end 2018 by lowering its key rate to 7.75%. The downward trend in prices for the basic basket of goods with moderate recovery in consumer demand, as well as the favorable situation in the oil market have developed a stable ground for continuing to reduce the key rate in 2019

1. Introduction (continued)

1.2 Operating Environment (continued)

On 17 June 2019 the Central Bank of Russia set a key rate of 7.5%, and on 29 July 2019 - of 7.25%, on 9 September 2019 - 7%, on 28 October 2019 – 6.5% and on 16 December 2019 - 6.25%.

At the same time, the activities of the Bank in 2019 were complicated by a number of adverse external factors, including limited access to external financial markets due to continued sanctions set up by the United States, the EU and several other countries.

In conditions of global financial markets implications on the Russian economy, the Bank pursues a balanced and thought-out policy in relation to financial and economic activities, constantly assessing the possible risks and benefits of investing its free funds.

2. Basis of Presentation

2.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted and published by the International Financial Reporting Interpretations Committee of the IASB.

2.2 Going concern principle

Management has prepared these statements based on the going concern assumption.

2.3 Basis of measurement

The financial statements are prepared on the historical cost basis except that financial assets at fair value through other comprehensive income, financial assets and liabilities at fair value through profit or loss.

2.4 Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble. Previous to 1 January 2006 the Bank used the USD as its functional currency. As at 1 January 2006, due to the constant growth of operations performed in Russian rubles the Bank re-evaluated its functional currency and as a result changed it from the USD to the RUB.

To effect the change in the functional currency, the USD balance sheet figures as at 31 December 2005 were translated to the RUB at the official exchange rate of the CBR effective as at this date.

The presentation currency used in the preparation of these financial statements is United States Dollar ("USD") since management believes that the USD is more useful for the users of the financial statements.

The financial statements have been translated from the RUB (the functional currency) to the USD (the presentation currency) as follows:

- Assets, liabilities that are included to the statement of financial position as of 31 December 2019 have been translated to USD at the RUB/USD exchange rate of 61,9057;
- All income and expense items incurred during the year ended 31 December 2019 and shareholder's equity have been translated to USD at the average RUB/USD exchange rate of 64,7372;
- All resulting exchange differences have been recognized as "translation reserve" which is a separate component of shareholders' equity.

All amounts in the financial statements have been rounded to the nearest thousands unless otherwise specified.

2. Basis of Presentation (continued)

2.5 Significant accounting judgements, estimates and assumptions

In the process of applying the Bank's accounting policies the Bank's management makes judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors, including expectations regarding future events that are believed to be reasonable under the circumstances. Actual results ultimately may differ from these estimates. Estimates and associated assumptions are reviewed on a regular basis. Changes in estimates are recorded in the period in which the estimate was revised if the change affects only this period or in the period in which the estimate was revised and in future periods it the change affects both current and future periods.

Business model assessment

Assessment of the business models within which the assets are held and the assessment of whether the contractual terms of the financial asset are solely payments of the principal and interest on the principal amount are disclosed in the Notes 3 and 25.1.

Credit loss allowance on financial assets

The measurement of expected credit loss allowance for financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income (FVOCI) requires the use of complex models and significant assumptions about future economic conditions and credit behavior. A number of significant judgements are also required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

- Determining the criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Establishing the number and relative weights of forward-looking scenarios for each type of product/market and the associate expected credit loss
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses.

Allowance for expected credit losses is affected by the following factors:

- Transfers and corresponding remeasurement of credit loss allowances between Stage 1 (12-month ECL) and Stage 2 (Lifetime ECL not credit-impaired) or 3 (Lifetime ECL credit-impaired) due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL, as well as net remeasurement of credit loss allowance within the same stage
- Additional allowances for new originated or purchased financial instruments during the period, as well as releases for financial instruments derecognised in the period
- Changes to ECL measurement model assumptions and estimates due to changes in PDs, EADs and LGDs in the period, arising from regular update of inputs to ECL models
- Remeasurement of credit loss allowance to reflect all contractually receivable interest due to the passage of time because ECL is measured on a present value basis
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period, as well as recoveries of amounts previously written off
- Exchange differences on translating foreign operations and assets denominated in foreign currencies, and other movements.

Information on estimation techniques, judgements and assumptions used in measuring expected credit losses is presented in Notes 3 and 25.1.

2. Basis of Presentation (continued)

Fair value of financial instruments

The estimated fair value of financial instruments has been determined by the Bank using available market information, where it exists.

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques.

Tax legislation

Tax, monetary and customs legislation of the Russian Federation allow for different interpretations (see Note 27).

3. Summary of Significant Accounting Policies

The accounting policies applied in the financial statement are presented below. Except for the accounting policies and impact of the adoption of the IFRS 16 from 1 January 2019 these principles are consistent with all the periods represented in the financial statement unless otherwise specified.

3.1 Changes in accounting policies

In the current year the Bank has applied IFRS 16 Leases issued on 13 January 2016 and effective for the annual periods beginning on or after 1 January 2019 (See Note 4).

3.2 Financial instruments

Amortised cost and gross carrying amount

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

Gross carrying amount is the amortised cost of a financial asset before adjusting for any loss allowance.

Financial assets and financial liabilities - recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities, issued and subordinated liabilities on the date of origin. All other financial instruments (including regular acquisition and sale of financial assets) are recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Financial instruments - classification

The Bank classifies all of its financial assets at initial recognition, measured at either: at amortised cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit of loss (FVPL).

Financial asset is measured at amortised cost if both of the following conditions are met and if it is not classified as measured at fair value through profit or loss:

- The financial asset is held within a business model with the objective 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 (SPPI) on the principal amount outstanding.

3. Summary of Significant Accounting Policies (continued)

3.2 Financial instruments (continued)

Debt instruments is measured at fair value through other comprehensive income, if both of the following conditions are met and if it is not classified as measured at fair value through profit or loss:

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

Upon initial recognition of an investment in equity instruments that are not held for trading, the Bank may choose (without the right of subsequent reclassification) to recognise subsequent changes in fair value in other comprehensive income. The choice is made by the Bank at its own discretion in each specific case.

All other financial assets are classified as measured at fair value through profit or loss.

Moreover, at initial recognition the Bank may irrevocably classify a financial asset which may be classified as measured at amortised cost or at fair value through other comprehensive income according to the requirements specified above as measured at fair value through profit or loss when it eliminates, or significantly reduces, a measurement or recognition inconsistency (“an accounting mismatch”) that would otherwise arise.

Derivatives

The Bank is a party of derivatives, part of which is held for trading and the remaining part — for managing interest, credit and currency risks. Derivatives which are held include foreign currency forward contracts, interest rate swaps, cross-currency interest rate swaps.

Derivatives are initially recognised at fair value at the date of concluding an instrument and then revalued at fair value at each reporting date. Changes in the fair value of derivatives are immediately included in net gains/(losses) on financial assets at fair value through profit or loss.

Financial derivatives with a positive fair value are recognised as a financial asset, while financial derivatives with a negative fair value are recognised as a financial liability.

Business model assessment

The Bank carries assessment of the business models within which the assets are held at the level of investment portfolio as far as it is the easiest way to understand the way the business is managed and the nature of information provided to the management.

Information considered includes:

- Investment strategy and the goal stated for the portfolio, as well as the implementation of this strategy. In particular, it is determined whether the strategy of the Bank's management aimed at obtaining contractual interest income is implemented by maintaining a certain level of interest rates, by matching the terms of receipt of financial assets with the maturity of liabilities financing these assets or by generating cash flows through the sale of assets
- How the yield on portfolio is estimated and how this information is reported to the Banks's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed

3. Summary of Significant Accounting Policies (continued)

3.2 Financial instruments (continued)

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- Frequency, value and timing of sales in the previous periods, the reasons for such sales and expectations for the activities on future sales. However, the sales themselves do not define the business model and, accordingly, cannot be viewed in isolation but only as part of an assessment of how the financial assets management objective stated by the Bank is achieved, and, in particular, how cash flows are realised

Financial assets which are managed and the profitability of which is estimated on the fair value basis are classified as measured at fair value, and the changes in fair value are recognised in profit or loss since these financial instruments are held neither for collecting contractual cash flows nor for selling financial assets.

Assessment of whether the contractual cash flows are solely payments of principal and interest on the amount outstanding (the SPPI test)

In order to estimate whether the contractual terms of financial assets meet the SPPI criteria the Bank carries out the SPPI test. In conducting this test, the Bank evaluates whether the contractual cash flows are consistent with the main credit mechanism, i.e. interest includes only the consideration for the time value of money and credit risk, other credit risks and profit related to the basic lending arrangement. In case when the contractual terms of an asset include risk or volatility, which do not meet the main credit mechanism, such asset is classified and measured at fair value through profit or loss. For the implementation of the SPPI test, the Bank uses the SPPI checklist.

“Principal” for the purpose of this test is defined as the fair value of the financial asset at initial recognition. “Interest” is defined as the consideration for the time value of money, credit risk associated with the principal amount outstanding for a certain period and for other ordinary risks and costs related to lending (for example, liquidity risk and credit management costs), as well as profit margin.

While identifying whether the contractual cash flows are solely payments of principal and interest on the amount outstanding, the Bank assesses the contractual terms of financial instrument. In particular, the Bank should assess whether the contract provides such a condition that may change the timing or amounts of contractual cash flows so that it will be impossible to meet the specified condition. In conducting such an assessment, the Bank takes into account:

- Events which lead to changes in timing and the amounts of cash flows
- The ratio of debt to equity
- Terms of advance payments and term extensions
- Conditions that limit the Bank's ability to claim cash flows from certain assets (for example, the release of an asset from the right of recourse), and also
- Conditions which change the consideration for the time value of money, for example, periodic review of the interest rate.

Reclassification

Financial assets may be reclassified after the initial recognition only and exclusively in the period after which the Bank changes its financial asset management business model.

Modification

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. In this case the Bank recalculates the gross carrying amount of the financial asset and records gain or loss resulting from the adjustment of the gross carrying amount as modification gain or loss in the statement of profit and loss. If financial difficulties faced by a borrower is the reason for modification, gains of losses are recognised along with the impairment loss. In other cases such gains or losses are considered as interest income.

3. Summary of Significant Accounting Policies (continued)

3.2 Financial instruments (continued)

Loans

Loans include:
- Loans and advances measured at amortised cost; they are initially recognised at fair value plus additional direct transaction costs, further they are measured at amortised cost calculated using the effective interest rate method
- Loans and advances measured at amortised cost on a mandatory basis with the changes of the amortised cost recorded in profit or loss or classified as measured at fair value with the changes of the amortised cost recorded in profit or loss; they are initially recognised at fair value with the changes of the fair value recognised immediately in profit or loss
- Financial receivables on finance leases.

If the Bank acquires a financial asset and simultaneously concludes an agreement to resell this (or substantially similar) asset at a fixed price on a future date (in the form of reverse repurchase agreement or stock borrow), such an agreement is recorded as loan or advance and the underlying asset is not recorded in the financial statements of the Bank.

Securities

Securities include:
- Debt securities measured at amortised cost; they are initially recognised af fair value plus additional direct transaction costs, consequently they are recorded at amortised cost calculated using the effective interest rate method
- Debt securities and investments in equity instruments which are measured at fair value on a mandatory basis with the changes of fair value recorded in profit or loss or classified as measured at fair value with the changes of fair value recorded in profit or loss; instant recognition of changes in fair value in the statement of profit and loss is not provided.
- Debt securities measured at fair value through other comprehensive income
- Investments in equity instruments classified as measured at fair value through other comprehensive income.

Gains and losses arising due to changes in fair value of debt instruments measured at fair value through other comprehensive income are recognised in other comprehensive income, except for the following indicators, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- Interest income calculated using the effective interest rate method
- Expected credit losses and recoveries of losses, and
- Gains and losses from foreign exchange translation.

On derecognition of financial instrument measured at fair value through other comprehensive income, cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to the statement of profit and loss.

The Bank chose to record in other comprehensive income changes in fair value of certain investments in equity instruments which are not held for trade. The choice is made for each instrument at initial recognition and is not the subject for reclassification.

Gains and losses arising from such equity instruments are never reclassified to the statement of profit or loss, moreover, impairment is never recorded at statement of profit and loss either. Dividends are recorded in the statement of profit or loss unless they obviously represent a return of a part of costs associated with these investments; in this case they are recorded in other comprehensive income. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are transferred to retained earnings at the moment of derecognition.

3. Summary of Significant Accounting Policies (continued)

3.2 Financial instruments (continued)

Financial liabilities

The Bank classifies all the financial liabilities as measured at amortised cost using the effective interest rate method, except for:

- Financial liabilities held for trading, including derivatives. Such liabilities are subsequently measured at fair value through profit or loss
- Financial liabilities which were designated by the Bank as liabilities measured at fair value through profit or loss
- Financial liabilities, that arise when the transfer of a financial asset does not meet the requirements for derecognition or when the principle of continuing involvement is applied. Despite other IFRS requirements related to measurement, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. The associated liability is measured in such a way that net book value of the transferred asset and the associated liability is:
  - Amortised cost of the rights and obligations that the Bank has retained if the transferred asset is measured at amortised cost, or
  - Fair value of rights and obligations retained by the Bank estimated on its own, if the transferred asset if measured at fair value
- Financial guarantee contracts, under which the issuer is obliged to make certain payments in order to recover losses to the holder, due to the fact that a certain debtor is not able to make a payment within a specified period in accordance with the original or revised terms of a debt instrument.

After the initial recognition the issuer of such an agreement subsequently evaluates such an agreement on the largest of:

- Allowance for expected credit losses measured according IFRS 9 and initially recognised fair value less, if necessary, cumulative income recognised according to IFRS 15 “Revenue from Contracts with Customers”
- Loan commitments at below market interest rates drawdown. After initial recognition such commitments are subsequently measured by the issuer at the higher of the:
  - the amount of the expected credit loss allowance, measured in accordance with IFRS 9, and
  - the fair value initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IFRS 15 “Revenue from Contracts with Customers”
- Contingent consideration of an acquirer in a business combination in respect of which IFRS 3 “Business Combination” is applied. Such a contingent consideration should be subsequently measured at fair value through profit or loss.

Deposits, debt securities issued and subordinated liabilities are a source of debt refinancing for the Bank.

Deposits, debt securities issued and subordinated liabilities were initially measured at fair value less additional direct transaction costs, consequently they were measures at amortised cost using the effective interest rate method, except for the cases when the Bank classifies liabilities as measured at fair value through profit or loss.

The Bank derecognises financial liabilities, when the obligation under the liability is discharged, cancelled or expired.

Calculating interest income and expense

When calculating interest income and interest expense, the effective interest rate is applied to the gross carrying amount of the asset other than credit-impaired assets or to the amortised cost of the liability.

However, when a financial asset becomes credit-impaired after initial recognition interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on the basis of gross carrying amount.

3. Summary of Significant Accounting Policies (continued)

3.2 Financial instruments (continued)

For purchased or originated credit-impaired (POCI) financial assets, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.

Interest income will not be calculated on the basis of gross carrying amount of the asset even in the case if credit risk associated with the asset decreases.

3.3 Impairment of assets

The Bank recognises allowance for expected credit losses in relation to the following financial instruments, which are not classified as measured at fair value through profit or loss:
- Debt financial instruments
- Finance lease receivables
- Financial guarantees issued
- Loan commitments issued.

Impairment losses on investments in equity instruments are not reported in the financial statements.

The expected credit loss allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL) except for the following instruments for which the allowance is based on the 12 months' expected credit loss (12mECL):
- debt investment securities defined as having low credit risk as at the reporting date, and
- other financial instruments (except (finance) lease receivables), unless there has been no significant increase in credit risk since origination.

The expected credit loss allowance for from (finance) lease receivables is always calculated for the lifetime expected credit loss.

The Bank believes that a debt security has low credit risk if its credit rating corresponds to internationally accepted definition of "investment grade".

The 12 months' expected credit loss is the portion of lifetime expected credit loss that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The estimation of expected credit losses

The expected credit losses represent probability-weighted estimation of credit losses. They are estimated as follows:
- for financial assets that are not credit-impaired as at reporting date, the ECL is calculated as the present value of all the cash shortfalls (i.e. the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the Bank expects to receive);
- for financial assets that are credit-impaired as at reporting date, the ECL is calculated as the difference between gross carrying amount and the present value of expected future cash flows;
- for loan commitments the ECL is calculated as the present value of the difference between the cash flows that are due to an entity in accordance with the contract in case if the Bank draws down these loan commitments and the cash flows that the Bank expects to receive, and
- for financial guarantee contracts the ECL is calculated as the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to repossess.

Forbearance of financial assets

If the conditions of a financial asset have been renegotiated or modified or the existing asset is replaced by a new one due to the financial difficulties of the borrower, the Bank estimates if the asset should be derecognised and calculates the expected credit losses as follows:

3. Summary of Significant Accounting Policies (continued)

3.3 Impairment of assets (continued)

- If the expected forbearance does not result in derecognition of the existing asset expected cash flows from modified financial asset will be included in calculation of the cash shortfalls from the existing asset
- If the expected forbearance result in derecognition of the existing asset the estimated fair value of a new asset is considered as the last receipt from the existing financial asset at the moment of the write-off. This amount is included in the calculation of the cash shortfalls from the existing asset which are discounted since the expected date of write-off till the reporting date on the basis of the initial effective interest rate for the existing financial asset.

Credit-impaired assets

As at each reporting date the Bank estimates whether financial assets at amortised cost and debt financial assets measured at fair value through other comprehensive income became credit-impaired. A financial asset is considered to be "credit-impaired" when one or more events occur that adversely affect the expected future cash flows of such a financial asset.

Evidence of the impairment of a credit asset is, in particular, observed data under the following events:
- Significant financial difficulties of the borrower or issuer
- Violation of the terms of a contract, such as default past due payments
- Restructuring of a loan or advance by the Bank on terms that otherwise the Bank would not have provided
- The appearance of the probability of bankruptcy or other form of financial reorganisation, or
- The disappearance of an active market for the financial asset as a result of financial difficulties.

A loan whose terms have been renegotiated due to a significant deterioration in the condition of the borrower is usually considered to be impaired if there is no evidence that the risk of cash shortfalls has decreased significantly and there are no other evidence of impairment. Also a loan to individual, private entrepreneur or small business is considered to be impaired when the borrower becomes 90 days past due on its contractual payments.

To determine whether an investment in sovereign (public) debt is impaired, the Bank takes into account the following factors:

- The estimation of the creditworthiness reflected in bond yield by the market
- Credit rating assigned by rating agencies
- Access of the government to capital markets for issuing new bonds
- The possibility of debt restructuring resulting in losses of the debt holders due to voluntary or mandatory written-offs of the debt.
- The availability of international financial support mechanisms that are ready to provide the necessary "loan of last resort" to such a government and the intension provided in public statements of public authorities and institutions to use these mechanisms. Such as estimate includes an analysis of the depth of these mechanisms as well as, regardless of the political component, the conformity of the government with the necessary criteria.

The disclosure of allowance for expected credit losses in the financial statements

Allowances for expected credit losses are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as deduction from gross carrying amount of assets
- Loan commitments and financial guarantee contracts: according to the general principles within provisions
- If a financial asset consists of both drawn down and undrawn part and the Bank cannot isolate from the expected credit losses the part that is related to drawn down commitments: the Bank presents a combined allowance for expected losses for both components. The amount of such a combined reserve is recorded as a deduction from gross carrying amount of drawn down commitments. The excess of the allowance for expected credit loss over gross carrying amount of the component is recorded as provision, and
- Debt instruments measured at fair value through other comprehensive income: allowance for expected credit loss is not recorded in the balance sheet since carrying amount of such assets is their fair value.

3. Summary of Significant Accounting Policies (continued)

3.3 Impairment of assets (continued)

At the same time data on allowance for expected credit losses is disclosed and are recognised in revaluation reserve for financial assets at fair value through other comprehensive income.

Write-offs

Loans and debt securities are written-off (either partially or in their entirety), if there are no real prospects for their recovery. Usually the Bank determines that the borrower does not have assets or sources of income that may generate cash flows sufficient for to pay the amounts that have been written off. At the same time for written off financial assets actions may be undertaken to enforce debt collection on them within the scope of the Bank's rules related to bad debt recovery.

3.4 The effective interest rate

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

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

When the Bank calculated the effective interest rate for financial instruments other than credit-impaired assets the Bank estimates future cash flows within a period specified in the contract without taking into account expected credit losses. For credit-impaired financial assets the credit-adjusted effective interest rate is calculated on the basis of the estimated future cash flows (including credit losses).

The effective interest rate is calculated by taking into account transaction costs and fees and costs that are an integral part of the EIR. Transaction costs include additional costs that are directly related to the acquisition or issue of a financial asset or a financial liability.

3.5 Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide a loan on pre-agreed conditions and on pre-agreed terms.

Financial guarantees or loan commitments, at interest rate below market interest rates drawdown, are initially recognised at fair value, subsequently the initial fair value is amortised over the life of the financial guarantee or loan commitment. Such commitments are subsequently measured at the higher of the amortised cost and the amount of the expected credit loss allowance.

For other loan commitments the Bank recognises allowance for expected losses.

3.6 Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

3. Summary of Significant Accounting Policies (continued)

3.6 Foreign currency transactions (continued)

Official exchange rates of foreign currencies against the ruble, used by the Bank for preparing these statements, are presented below:

Currency	As at 31 December 2019	As at 31 December 2018
USD	61.9057	69.4706
Euro	69.3406	79.4605
Turkish lira	10.4087	13.176

3.7 Cash and cash equivalents

The Bank considers cash, balances with Central Bank, placements with banks and financial institutions as well as financial assets at fair value through profit or loss with original maturity periods of less than three months to be cash and cash equivalents.

Cash and cash equivalents are reflected at amortised cost in the statement of financial position.

3.8 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within portfolios of securities measured at fair value through other comprehensive income and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the statement of comprehensive income over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the statement of comprehensive income over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements have been shown net of any necessary provisions for impairment.

3.9 Offsetting

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

3.10 Leases

In connection with adoption of IFRS 16 “Leases” from 1 January 2019 the Bank revised its accounting policy with amendments related to the recognition, measurement, presentation and disclosure of leases. The Bank recognises: (a) assets and liabilities for all leases with the lease term greater than 12 months, unless the underlying asset has a low value; and (b) depreciation of subjects of the lease separately from interests on lease liabilities in the Statement of profit or loss and other comprehensive income.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful lives of the assets and the lease term.

Right-of-use assets are disclosed within fixed assets and right-of-use assets line of the Statement of financial position, lease liabilities are disclosed within other liabilities line of the Statement of financial position.

3. Summary of Significant Accounting Policies (continued)

3.10 Leases (continued)

Finance cost is disclosed within interest expense line of the Statement of profit or loss and other comprehensive income, depreciation of right-of-use assets is disclosed within general administrative expenses line of the Statement of profit or loss and other comprehensive income. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities comprise the net present value of the following lease payments:

- fixed lease payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- payments of penalties for terminating the lease (if the lease term reflects the lessee exercising the option to terminate the lease).

The lease payments are discounted using the rate that equal to the index of the Russian corporate bond market.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs.

Lease payments with respect to the short-term lease and the lease of low-value assets are recognised evenly as expenses as part of profit or loss and are disclosed within general administrative expenses line of the Statement of profit or loss and other comprehensive income. Short-term lease is a lease with the term of 12 months or less

3.11 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of the self-constructed assets includes the cost of materials, direct labour and an appropriate portion of production overhead. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditure is recognised in the statement of comprehensive income as an expense incurred.

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Land is not depreciated. Depreciation commences the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Leasehold improvements	10 – 50 years
Vehicles	4 years
Fixtures, fittings and other equipment	5 – 10 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.12 Intangible asset

Intangible assets, which are acquired by the Bank, are stated at cost, less accumulated amortization and impairment losses.

3. Summary of Significant Accounting Policies (continued)

3.12 Intangible asset (continued)

Amortization is charged to the comprehensive income statement on a straight-line basis over the estimated useful lives of intangible assets. At the beginning of reporting period the estimated useful life of intangible assets was 3-30 years.

3.13 Debt securities issued

Debt securities are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between net proceeds and the redemption value is recoded in the statement of income over the period of the security issue using the effective interest rate method.

3.14 Equity

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

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

3.15 Employee benefits

In the normal course of business the Bank contributes to the Russian Federation Pension Fund, the Social Insurance Fund and the Federal Compulsory Medical Insurance Fund on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in staff costs in the statement of comprehensive income.

3.16 Taxation

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised of the liability settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

3.17 Fee and commission income

Fee and commission income arises on financial services provided by the Bank including cash management services and asset management services.

4. New and Amended Standards and Interpretations

4.1 New standards and interpretations that are effective for the current year

***IFRS 16 “Leases”*.** The Bank has adopted IFRS 16 “Leases”, issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 “Leases” eliminates the classification of leases as either operating leases or finance leases as was required by IAS 17 “Leases” and, instead, introduces a single lessee accounting model. The Bank applied the standard using the modified retrospective method, without restatement of comparatives.

The Bank recognised the right-of-use asset as at the date of initial adoption in relation to leases which had previously been classified as operating leases under the principles of IAS 17 “Leases”. The Bank measured the right-of-use asset at the amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the Statement of Financial Position before the date of initial adoption.

On adoption of IFRS 16 “Leases”, 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 of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7,75%.

In applying IFRS 16 “Leases” for the first time, the Bank has used the following practical expedients permitted by the standard:

- 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 asset at the date of initial application;
- accounting for payments for leases of low-value assets as operating expenses, without their recognition as right-of-use assets at the date of initial application.

The Bank recognized a right-of-use assets of 479 USD’000 against a corresponding lease liability on 1 January 2019. The recognized right-of-use assets relate to real estate.

A reconciliation of the operating lease commitments, represented in the Financial statement for the year ended 31 December 2018, to the lease liability under IFRS 16 and the effect of the adoption of IFRS 16 on the retained earnings are as follows:

Lease payments under operating leases as at 31 December 2018 under IAS 17, represented in the Financial statement of the Bank for 2018	**506**
Revision of lease extension and early termination options	-
Future lease payments under IFRS 16 as at 1 January 2019	**506**
Effect of discounting	(27)
Lease liabilities under IFRS 16 as at 1 January 2019	**479**
Amount of prepayments	-
Right-of-use assets under IFRS 16 as at 1 January 2019	**479**
Total effect on the retained earnings as at 1 January 2019	**-**

4. New and Amended Standards and Interpretations (continued)

4.1 New standards and interpretations that are effective for the current year (continued)

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Significant accounting policies including changes that have effected with the adoption of IFRS 16 “Leases” are represented in the Note 3.10 “Leases”.

The following amended standards and interpretations became effective for the Bank from 1 January 2019, but did not have any material impact on the Bank:

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 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).
- 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).
- 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).
- Amendments to IFRS 9 “Prepayment Features with Negative Compensation”. These amendments are to be applied retrospectively for fiscal years beginning on or after 1 January 2019.

4.2 New and revised IFRSs in issue but not yet effective

Certain new standards and interpretations are effective for annual periods beginning on or after 1 January 2020, and were not early adopted by the Bank.

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 contrast 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 fulfilment cash flows) that incorporates all of the available information about the fulfilment 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.

Amendments to IFRS 3 “Definition of a business” (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts 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 organised workforce should be present as a condition for classification as a business if 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

4. New and Amended Standards and Interpretations (continued)

4.2 New and revised IFRSs in issue but not yet effective (continued)

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).

Amendments to IAS 1 and IAS 8 "Definition of material" (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 in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the 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.

Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in 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.

Interest rate benchmark reform – 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 provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Hedging relationships would be affected if the reform causes uncertainty regarding timing and/or amount of cash flows based on an existing interest rate benchmark in relation to hedged item or hedging instrument. As a result of reform it can cause uncertainty about timing and/or amount of cash flows based on an existing interest rate benchmark in relation to hedged item or hedging instrument for a period before an existing interest rate benchmark is replaced with an alternative, nearly risk-free interest rate. It can, in turn, lead to uncertainty about assessment of the probability of a forecast transaction and whether hedging relationship will be highly effective.

Classification of liabilities as current or non-current – 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.

The Bank's management assumes that the application of these amendments may affect the financial statements of the Bank in future periods.

5. Interest Income and Expense

	2019 USD'000	2018 USD'000
Interest income		
Loans to customers	15,014	13,747
Financial assets at fair value through other comprehensive income	3,068	2,111
Due from banks	853	3,341
Total interest income	**18,935**	**19,199**
Interest expense		
Due to customers	2,116	1,057
Due to banks	1,416	1,367
Subordinated loans	249	220
Debt securities issued	26	-
Lease liabilities	25	-
Total interest expense	**3,832**	**2,644**

6. Fee and Commission Income and Expense

	2019 USD'000	2018 USD'000
Fee and commission income		
Guarantees issued	2,175	1,819
Settlement transactions	780	882
Currency control	347	349
Cash management	162	97
Total fee and commission income	**3,464**	**3,147**
Fee and commission expense		
Guarantees issued	423	224
Settlement transactions	365	293
Cash management	7	8
Other	82	75
Total fee and commission expense	**877**	**600**

7. Net Gains / (Losses) on Financial Assets at Fair Value through Profit or Loss

	2019 USD'000	2018 USD'000
Net gains / (losses) on foreign exchange derivatives	3,919	191
Total net gains / (losses) on foreign exchange derivatives	**3,919**	**191**

8. General Administrative Expenses

	2019 USD'000	2018 USD'000
Employee compensation	3,187	3,205
Depreciation and amortization (Note 15,16)	430	164
Communication and information services	313	169
Taxes other than on income	176	156
IT support expenses	151	34
Insurance (including insurance of bank deposits of physical persons)	80	7
Professional services	50	58
Repairs and maintenance	40	98
Occupancy	32	361
Security	27	28
Representation expenses	2	23
Other	243	294
Total general administrative expenses	**4,731**	**4,597**

9. Income Tax Expense

	2019 USD'000	2018 USD'000
Current tax expense		
Current income tax expense	2,176	1,865
Deferred tax expense		
Changes in deferred tax due to the origination of temporary differences (Note 23)	210	1,211
Total income tax expense	**2,386**	**3,076**

The Bank's applicable tax rate for 2019 was 20% (2018 – 20%). Income tax rate on interest income from government and municipal financial instruments is 15% (2018 – 15%).

Reconciliation of theoretical income tax expenses with actual income tax expenses

	2019 USD'000	2018 USD'000
Income before tax	12,402	15,446
Theoretical income tax benefit at the applicable statutory rate	2,480	3,089
Tax effect of non-deductible costs and non-taxable income	(94)	(13)
Total income tax expense	**2,386**	**3,076**

10. Amounts due from the Central Bank of Russia

	31 December 2019 USD'000	31 December 2018 USD'000
Nostro accounts	9,628	6,485
Deposits	7,754	26,653
Minimum reserve deposit	2,085	2,530
Total amounts due from the Central Bank of Russia	**19,467**	**35,668**

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawal is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end. As at the end of the period, there were no restrictions on its use.

11. Amounts due from Banks

	31 December 2019 USD'000	31 December 2018 USD'000
Nostro accounts	12,958	13,487
Deposits	897	7,138
Total amounts due from banks	**13,855**	**20,625**

As at 31 December 2019 and 31 December 2018 the Bank did not have any overdue and impaired balances on placements with banks and other financial institutions.

Significant exposures

As at 31 December 2019 the Bank had two related groups of banks (as at 31 December 2018: four related groups of banks), whose balance exceeded 10% of the placements with banks and other financial institutions. As at 31 December 2019 the gross value of this exposure was 12,761 USD'000 (as at 31 December 2018: 20,621 USD'000).

12. Derivative Financial Instruments

The fair value of derivative financial instruments as at 31 December 2019 are set out in the following table:

	Notional or agreed amount USD'000	Fair value	
		Assets USD'000	Liabilities USD'000
Derivative foreign exchange contracts to buy EUR and sell RUB	12,881	-	23
Derivative foreign exchange contracts to buy RUB and sell EUR	21,319	37	-
Total derivative financial instruments	**34,200**	**37**	**23**

12. Derivative Financial Instruments (continued)

The fair value of derivative financial instruments as at 31 December 2018 are set out in the following table:

	Notional or agreed amount	Fair value	
		Assets	Liabilities
	USD'000	USD'000	USD'000
Derivative foreign exchange contracts to buy EUR and sell USD	9,516	8	16
Derivative foreign exchange contracts to buy EUR and sell RUB	151	-	-
Derivative foreign exchange contracts to buy RUB and sell EUR	24,142	4	23
Derivative foreign exchange contracts to buy RUB and sell USD	10,033	20	-
Derivative foreign exchange contracts to buy USD and sell RUB	16,065	-	62
Total derivative financial instruments	**59,907**	**32**	**101**

13. Loans to Customers

	31 December 2019	31 December 2018
	USD'000	USD'000
Loans to commercial customers	211,401	187,286
Loans to individuals	38	43
Loans to customers before impairment	**211,439**	**187,329**
Less: Credit loss allowance	(6,434)	(2,044)
Total loans to customers	**205,005**	**185,285**

13. Loans to Customers (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans to customers at amortised cost during the reporting period is, as follows:

	ECL allowance			Gross carrying amount		
	Loans to commercial customers	Loans to individuals	Total	Loans to commercial customers	Loans to individuals	Total
Stage 1						
as at 1 January 2019	**909**	**4**	**913**	**172,243**	**43**	**172,286**
Net change in gross carrying amount	-	-	**-**	3,690	(10)	**3,680**
Transfers to Stage 1	63	-	**63**	5,108	-	**5,108**
Transfers to Stage 2	-	-	**-**	-	-	**-**
Transfers to Stage 3	-	-	**-**	-	-	**-**
Charge / (Reversal) of allowance	2,820	(4)	**2,816**	-	-	**-**
Effect of translation to presentation currency	242	-	**242**	21,451	5	**21,456**
as at 31 December 2019	**4,034**	**-**	**4,034**	**202,492**	**38**	**202,530**
Stage 2						
as at 1 January 2019	**1,131**	**-**	**1,131**	**15,043**	**-**	**15,043**
Net change in gross carrying amount	-	-	**-**	(252)	-	**(252)**
Transfers to Stage 1	(63)	-	**(63)**	(511)	-	**(511)**
Transfers to Stage 2	-	-	**-**	-	-	**-**
Transfers to Stage 3	-	-	**-**	-	-	**-**
Charge / (Reversal) of allowance	1,144	-	**1,144**	-	-	**-**
Effect of translation to presentation currency	188	-	**188**	(5,371)	-	**(5,371)**
as at 31 December 2019	**2,400**	**-**	**2,400**	**8,909**	**-**	**8,909**
Stage 3						
as at 1 January 2019	**-**	**-**	**-**	**-**	**-**	**-**
Net change in gross carrying amount	-	-	**-**	-	-	**-**
Transfers to Stage 1	-	-	**-**	-	-	**-**
Transfers to Stage 2	-	-	**-**	-	-	**-**
Transfers to Stage 3	-	-	**-**	-	-	**-**
Charge / (Reversal) of allowance	-	-	**-**	-	-	**-**
Effect of translation to presentation currency	-	-	**-**	-	-	**-**
as at 31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**
Total as at 1 January 2019	**2,040**	**4**	**2,044**	**187,286**	**43**	**187,329**
Total as at 31 December 2019	**6,434**	**-**	**6,434**	**211,401**	**38**	**211,439**

13. Loans to Customers (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans to customers at amortised cost during the reporting period is, as follows:

	ECL allowance			Gross carrying amount		
	Loans to commercial customers	Loans to individuals	Total	Loans to commercial customers	Loans to individuals	Total
Stage 1						
as at 1 January 2018	**2,069**	**5**	**2,074**	**164,023**	**63**	**164,086**
Net change in gross carrying amount	-	-	**-**	55,617	(10)	**55,607**
Transfers to Stage 1	-	-	**-**	-	-	**-**
Transfers to Stage 2	(186)	-	**(186)**	(15,462)	-	**(15,462)**
Transfers to Stage 3	-	-	**-**	-	-	**-**
Charge / (Reversal) of allowance	(708)	(1)	**(709)**	-	-	**-**
Effect of translation to presentation currency	(266)	-	**(266)**	(31,935)	(10)	**(31,945)**
as at 31 December 2018	**909**	**4**	**913**	**172,243**	**43**	**172,286**
Stage 2						
as at 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**
Net change in gross carrying amount	-	-	**-**	1,203	-	**1,203**
Transfers to Stage 1	-	-	**-**	-	-	**-**
Transfers to Stage 2	186	-	**186**	15,462	-	**15,462**
Transfers to Stage 3	-	-	**-**	-	-	**-**
Charge / (Reversal) of allowance	1,068	-	**1,068**	-	-	**-**
Effect of translation to presentation currency	(123)	-	**(123)**	(1,622)		**(1,622)**
as at 31 December 2018	**1,131**	**-**	**1,131**	**15,043**	**-**	**15,043**
Stage 3						
as at 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**
Net change in gross carrying amount	-	-	**-**	-	-	**-**
Transfers to Stage 1	-	-	**-**	-	-	**-**
Transfers to Stage 2	-	-	**-**	-	-	**-**
Transfers to Stage 3	-	-	**-**	-	-	**-**
Charge / (Reversal) of allowance	-	-	**-**	-	-	**-**
Effect of translation to presentation currency	-	-	**-**	-	-	**-**
as at 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**
Total as at 1 January 2018	**2,069**	**5**	**2,074**	**164,023**	**63**	**164,086**
Total as at 31 December 2018	**2,040**	**4**	**2,044**	**187,286**	**43**	**187,329**

13. Loans to Customers (continued)

An analysis of loans to customers and allowances for credit losses for loans for the year ended 31 December 2019 is, as follows:

	Gross carrying amount of loans	Allowance for impairment	Total amortised cost of loans	Allowance for impairment to gross carrying amount of loans (%)
Loans to commercial customers				
not past due	202,492	(4,034)	198,458	1,99%
past due up to 60 days	8,909	(2,400)	6,509	26,94%
Total loans to commercial customers	**211,401**	**(6,434)**	**204,967**	**3,04%**
Loans to individuals				
not past due	38	-	38	-
Total loans to individuals	**38**	**-**	**38**	**-**
Total loans to customers	**211,439**	**(6,434)**	**205,005**	**3,04%**

An analysis of loans to customers and allowances for credit losses for loans for the year ended 31 December 2018 is, as follows:

	Gross carrying amount of loans	Allowance for impairment	Total amortised cost of loans	Allowance for impairment to gross carrying amount of loans (%)
Loans to commercial customers				
not past due	187,286	(2,040)	185,246	1,09%
Total loans to commercial customers	**187,286**	**(2,040)**	**185,246**	**1,09%**
Loans to individuals				
not past due	43	(4)	39	9,30%
Total loans to individuals	**43**	**(4)**	**39**	**9,30%**
Total loans to customers	**187,329**	**(2,044)**	**185,285**	**1,09%**

13. Loans to Customers (continued)

An analysis of the loan portfolio (less impairment) by types of collateral as at 31 December 2019 is, as follows:

	Loans to commercial customers	Loans to individuals	Total	Share in loan portfolio (%)
Guarantees issued by banks	96,466	-	96,466	47,06%
Other collaterals	78,891	-	78,891	38,48%
Unsecured	29,610	38	29,648	14,46%
Total loans to customers	**204,967**	**38**	**205,005**	

An analysis of the loan portfolio (less impairment) by types of collateral as at 31 December 2018 is, as follows:

	Loans to commercial customers	Loans to individuals	Total	Share in loan portfolio (%)
Guarantees issued by banks	136,254	-	136,254	73,54%
Other collaterals	41,964	-	41,964	22,65%
Unsecured	7,028	39	7,067	3,81%
Total loans to customers	**185,246**	**39**	**185,285**	

The structure of the Bank's loan portfolio reflecting the concentration risk by industry is, as follows:

	31 December 2019 USD'000	**31 December 2018** USD'000
Manufacturing	52,108	60,490
Construction, glass and mining	47,036	33,154
Finance	31,634	32,321
Forestry	30,977	25,319
Trade	29,208	14,652
Farming and Cattle	10,865	10,646
Rent services	8,909	8,733
Real state	664	1,971
Individuals	38	43
	211,439	**187,329**
Allowance for expected credit losses	(6,434)	(2,044)
Total loans to customers	**205,005**	**185,285**

Significant exposures

As at 31 December 2019 the Bank had three exposures to related groups of companies (as at 31 December 2018 the Bank had three exposures), which individually comprised more than 10% of loans to customers. The total amount of these exposures as at 31 December 2019 was 85,013 USD'000 (as at 31 December 2018: 85,381 USD'000).

14. Financial Assets at Fair Value through Other Comprehensive Income

14.1 Unpledged financial assets at fair value through other comprehensive income

	31 December 2019 USD'000	31 December 2018 USD'000
Debt instruments		
Corporate bonds	22,413	10,654
Bonds of the Bank of Russia	22,058	4,334
Bank bonds	-	3,675
Total unpledged financial assets at fair value through other comprehensive income	**44,471**	**18,663**

14.2 Financial assets at fair value through other comprehensive income pledged under repurchase agreements

	31 December 2019 USD'000	31 December 2018 USD'000
Debt instruments		
Corporate bonds	7,785	-
Bank bonds	4,067	-
Total financial assets at fair value through other comprehensive income pledged under repurchase agreements	**11,852**	**-**

As at 31 December 2019 and 31 December 2018 financial assets at fair value through other comprehensive income were not past due or impaired.

An analysis of the Bank's debt securities at fair value through other comprehensive income as at 31 December 2019 is, as follows:

	Maturity		**Interest range**	
	minimum	**maximum**	**minimum**	**maximum**
Corporate bonds	24.02.2020	18.10.2022	6,15%	9,15%
Bonds of the Bank of Russia	15.01.2020	12.02.2020	6,33%	6,48%
Bank bonds	20.12.2022	20.12.2022	6,55%	6,55%

An analysis of the Bank's debt securities at fair value through other comprehensive income as at 31 December 2018 is, as follows:

	Maturity		**Interest range**	
	minimum	**maximum**	**minimum**	**maximum**
Corporate bonds	25.04.2019	22.12.2049	8,30%	10,30%
Bonds of the Bank of Russia	13.03.2019	13.03.2019	7,75%	7,75%
Bank bonds	20.12.2026	20.12.2026	9,80%	9,80%

14. Financial Assets at Fair Value through Other Comprehensive Income (continued)

An analysis of the Bank's debt securities at fair value through other comprehensive income by credit ratings assigned by national credit rating agencies as at 31 December 2019 and 31 December 2018 is, as follows:

	31 December 2019 USD'000	**31 December 2018** USD'000
Debt instruments		
AAA	38,577	16,142
AA+	5,172	-
AA	12,574	2,521
Total debt instruments	**56,323**	**18,663**

15. Fixed Assets and Right-of-use Assets

USD'000	**Leasehold improvements**	**Fixtures and fittings**	**Vehicles**	**Right-of-use assets**	**Total**
Cost as at 1 January 2019	**164**	**389**	**47**	**-**	**600**
Impact of adopting IFRS 16	-	-	-	479	479
Cost					
As at 1 January 2019	164	389	47	479	1,079
Additions	4	42	-	-	46
Disposals	-	-	-	-	-
Effect of translation to presentation currency	21	50	6	58	135
As at 31 December 2019	**189**	**481**	**53**	**537**	**1,260**
Depreciation					
As at 1 January 2019	(106)	(358)	(24)	-	(488)
Depreciation charge (Note 8)	(39)	(30)	(10)	(298)	(377)
Disposals	-	-	-	-	-
Effect of translation to presentation currency	(16)	(45)	(3)	(14)	(78)
As at 31 December 2019	**(161)**	**(433)**	**(37)**	**(312)**	**(943)**
Carrying value					
As at 31 December 2019	**28**	**48**	**16**	**225**	**317**

15. Fixed Assets and Right-of-use Assets (continued)

USD'000	Leasehold improvements	Fixtures and fittings	Vehicles	Right-of-use assets	Total
Cost					
As at 1 January 2018	195	459	57	-	711
Additions	3	14	-	-	17
Disposals	-	(5)	-	-	(5)
Effect of translation to presentation currency	(34)	(79)	(10)		(123)
As at 31 December 2018	**164**	**389**	**47**	**-**	**600**
Depreciation					
As at 1 January 2018	(97)	(415)	(18)	-	(530)
Depreciation charge (Note 8)	(29)	(21)	(10)	-	(60)
Disposals	-	5	-	-	5
Effect of translation to presentation currency	20	73	4		97
As at 31 December 2018	**(106)**	**(358)**	**(24)**	**-**	**(488)**
Carrying value					
As at 31 December 2018	**58**	**31**	**23**	**-**	**112**

Additional information on right-of-use assets is presented below:

	2019 USD'000	**2018** USD'000
Interest expense on lease liabilities	25	-
Total cash outflow for leases	288	-

As at 31 December 2019 and 31 December 2018 the Bank had no restrictions on ownership of fixed assets, fixed assets pledged as collateral for obligations were not transferred.

As at 31 December 2019 and 31 December 2018 temporarily unused fixed assets and contractual obligations to acquire fixed assets were absent.

16. Intangible Assets

USD'000	Licenses
Cost	
As at 1 January 2019	1,300
Additions	64
Disposal	-
Effect of translation to presentation currency	162
As at 31 December 2019	**1,526**
Depreciation	
As at 1 January 2019	(670)
Depreciation charge (Note 8)	(53)
Disposals	-
Effect of translation to presentation currency	(85)
As at 31 December 2019	**(808)**
Carrying value	
As at 31 December 2019	**718**

16. Intangible Assets (continued)

USD'000	Licenses
Cost	
As at 1 January 2018	1,505
Additions	90
Disposal	(32)
Effect of translation to presentation currency	(263)
As at 31 December 2018	**1,300**
Depreciation	
As at 1 January 2018	(730)
Depreciation charge (Note 8)	(104)
Disposals	32
Effect of translation to presentation currency	132
As at 31 December 2018	**(670)**
Carrying value	
As at 31 December 2018	**630**

17. Other Assets

	31 December 2019 USD'000	**31 December 2018** USD'000
Other financial assets		
Deposits and advances paid	313	198
Total other financial assets	**313**	**198**
Other non-financial assets		
Tax prepayments	20	130
Total other non-financial assets	**20**	**130**
Total other assets	**333**	**328**

18. Amounts payable under repurchase agreements

	31 December 2019 USD'000	**31 December 2018** USD'000
Amounts payable under repo with Central Counterparty	9,694	-
Total amounts payable under repurchase agreements	**9,694**	**-**

As at 31 December 2019 amounts payable under repo agreements consist of funds received under transactions with Central Counterparty on the pledge of securities, with the maturity on 9 January 2020 and repo rate from 6.75% to 6.8% (as at 31 December 2018: amounts payable under repo agreements were absent).

18. Amounts payable under repurchase agreements (continued)

Securities pledged under repurchase agreements

The Bank pledged the following financial assets at fair value through other comprehensive income as collateral for repurchase agreements (see Note 14):

	31 December 2019 USD'000	31 December 2018 USD'000
Debt instruments		
Corporate bonds	7,785	-
Bank bonds	4,067	-
Total financial assets at fair value through other comprehensive income pledged under repurchase agreements	**11,852**	**-**

19. Amounts due to Banks

	31 December 2019 USD'000	31 December 2018 USD'000
Term deposits	111,465	88,255
Vostro accounts	9,995	23,137
Total amounts due to banks	**121,460**	**111,392**

Significant exposures

As at 31 December 2019 there was one related group of banks (as at 31 December 2018: one related group) which individually comprised more than 10% of total amounts due to banks. The total amount of balances on such accounts as at 31 December 2019 was 97,369 USD'000 (as at 31 December 2018: 109,905 USD'000). (See Note 29 "Related Party Transactions").

20. Amounts due to Customers

	31 December 2019 USD'000	31 December 2018 USD'000
Current accounts and demand deposits		
- commercial customers	25,522	25,753
- individuals	2,634	892
Term deposits		
- commercial customers	22,648	31,195
- individuals	1,787	1,567
Total amounts due to customers	**52,591**	**59,407**

20. Amounts due to Customers (continued)

Significant exposures

As at 31 December 2019 there was one group of companies, which individually comprised more than 10% of total amounts due to customers (as at 31 December 2018: three groups of companies). The total amount of balances on such accounts as at 31 December 2019 was 13,908 USD’000 (as at 31 December 2018: 28,330 USD’000).

The table below displays customer accounts and deposits from customers by economic branches:

	31 December 2019 USD’000	**31 December 2018** USD’000
Mineral manufacturing	17,386	9,705
Construction	9,618	17,742
Transport and communication	8,005	6,870
Trade	6,032	4,416
Individuals	4,421	2,459
Production and distribution of electrical energy, gas, and water	2,375	260
Machinery and equipment	1,707	1,326
Manufacturing	768	5,091
Metallurgy industry	658	10,572
Real estate	250	170
Paper-and-pulp industry and publishing activities	227	334
Financial	14	284
Individual entrepreneurs	1	1
Food services	1	5
Other	1,128	172
Total amounts due to customers	**52,591**	**59,407**

21. Subordinated Loans

As at 31 December 2019 shareholders granted to the Bank the following subordinated loans:

- Loan denominated in USD in the amount of 700 USD’000 (2018: 700 USD’000) with the maturity date of December 2025 and annual interest rate of 6.13% (LIBOR + 3.1%);
- Loan denominated in EUR in the amount of 5,320 USD’000 (2018: 5,433 USD’000) with the maturity date of December 2025 and annual interest rate of 1.00% (LIBOR + 1%);
- Loan denominated in USD in the amount of 2,000 USD’000 (2018: 2,000 USD’000) with the maturity date of December 2025 and annual interest rate of 5.03% (LIBOR + 2%);
- Loan denominated in USD in the amount of 1,000 USD’000 (2018: 1,000 USD’000) with the maturity date of December 2025 and annual interest rate of 5.03% (LIBOR + 2%).

22. Other Liabilities

	31 December 2019 USD'000	31 December 2018 USD'000
Other financial liabilities		
Payables to employees	559	448
Lease liabilities	234	-
Trade payables	46	37
Total other financial liabilities	**839**	**485**
Other non-financial liabilities		
Other taxes payable	109	38
Total other non-financial liabilities	**109**	**38**
Total other liabilities	**948**	**523**

23. Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are, as follows:

	Assets		**Liabilities**		**Net Position**	
USD'000	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Derivative financial instruments	-	12	-	-	**-**	**12**
Loans to customers	-	-	(4,065)	(3,404)	**(4,065)**	**(3,404)**
Financial assets at fair value through other comprehensive income	-	-	(99)	(35)	**(99)**	**(35)**
Other assets	7	-	-	-	**7**	**-**
Fixed assets and right-of-use assets	-	20	(14)	-	**(14)**	**20**
Intangible assets	-	-	-	-	**-**	**-**
Other liabilities	34	-	-	(8)	**34**	**(8)**
Tax assets / (liabilities)	**41**	**32**	**(4,178)**	**(3,447)**	**(4,137)**	**(3,415)**

23. Deferred Tax Assets and Liabilities (continued)

Movement in temporary differences during the year ended 31 December 2019:

USD'000	**Balance as at 1 January 2019**	**Recognised in statement of profit and loss (Note 9)**	**Recognised in other comprehen-sive income**	**Effect of translation to presentation currency**	**Balance as at 31 December 2019**
Derivative financial instruments	**12**	(13)	-	1	**-**
Loans to customers	**(3,404)**	(235)	-	(426)	**(4,065)**
Financial assets at fair value through other comprehensive income	**(35)**	25	(82)	(7)	**(99)**
Other assets	**-**	7	-	-	**7**
Fixed assets and right-of-use assets	**20**	(35)	-	1	**(14)**
Intangible assets	**-**	-	-	-	**-**
Other liabilities	**(8)**	41	-	1	**34**
Tax assets / (liabilities)	**(3,415)**	**(210)**	**(82)**	**(430)**	**(4,137)**

Movement in temporary differences during the year ended 31 December 2018:

USD'000	**Balance as at 1 January 2018**	**Recognised in statement of profit and loss (Note 9)**	**Recognised in other comprehen-sive income**	**Effect of translation to presentation currency**	**Balance as at 31 December 2018**
Derivative financial instruments	**(1)**	15	-	(2)	**12**
Loans to customers	**(2,740)**	(1,254)	-	590	**(3,404)**
Financial assets at fair value through other comprehensive income	**(271)**	51	177	8	**(35)**
Fixed assets and right-of-use assets	**19**	5	-	(4)	**20**
Intangible assets	**13**	(12)	-	(1)	**-**
Other liabilities	**7**	(16)	-	1	**(8)**
Tax assets / (liabilities)	**(2,973)**	**(1,211)**	**177**	**592**	**(3,415)**

24. Shareholders' Equity

As at 31 December 2019 the authorised, issued and fully paid outstanding share capital comprised of 192,300 ordinary shares with a par value of RUB 5,869 per share.

	2019	**2018**
Issued and fully paid ordinary shares as at 1 January	192,300	192,300
Issued and fully paid ordinary shares as at 31 December	**192,300**	**192,300**

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. Dividends payables are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation.

25. Risk Management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effect on the Bank's financial performance.

The major risks faced by the Bank are those related to price, credit exposures, liquidity and movements in interest rates and foreign exchange rates.

The Executive Management Board has overall responsibility for the oversight of risk management, management of key risks and approving its risk management policies and procedures. The Assets and Liabilities Management Committee ("ALCO") as well as operational departments are accountable for all risks assumed and responsible for their continuous and active management. An independent control process is implemented to provide an objective check on risk-taking activities when required by the nature of the risks, in particular to balance short term profit incentives and the long term interests of the Bank.

The Risk Management Service of the Bank is responsible for the monitoring and implementation of risk management measures and oversight that the Bank operates within the established risk parameters.

Market (price, interest rate, currency risks), credit and liquidity risks are managed and controlled through a system of Committees (weekly ALCO meeting, and monthly Risk Committee meeting (including Market, Credit and Liquidity Risk Committees)), established by the Executive Management Board.

25.1 Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank on all credit related products granted to a Client.

Credit risk arises primarily from credit transactions with all counterparties (commercial legal entities, financial institutions and individuals) as well as from other types of credit risk related transactions including issuance of guarantees, L/C confirmations, purchase of debt securities, factoring operations, forward settlement transactions.

25. Risk Management (continued)

25.1 Credit risk (continued)

Credit risk management

Credit risk management includes approval of credit limits and their continuous monitoring and update, analyses of customers' applications and creditworthiness of applicants, approval of interest rates, approval of segregation of duties and authorities, continuous credit monitoring, credit portfolio management, including non-performing loans.

The Risk Management Service of the Bank forms credit risk policy. The Executive Management Board approves credit risk policy and approves key credit risk related transactions. Where necessary Executive Management Board approves Credit Committee decisions and establishes limits of authority.

Credit Committee of the Bank is responsible for the approval of credit risk related transactions in Roubles and foreign currencies with commercial legal entities and individuals. Credit Committee is also authorized to approve any changes to the existing credit risk transactions.

Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Risk Management Service, Credit Allocation and Financial Analysis Department and Financial Institutions Department.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product are approved quarterly by the Executive Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Credit risk limits, which comply with DenizBank Financial Services Group Credit Risk Policy, are approved by Risk Management Department of DenizBank A.S. on consolidated basis for DenizBank AG, DenizBank A.S. and the Bank. For the Bank, the total credit limit is set per country (Russia) in absolute amount, with a breakdown into counterparty types (corporate, bank, etc.). When the specific transaction exceeds the limits, a file is submitted to the Risk Management Service of Bank and ALCO.

During normal course of business the Bank also uses methodologies prescribed by the CBR for determining the ratios of maximum credit risk exposures, as well as other best practices.

Every credit application is analysed by the Bank taking into account the following aspects:

- Analysis of the creditworthiness of the customer, sources of repayment, its reputation and market position within the operating industry
- Analyses of the quality of the collateral, including the creditworthiness of the guarantors
- Analyses of the possible effect of the non-payment of the principal or interest amount on the Banks overall position
- Analyses of the creditworthiness of the customer are made from the standard list of documents required for the submission by the Bank. Additional documents may be requested subject to the Bank's decision. Documents such as financial statements and/or budgets are requested for submission at every reporting date during the whole period of the credit instrument.

Periodic monitoring of the credit risk on the portfolio is made collectively when new credit instruments are granted.

25. Risk Management (continued)

25.1 Credit risk (continued)

Collateral and other credit enhancements

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. Exposure to credit risk is also managed by obtaining sufficient and qualitative collateral. Bank foresees collateral as an instrument to mitigate the credit risk and considers collateral only as a secondary source of repayment.

The Bank normally considers as collateral any tangible assets, personal and corporate guarantees, property rights, cash equivalents, and cash flows which may be utilized to cover losses as a result of the default on the credit instrument (including principal and interest amounts outstanding at the moment of the default, as well as any other direct costs incurred by the Bank and associated with the possible default of the credit instrument).

Quality of the collateral is determined by its fair (market) value and liquidity. Fair (market) value of collateral is determined at each credit risk assessment date for every credit facility.

Allowance for expected credit losses

The Bank recognises the allowance for expected credit losses for loans and credit related commitments, including guarantees issued by the Bank, undrawn loan commitments.

The Bank estimates financial assets according to the credit risk group (Stage) determined by the Bank. Based on the analysis undertaken the Bank classifies financial assets into three Stages:

Stage 1 - 12-months' expected credit loss (12mECL)
Stage 2 - Lifetime expected credit loss - not credit-impaired assets (LTECL)
Stage 3 - Lifetime expected credit loss - credit-impaired assets (default).

When there has been a significant increase in credit risk the Bank transfers the asset from Stage 1 (an allowance is based on the 12 months' expected credit loss) to Stage 2 (an allowance is estimated for the lifetime expected credit losses). The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments or if there is objective evidence that the customer is unlikely to honour its obligations to the Bank in full.

The Bank calculates ECLs either on a collective or an individual basis.

In order to calculate expected credit losses on a collective basis the Bank groups financial assets with similar credit risk to analyse whether there has been a significant increase in credit risk.

In order to estimate credit risk of financial assets either on a collective or on individual basis the Bank analyses information related to past due payments, facilitated conditions provided to the counterparty in relation to the financial asset that shows a significant increase in credit risk or to the defaulted financial asset, and also other available reasonable and reasoned information received without committing unnecessary costs and efforts that affect future.

In the process of calculating the expected cash flows the Bank takes into account all contractual cash flows of the financial asset including cash flows from the realisation of collateral. The cash flows recorded by the Bank are then discounted using the effective interest rate method.

When an asset is uncollectible, it is written off against the related allowance for impairment. Also the Bank writes off accrued interest related to the uncollectible loans.

25. Risk Management (continued)

25.1 Credit risk (continued)

Definition of default and cure

The Bank considers a loan defaulted since it meets one of the following criteria:

- circumstances have arisen which indicate that the borrower is unlikely to pay its obligations to the Bank in full from the main sources;
- the borrower is more than 90 days past due on any significant credit obligations to the Bank.

Circumstances which indicate that the borrower is unlikely to pay its obligations to the Bank in full from the main sources are as follows:

- The borrower failed to fulfill contractual terms and the Bank demanded early repayment of the loan in accordance with the contract;
- Distressed restructuring - the Bank made a decision on a restructuring of obligations caused by financial difficulties of the counterparty which can result in significant decrease in contractual payments and/or postponement of loan repayments;
- Decision of the Bank on collateral realization to recover the loan;
- Decision of the Bank to sell the loan with significant economic loss (more than 10% of the loan value) as a result of credit-quality deterioration;
- The appeal of the Bank to the court with a petition to declare the borrower bankrupt;
- The borrower is declared bankrupt or bankruptcy proceedings were initiated against the borrower (supervision, external administration, financial rehabilitation) by the court;
- The borrower filed for the bankruptcy or took actions aimed at non-fulfilment of its obligations to the Bank (e.g., challenged the loan terms in the court);
- The borrower is deceased or incapacitated.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Exposure at default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default (LGD)

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

25. Risk Management (continued)

25.1 Credit risk (continued)

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in collateral values, including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or asset restructuring. In certain cases, the Bank may also consider that events explained in “The Probability of Default (PD) estimation process” are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

The Probability of Default (PD) estimation process

PD – a probability of default which is based on the risk segment and the internal rating (or past due group) for the relevant period (12 months or the entire life of the instrument (Lifetime PD)). Values are determined based on internal models, as well as migration matrices. PDs are then adjusted ECL calculations to incorporate forward looking information and Stage classification of the exposure.

Settlement risk

The Bank’s activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transactions specific and/or counterparty specific settlement limits which form part of the counterparty limit approval/monitoring process described earlier.

25. Risk Management (continued)

25.2 Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios.

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, whilst optimizing the return on risk.

Market risk is managed primarily through daily mark-to-market procedures and control of position limits in various types of financial instruments, as well as stop-loss limits and pre-settlements limits.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The risk is mitigated by establishing appropriate counterparty limits in accordance with the Bank's risk management policies and methodologies.

Sensitivity analyses below shows possible effect of the price change of the value of financial instruments as at 31 December 2019 and 31 December 2018 which would have been on the statement of comprehensive income and shareholders' equity given a 10% change in price (pre-tax):

USD'000	**31 December 2019**	**31 December 2018**
Price risk on fixed income debt securities	5,632	1,827

Foreign exchange rate risk

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

Foreign exchange rate risk is managed with respect to open foreign currency positions within the established by the CBR limits and other normative documents.

The Bank's foreign currency policy is reviewed and approved by the Executive Management Board.

The following table details the Bank's sensitivity analysis and possible effect on the statement of comprehensive income and shareholders' equity as at 31 December 2019 and 31 December 2018 assuming a 10% change in the functional currency against the relevant foreign currency:

USD'000	**2019**		**2018**	
	Comprehensive income	Capital	Comprehensive income	Capital
10% increase USD/RUB rate	(243)	(243)	(107)	(107)
10% decrease USD/RUB rate	243	243	107	107
10% increase EUR/RUB rate	665	665	(34)	(34)
10% decrease EUR/RUB rate	(665)	(665)	34	34

See Note 34 "Currency analysis".

25. Risk Management (continued)

25.2 Market risk (continued)

Interest rate risk

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

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

Vast majority of the interest rate assets and liabilities of the Bank have a fixed rate interest. Settlement Treasury Department of the Bank is responsible for monitoring the interest rate margin gap and considers that the Bank is not significantly exposed to a fluctuation in the interest rates with respect to its cash flows.

An analysis of sensitivity of the Bank's projected net interest rate margin for the year to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) parallel shifts in all yield curves (assuming a constant balance sheet position), which could have had an effect on the Bank's statement of comprehensive income and shareholders' equity is presented as follows:

USD'000	**31 December 2019**	**31 December 2018**
100 bp parallel increase	(437)	(199)
100 bp parallel decrease	437	199

See Note 31 "Average effective interest rates".
See Note 32 "Interest rate repricing analysis".

25.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities as a result of mismatch in maturities between cash inflows and outflows in respective currencies.

Treasury Department is responsible for daily management of the current, short-term and long-term liquidity position of the Bank.

Liquidity Management Committee, Credit/Finance Committee are responsible for monitoring the liquidity positions of the Bank. Internal Control Committee insures that appropriate procedures are in place over the management and control of the liquidity positions.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBR. These ratios include:

- Instant liquidity ratio (N2), which regulates (limits) the risk of the Bank losing liquidity within one business day and determines the minimum ratio of the amount of highly liquid assets of the Bank to the amount of the Bank's liabilities on demand deposits
- Current liquidity ratio (N3), which regulates (limits) the risk of liquidity loss by the Bank during the nearest 30 days to the settlement date and determines the minimum ratio of the amount of the Bank's liquid assets to the amount of the Bank's liabilities on demand accounts and for up to 30 calendar days

25. Risk Management (continued)

25.3 Liquidity risk (continued)

- Long-term liquidity ratio (N4), which regulates (limits) the risk of the Bank losing liquidity as a result of placing funds in long-term assets and determines the maximum permissible ratio of the Bank's credit claims for the remaining period up to the maturity date of over 365 or 366 calendar days to own funds (capital) The Bank, as well as the Bank's obligations and liabilities (liabilities) with the remaining period up to the maturity date exceeding 365 or 366 calendar days.

See also Note 33 “Maturity analysis”.

25.4 Regulatory risk

Regulatory risk - is the risk of financial loss occurring as a result of non-compliance with legislation of the Russian Federation, internal documents of the Bank, standards of self-regulatory organisations (if such standards or rules are mandatory for the Bank) and also as a result of the application of sanctions or other enforcement actions undertaken by the regulatory authorities. The main purpose of regulatory risk management is the reduction (elimination) of potential losses for the Bank as well as the imposition of sanctions and / or other enforcements on behalf the regulatory authorities due to the non-compliance with the requirements of federal laws and other legal acts of the Russian Federation, internal documents of the Bank, standards of self-regulatory organisations (if such standards or rules are mandatory for the Bank.

The main objectives of regulatory risk management are:
- Obtaining reliable information on the regulatory risk
- Determination of the acceptable level of regulatory risk for the Bank
- Development of internal control procedures aimed at preventing / minimising the consequences of risk realisation for the Bank
- Permanent monitoring of regulatory risk
- Improving the approaches to risk management.

Control over the upper limit and monitoring of regulatory risk is carries out by those charged with governance, including by:
- Establishing and ensuring the effective functioning of the internal control system
- Regular evaluation of the effective functioning of the internal control system carried out at the meetings as well as discussion of the structure of internal controls and measures for improving its efficiency
- Review of internal documents on internal control, annual and currents audit plans of the Internal Audit Service, reports on the implementation of the audit plans of the Internal Audit Service, annual reports on implementation of the workplans of Internal Control Service, other documents;
- Taking actions to ensure that the recommendations and comments of the Internal Audit Service, the Internal Control Service, the audit organization conducting (or was conducting) audit, and the regulatory authorities are promptly implemented by the executive bodies of the Bank.

The identification of regulatory risk is carried out permanently and is based on the following areas:
- Analysis of changes in the legislation of the Russian Federation which may affect the efficiency of the Bank's activities
- Analysis of internal documents of the Bank for compliance with the existing legislation of the Russian Federation as well as the timeliness of their updating
- Analysis of the regulatory risk exposure of the Bank’s activities, taking into account its priorities and development strategies.

25. Risk Management (continued)

25.5 Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

Capital requirements are determined for different operations and activities as to maximize the return on the distributed capital taking into account respective risk factors. When determining capital requirements other factors such as availability of human and other resources, redistribution of capital between the different operations, alignment with long-term strategy of the Bank are also taken into consideration. Capital requirements and distribution policies are analyzed and approved on a regular basis by the Board of Directors during annual budgeting process for the Bank and different business processes.

The CBR sets and monitors capital adequacy requirements of the Bank. Under the current capital requirements set by the CBR banks have to maintain a ratio of capital to risk weighted assets ("Capital Adequacy Ratio") above the prescribed minimum level.

As at 31 December 2019 and 31 December 2018 this minimum level required by the CBR was 8%.

As at 31 December 2019 and 31 December 2018 the capital adequacy ratio calculated in accordance with the requirements of the Bank of Russia was as follows:

	2019 USD'000	**2018** USD'000
Tier I Capital	72,552	57,238
Tier II Capital	17,918	16,594
Total capital	**90,470**	**73,832**
Risk weighted assets	**405,662**	**259,969**
Capital adequacy ratio (H1.0)	**22,30%**	**28,39%**

The Bank monitors compliance with these regulatory requirements on a daily basis and sends monthly reports to the Bank of Russia. The Bank was in compliance with the above ratios during the years ended 31 December 2019 and 31 December 2018.

Capital adequacy ratio of the Bank:

Capital adequacy (%):	**31 December 2019**	**31 December 2018**	**The threshold**
Core equity Tier I Capital adequacy ratio (H1.1)	17,89%	22,01%	>4.5%
Tier I Capital adequacy ratio (H1.2)	17,89%	22,01%	>6%
Total capital adequacy ratio (H1.0)	**22,30%**	**28,39%**	**>8%**
Financial leverage ratio (H1.4)	17,07%	17,92%	>3%

26. Offsetting of Financial Instruments

Disclosures presented in the following tables include information on financial assets and financial liabilities which are:

- offset in a financial statement of the Bank, or
- are subject to a legally enforceable agreement of offsetting or similar agreements that apply to similar financial instruments, regardless of whether they are offset in a financial statement.

Operations with derivative financial instruments of the Bank, which are not carried on a stock exchange, conducted in accordance with general agreements with counterparties of the Bank. Basically, in accordance with these agreements, the amounts payable by each counterparty on a particular day in respect of pending operations in the same currency form a single net amount payable by one party to the other. Under certain circumstances such as credit event or default; all outstanding transactions under contracts are terminated. The net value of transactions at the time of termination is estimated and paid as a single amount.

26. Offsetting of Financial Instruments (continued)

The table below presents financial assets and financial liabilities, being a subject of legally enforceable netting agreements and similar agreements as at 31 December 2019:

USD'000 Type of financial assets / financial liabilities	Total sum of financial assets/financial liabilities	Total sum of financial assets/financial liabilities, which were offset in a financial statement	Net sum of financial assets/financial liabilities, which were not offset in a financial statement	Sums which were not offset in a financial statement		Net sum
				Financial instruments	Obtained cash security	
Derivatives - assets	37	-	37	37	-	-
Total financial assets	**37**	**-**	**37**	**37**	**-**	**-**
Derivatives - liabilities	23	-	23	(23)	-	-
Amounts payable under repurchase agreements	9,694		9,694	(9,694)		
Total financial liabilities	**9,717**	**-**	**9,717**	**(9,717)**	**-**	**-**

The table below presents financial assets and financial liabilities, being a subject of legally enforceable netting agreements and similar agreements as at 31 December 2018:

USD'000 Type of financial assets / financial liabilities	Total sum of financial assets/financial liabilities	Total sum of financial assets/financial liabilities, which were offset in a financial statement	Net sum of financial assets/financial liabilities, which were not offset in a financial statement	Sums which were not offset in a financial statement		Net sum
				Financial instruments	Obtained cash security	
Derivatives - assets	32	-	32	32	-	-
Total financial assets	**32**	**-**	**32**	**32**	**-**	**-**
Derivatives - liabilities	101	-	101	(101)	-	-
Total financial liabilities	**101**	**-**	**101**	**(101)**	**-**	**-**

27. Contingencies and Commitments

27.1 Insurance

The Bank insures its fixed assets amounting to 673 USD'000 (as at 31 December 2018: 553 USD'000), civil liability amounting to 242 USD'000 (as at 31 December 2018: 216 USD'000), cash on hand amounting to 3,231 USD'000 (as at 31 December 2018: 2,879 USD'000) and business interruption amounting to 8,335 USD'000 (as at 31 December 2018: 4,821 USD'000).

27.2 Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received. On the basis of its own estimates and internal and external professional advice the Management of the Bank is of the opinion that no material losses will be incurred in respect of the claims. Accordingly, no provision for any claims has been made in these financial statements.

27.3 Credit related commitments and performance guarantees

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 1 year.

The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	31 December 2019 USD'000	**31 December 2018** USD'000
Contracted amount		
Guarantees and letters of credit	146,213	73,740
Undrawn loan commitments	22,058	21,814
Total commitments	**168,271**	**95,554**

Significant exposures

As at 31 December 2019 the Bank had two exposures to counterparties (as at 31 December 2018: three exposures to counterparties), which individually comprised more than 10% of guarantees issued. The gross value of these exposures as at 31 December 2019 was 124,902 USD'000 (as at 31 December 2018: 67,148 USD'000).

27.4 Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

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

27. Contingencies and Commitments (continued)

27.4 Taxation contingencies (continued)

According to Russian transfer pricing rules Russian tax authorities are allowed in certain circumstances to adjust controlled transactions' prices for tax purposes and may charge additional income tax and value added tax on these transactions if transfer prices deviate from market prices and this deviation resulted in underpayment of tax to the Russian budget. Controlled transactions include in particular transactions between related parties (with a few exceptions) and certain types of cross-border transactions and domestic transactions between related parties. In relation to securities, derivatives and interests there are special transfer pricing rules.

During the year ended 31 December 2019 the Bank have been determining its tax liabilities arising from controlled transactions using actual transaction prices.

As at 31 December 2019 the Bank's management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

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 (i.e. an exit price) in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market condition, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value measurements are analyzed by level in the fair value hierarchy as follows:
- Level 1 measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) and
- Level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

The fair value of financial instruments at fair value is based on market prices at the reporting date. The fair value of financial assets and liabilities not measured at fair value in the financial statements is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the currency, the maturity of the instrument and the credit risk of the counterparty.

The following table shows an analysis of financial instruments estimated at fair value by level of the fair value hierarchy as at 31 December 2019:

	Level 1 USD'000	**Level 2** USD'000	**Level 3** USD'000	**Total** USD'000
Financial assets				
Financial assets at fair value through other comprehensive income	56,323	-	-	**56,323**
Derivative financial assets	-	37	-	**37**
Financial liabilities				
Derivative financial liabilities	-	23	-	**23**

28. Fair Value of Financial Instruments (continued)

The following table shows an analysis of financial instruments estimated at fair value by level of the fair value hierarchy as at 31 December 2018:

	Level 1 USD'000	**Level 2** USD'000	**Level 3** USD'000	**Total** USD'000
Financial assets				
Financial assets at fair value through other comprehensive income	18,663	-	-	**18,663**
Derivative financial assets	-	32	-	**32**
Financial liabilities				
Derivative financial liabilities	-	101	-	**101**

Management of the Bank believes that as at 31 December 2019 and 31 December 2018 the fair value of assets and liabilities not measured at fair value is not significantly different from their book value.

The following table presents an analysis of financial instruments not recorded at fair value by level of the fair value hierarchy as at 31 December 2019:

	Level 1 USD'000	**Level 2** USD'000	**Level 3** USD'000	**Total** USD'000
Assets				
Cash	873	-	-	**873**
Amounts due from the Central Bank of Russia	17,382	-	2,085	**19,467**
Amounts due from banks	12,958	897	-	**13,855**
Loans to customers	-	-	205,005	**205,005**
Other financial assets	-	-	313	**313**
Liabilities				
Amounts payable under repurchase agreements	-	9,694	-	**9,694**
Due to banks	9,995	111,465	-	**121,460**
Due to customers	28,155	24,436	-	**52,591**
Subordinated loans	-	9,020	-	**9,020**
Other financial liabilities	-	-	839	**839**

The following table presents an analysis of financial instruments not recorded at fair value by level of the fair value hierarchy as at 31 December 2018:

	Level 1 USD'000	**Level 2** USD'000	**Level 3** USD'000	**Total** USD'000
Assets				
Cash	1,801	-	-	**1,801**
Amounts due from the Central Bank of Russia	33,138	-	2,530	**35,668**
Amounts due from banks	13,487	7,138	-	**20,625**
Loans to customers	-	-	185,285	**185,285**
Other financial assets			198	**198**
Liabilities				
Amounts due to banks	23,137	88,255	-	**111,392**
Amounts due to customers	26,645	32,762	-	**59,407**
Subordinated loans	-	9,133	-	**9,133**
Other financial liabilities			485	**485**

29. Related Party Transactions

The Bank's shareholding structure as at 31 December 2019 is, as follows:

- DenizBank A.S. 49%
- DenizBank AG 51%.

29.1 Transactions with key management personnel

During 2019 total key management personnel remuneration was 655 USD'000 (2018: 1,037 USD'000).

The outstanding balances and average interest rates as at 31 December 2019 and 31 December 2018 with key management personnel are as follows:

	31 December 2019 USD'000	**Average effective interest rate**	**31 December 2018** USD'000	**Average effective interest rate**
Assets				
Loans to customers	-	-	5	11%
Other assets	1	-	-	-
Liabilities				
Amounts due to customers	2,401	4,47%	191	5,68%
Other liabilities	366	-	371	-

Information on the transactions with key management personnel for 2019 is, as follows:

	31 December 2019 USD'000	**Payment** USD'000	**Repayment** USD'000	**Effect of translation to presentation currency** USD'000	**31 December 2018** USD'000
Assets					
Loans to customers	-	2	(8)	1	5
Other assets	1	1	-	-	-

	31 December 2019 USD'000	**Withdrawal** USD'000	**Placement** USD'000	**Effect of translation to presentation currency** USD'000	**31 December 2018** USD'000
Liabilities					
Amounts due to customers	2,401	(9,016)	11,108	118	191
Other liabilities	366	(97)	50	42	371

Information on the transactions with key management personnel for 2018 is, as follows:

	31 December 2018 USD'000	**Payment** USD'000	**Repayment** USD'000	**Effect of translation to presentation currency** USD'000	**31 December 2017** USD'000
Assets					
Loans to customers	5	3	(5)	(1)	8

	31 December 2018 USD'000	**Withdrawal** USD'000	**Placement** USD'000	**Effect of translation to presentation currency** USD'000	**31 December 2017** USD'000
Liabilities					
Amounts due to customers	191	(674)	735	(34)	164
Other liabilities	371	(187)	207	(75)	426

29. Related Party Transactions (continued)

29.1 Transactions with key management personnel (continued)

Amounts included in the statement of comprehensive income in relation to transactions with key management personnel are, as follows:

	2019 USD'000	2018 USD'000
Interest income	-	1
Interest expense	3	(2)

29.2 Transactions with Shareholders

	31 December 2019 RUB'000	Average effective interest rate	31 December 2018 RUB'000	Average effective interest rate
Assets				
Amounts due from banks	3,232	-	2,436	-
Liabilities				
Amounts due to banks	110,815	1,02%	109,905	1,28%
Subordinated loans	9,020	2,74%	9,133	2,34%

Information on the transactions with Shareholders for 2019 is, as follows:

	31 December 2019 USD'000	Payment USD'000	Repayment USD'000	Effect of translation to presentation currency USD'000	31 December 2018 USD'000
Assets					
Amounts due from banks	3,232	6,879,719	(6,879,243)	320	2,436

	31 December 2019 USD'000	Withdrawal USD'000	Placement USD'000	Effect of translation to presentation currency USD'000	31 December 2018 USD'000
Liabilities					
Amounts due to banks	110,815	(14,636,595)	14,624,621	12,884	109,905
Subordinated loans	9,020	(4,654)	3,479	1,062	9,133

Information on the transactions with Shareholders for 2018 is, as follows:

	31 December 2018 USD'000	Payment USD'000	Repayment USD'000	Effect of translation to presentation currency USD'000	31 December 2017 USD'000
Assets					
Amounts due from banks	2,436	6,097,000	(6,138,912)	(4,218)	48,566

	31 December 2018 USD'000	Withdrawal USD'000	Placement USD'000	Effect of translation to presentation currency USD'000	31 December 2017 USD'000
Liabilities					
Amounts due to banks	109,905	(13,338,067)	13,319,323	(24,313)	152,962
Subordinated loans	9,133	(6,281)	7,784	(1,749)	9,379

29. Related Party Transactions (continued)

29.2 Transactions with Shareholders (continued)

Commitments and Contingent liabilities

As at 31 December 2019 the Bank has also obtained from shareholders 32 guarantees (as at 31 December 2018: 31 guarantees) as securities for granted loans to customers with total value of 109,188 USD'000 (2018: 149,216 USD'000) and 9 guarantees (as at 31 December 2018: 6 guarantees) as security for guarantees issued with total value of 10,943 USD'000 (as at 31 December 2018: 17,135 USD'000).

Amounts included in the statement of comprehensive income in relation to transactions with Shareholders are, as follows:

	2019 USD'000	**2018** USD'000
Interest income	36	302
Interest expense	(1,549)	(1,575)
Fee and commission income	1,189	1,085
Fee and commission expense	(418)	(412)
Net gains / (losses) from foreign exchange transactions	(1,662)	(1,105)
Net gains / (losses) on financial assets at fair value through profit or loss	2,896	272

30. Cash and Cash Equivalents

Cash and cash equivalents as at the end of the year as shown in the statement of cash flows are, as follows:

	31 December 2019 USD'000	**31 December 2018** USD'000
Cash	873	1,801
Due from the Central Bank of Russia	17,382	33,115
Due from banks	13,855	20,623
Total cash and cash equivalents	**32,110**	**55,539**

As at 31 December 2018 amounts due to banks are included in cash and cash equivalents less accrued interest in the amount of 2 USD'000, amounts due from the Central Bank of Russia - less accrued interest in the amount of 23 USD'000 and mandatory balances with the CBR.

31. Average Effective Interest Rates

The table below presents the Bank's interest bearing assets and liabilities and the corresponding average effective interest rates as at 31 December 2019 and 31 December 2018:

	Effective interest rates as at 31 December 2019	**Effective interest rates as at 31 December 2018**
Interest Bearing Assets		
Amounts due from the Central Bank of Russia	0 – 5,25%	0 - 7,73%
Amounts due from banks		
- RUB	0%	0 - 7,5%
- USD	0,8%	0 – 1,5%
- EUR	0%	0%
- other	0%	0%
Loans to customers		
- RUB	7,05 - 13%	8 - 12%
- USD	2 – 3,3%	2 - 8%
- EUR	1 – 8,5%	3,75 - 8%
Financial assets at fair value through other comprehensive income		
- RUB	6,15 – 9,15%	8 - 10%
Interest Bearing Liabilities		
Amounts payable under repurchase agreements		
- RUB	6,75 – 6,8%%	0%
- USD	0%	0%
Amounts due to banks		
- RUB	0 - 7%	0 - 5%
- USD	0 – 2,4%	0%
- EUR	0 - 1%	0 - 3%
Amounts due to customers		
- RUB	0 – 7,5%	0 – 7,5%
- USD	0 – 2,5%	0 - 2%
- EUR	0 – 0,35%	0%
- other	0%	0%
Subordinated loans		
- USD	5 - 6%	4 - 5%
- EUR	1%	1%

32. Interest Rate Repricing Analysis

The table below presents assets and liabilities by contractual interest rate repricing date as at 31 December 2019:

	Less than 1 month USD'000	**1 to 3 months** USD'000	**3 months to 1 year** USD'000	**More than 1 year** USD'000	**Maturity Undefined** USD'000	**Total** USD'000
Assets						
Cash	873	-	-	-	-	**873**
Amounts due from the Central Bank of Russia	19,467	-	-	-	-	**19,467**
Amounts due from banks	13,855	-	-	-	-	**13,855**
Derivative financial assets	37	-	-	-	-	**37**
Loans to customers	37,435	27,560	127,421	12,589	-	**205,005**
Financial assets at fair value through other comprehensive income	13,100	11,957	4,030	27,236	-	**56,323**
Total assets	**84,767**	**39,517**	**131,451**	**39,825**	**-**	**295,560**
Liabilities						
Derivative financial liabilities	23	-	-	-	-	**23**
Amounts payable under repurchase agreements	9,694	-	-	-	-	**9,694**
Amounts due to banks	59,799	44,859	16,802	-	-	**121,460**
Amounts sue to customers	32,848	17,928	1,550	265	-	**52,592**
Subordinated loans	-	-	9,020	-	-	**9,020**
Total liabilities	**102,364**	**62,787**	**27,372**	**265**	**-**	**192,788**
Net position as at 31 December 2019	**(17,597)**	**(23,270)**	**104,079**	**39,560**	**-**	**102,772**
Net position as at 31 December 2018	(35,587)	9,022	79,157	29,449	-	82,041

32. Interest Rate Repricing Analysis (continued)

The table below presents assets and liabilities by contractual interest rate repricing date as at 31 December 2018:

	Less than 1 month USD'000	**1 to 3 months** USD'000	**3 months to 1 year** USD'000	**More than 1 year** USD'000	**Maturity Undefined** USD'000	**Total** USD'000
Assets						
Cash	1,801	-	-	-	-	**1,801**
Amounts due from the Central Bank of Russia	35,668	-	-	-	-	**35,668**
Amounts due from banks	20,625	-	-	-	-	**20,625**
Derivative financial assets	32	-	-	-	-	**32**
Loans to customers	20,583	29,115	106,138	29,449	-	**185,285**
Financial assets at fair value through other comprehensive income	-	13,179	5,484	-	-	**18,663**
Total assets	**78,709**	**42,294**	**111,622**	**29,449**	**-**	**262,074**
Liabilities						
Derivative financial liabilities	101	-	-	-	-	**101**
Amounts due to banks	76,955	22,974	11,463	-	-	**111,392**
Amounts due to customers	37,240	10,298	11,869	-	-	**59,407**
Subordinated loans	-	-	9,133	-	-	**9,133**
Total liabilities	**114,296**	**33,272**	**32,465**	**-**	**-**	**180,033**
Net position as at 31 December 2018	**(35,587)**	**9,022**	**79,157**	**29,449**	**-**	**82,041**
Net position as at 31 December 2017	(28,905)	31,903	42,482	40,057	(2,738)	82,799

33. Maturity Analysis

The table below presents the undiscounted cash flows as at 31 December 2019 of the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognised loan commitments vary significantly from this analysis.

	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**Maturity undefined**	**Notional value of cash flow**	**Carrying amount**
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Non-derivative financial instruments							
Amounts payable under repurchase agreements	9,710	-	-	-	-	**9,710**	**9,694**
Amounts due to banks	59,828	44,953	16,857	-	-	**121,638**	**121,460**
Amounts due to customers	32,846	18,151	1,561	272	-	**52,830**	**52,591**
Subordinated loans	-	61	186	10,253	-	**10,500**	**9,020**
Other liabilities	101	82	129	-	531	**843**	**839**
Derivative financial instruments							
Inflow	(34,200)	-	-	-	-	**(34,200)**	**(14)**
Outflow	34,186	-	-	-	-	**34,186**	**-**
Total liabilities	**102,471**	**63,247**	**18,733**	**10,525**	**531**	**195,507**	**193,590**
Credit related commitments	1,729	39,451	42,111	62,922	-	**146,213**	

33. Maturity Analysis (continued)

The table below presents the undiscounted cash flows as at 31 December 2018 of the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognised loan commitments vary significantly from this analysis.

	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Maturity undefined	Notional value of cash flow	Carrying amount
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Non-derivative financial instruments							
Amounts due to banks	77,392	23,093	11,547	-	-	112,032	111,392
Amounts due to customers	37,262	10,409	12,062	-	-	59,733	59,407
Subordinated loans	-	53	54	10,546	-	10,653	9,133
Other liabilities	25	-	28	-	432	485	485
Derivative financial instruments							
Inflow	(59,908)	-	-	-	-	(59,908)	69
Outflow	59,977	-	-	-	-	59,977	
Total liabilities	**114,748**	**33,555**	**23,691**	**10,546**	**432**	**182,972**	**180,486**
Credit related commitments	3,038	8,109	20,917	41,676	-	73,740	

33. Maturity Analysis (continued)

The table below presents assets and liabilities by remaining contractual maturity dates as at 31 December 2019. Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**Maturity undefined**	**Total**
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Assets						
Cash	873	-	-	-	-	**873**
Amounts due from the Central Bank of Russia	19,467	-	-	-	-	**19,467**
Amounts due from banks	13,855	-	-	-	-	**13,855**
Derivative financial assets	37	-	-	-	-	**37**
Loans to customers	37,436	27,560	127,420	12,589	-	**205,005**
Financial assets at fair value through other comprehensive income	13,100	11,957	4,030	27,236	-	**56,323**
Fixed assets and right-of-use assets	-	-	-	-	317	**317**
Intangible assets	-	-	-	-	718	**718**
Current tax assets	-	-	-	-	1,074	**1,074**
Other assets	-	-	-	-	333	**333**
Total assets	**84,768**	**39,517**	**131,450**	**39,825**	**2,442**	**298,002**
Liabilities						
Derivative financial liabilities	23	-	-	-	-	**23**
Amounts payable under repo agreements	9,694	-	-	-	-	**9,694**
Amounts due to banks	59,799	44,859	16,802	-	-	**121,460**
Amounts due to customers	32,848	17,928	1,549	266	-	**52,591**
Subordinated loans	-	-	-	9,020	-	**9,020**
Current tax liabilities	-	-	-	-	383	**383**
Deferred tax liabilities	-	-	-	-	4,137	**4,137**
Other liabilities	100	80	128	-	640	**948**
Total Liabilities	**102,464**	**62,867**	**18,479**	**9,286**	**5,160**	**198,256**
Net position as at 31 December 2019	**(17,696)**	**(23,350)**	**112,971**	**30,539**	**(2,718)**	**99,746**
Net position as at 31 December 2018	**(49,157)**	**(17,002)**	**77,101**	**72,025**	**(3,724)**	**79,243**

33. Maturity Analysis (continued)

The table below presents assets and liabilities by remaining contractual maturity dates as at 31 December 2018. Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**Maturity undefined**	**Total**
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Assets						
Cash	1,801	-	-	-	-	**1,801**
Amounts due from the Central Bank of Russia	35,668	-	-	-	-	**35,668**
Amounts due from banks	20,625	-	-	-	-	**20,625**
Derivative financial assets	32	-	-	-	-	**32**
Loans to customers	6,059	11,935	100,461	66,830	-	**185,285**
Financial assets at fair value through other comprehensive income	-	4,335	-	14,328	-	**18,663**
Fixed assets and right-of-use assets	-	-	-	-	112	**112**
Intangible assets	-	-	-	-	630	**630**
Current tax assets	-	-	-	-	70	**70**
Other assets	-	-	-	-	328	**328**
Total assets	**64,185**	**16,270**	**100,461**	**81,158**	**1,140**	**263,214**
Liabilities						
Derivative financial liabilities	101	-	-	-	-	**101**
Amounts due to banks	76,955	22,974	11,463	-	-	**111,392**
Amounts due to customers	37,240	10,298	11,869	-	-	**59,407**
Subordinated loans	-	-	-	9,133	-	**9,133**
Deferred tax liabilities	-	-	-	-	3,415	**3,415**
Other liabilities	25	-	28	-	470	**523**
Total Liabilities	**114,321**	**33,272**	**23,360**	**9,133**	**3,885**	**183,971**
Net position as at 31 December 2018	**(50,136)**	**(17,002)**	**77,101**	**72,025**	**(2,745)**	**79,243**
Net position as at 31 December 2017	**(57,654)**	**17,518**	**41,885**	**83,788**	**(2,738)**	**82,799**

34. Currency Analysis

The table below presents the currency structure of assets and liabilities as at 31 December 2019:

	RUB USD'000	USD USD'000	EUR USD'000	Other USD'000	Total USD'000
Assets					
Cash	606	209	58	-	**873**
Amounts due from the Central Bank of Russia	19,467	-	-	-	**19,467**
Amounts due from banks	1,162	1,261	11,432	-	**13,855**
Derivative financial assets	37	-	-	-	**37**
Loans to customers	99,102	12,282	93,621	-	**205,005**
Financial assets at fair value through other comprehensive income	56,323	-	-	-	**56,323**
Fixed assets and right-of-use assets	317	-	-	-	**317**
Intangible assets	718	-	-	-	**718**
Current tax assets	1,074	-	-	-	**1,074**
Other assets	333	-	-	-	**333**
Total assets	**179,139**	**13,752**	**105,111**	**-**	**298,002**
Liabilities					
Derivative financial liabilities	-	-	23	-	**23**
Amounts payable under repo agreements	9,694	-	-	-	**9,694**
Amounts due to banks	24,889	5,476	91,095	-	**121,460**
Amounts due to customers	43,564	7,008	2,019	-	**52,591**
Subordinated loans	-	3,700	5,320	-	**9,020**
Current tax liabilities	383	-	-	-	**383**
Deferred tax liabilities	4,137	-	-	-	**4,137**
Other liabilities	948	-	-	-	**948**
Total Liabilities	**83,615**	**16,184**	**98,457**	**-**	**198,256**
Net on balance sheet position as at 31 December 2019	**95,524**	**(2,432)**	**6,654**	**-**	**99,746**
Net off balance sheet position as at 31 December 2019	8,438	-	(8,438)	-	-
Net (short) / long position as at 31 December 2019	**103,962**	**(2,432)**	**(1,784)**	**-**	**99,746**
Net (short) / long position as at 31 December 2018	80,647	(1,070)	(338)	4	79,243

34. Currency Analysis (continued)

The table below presents the currency structure of assets and liabilities as at 31 December 2018:

	RUB USD'000	USD USD'000	EUR USD'000	Other USD'000	Total USD'000
Assets					
Cash	1,271	446	84	-	**1,801**
Amounts due from the Central Bank of Russia	35,668	-	-	-	**35,668**
Amounts due from banks	6,527	2,473	11,621	4	**20,625**
Derivative financial assets	24	-	8	-	**32**
Loans to customers	63,776	25,320	96,189	-	**185,285**
Financial assets at fair value through other comprehensive income	18,663	-	-	-	**18,663**
Fixed assets and right-of-use assets	112	-	-	-	**112**
Intangible assets	630	-	-	-	**630**
Current tax assets	70	-	-	-	**70**
Other assets	328	-	-	-	**328**
Total assets	**127,069**	**28,239**	**107,902**	**4**	**263,214**
Liabilities					
Derivative financial liabilities	23	62	16	-	**101**
Amounts due to banks	18,949	12,046	80,397	-	**111,392**
Amounts due to customers	41,472	10,016	7,919		**59,407**
Subordinated loans	-	3,700	5,433	-	**9,133**
Deferred tax liabilities	3,415	-	-	-	**3,415**
Other liabilities	523	-	-	-	**523**
Total Liabilities	**64,382**	**25,824**	**93,765**	**-**	**183,971**
Net on balance sheet position as at 31 December 2018	**62,687**	**2,415**	**14,137**	**4**	**79,243**
Net off balance sheet position as at 31 December 2018	17,960	(3,485)	(14,475)	-	-
Net (short) / long position as at 31 December 2018	**80,647**	**(1,070)**	**(338)**	**4**	**79,243**
Net (short) / long position as at 31 December 2017	84,563	(1,849)	82	3	82,799

35. Geographical Analysis

The table below presents the geographical concentration of assets and liabilities as at 31 December 2019:

	Russia USD'000	**OECD** USD'000	**Other** USD'000	**Total** USD'000
Assets				
Cash	873	-	-	**873**
Amounts due from the Central Bank of Russia	19,467	-	-	**19,467**
Amounts due from banks	9,726	4,129	-	**13,855**
Derivative financial assets	37	-	-	**37**
Loans to customers	132,238	72,760	7	**205,005**
Financial assets at fair value through other comprehensive income	56,323	-	-	**56,323**
Fixed assets and right-of-use assets	317	-	-	**317**
Intangible assets	718	-	-	**718**
Current tax assets	1,074	-	-	**1,074**
Other assets	333	-	-	**333**
Total assets	**221,106**	**76,889**	**7**	**298,002**
Liabilities				
Derivative financial liabilities	23	-	-	**23**
Amounts payable under repo agreements	9,694	-	-	**9,694**
Amounts due to banks	9,692	111,768	-	**121,460**
Amounts due to customers	43,498	9,090	3	**52,591**
Subordinated loans	-	9,020	-	**9,020**
Current tax liabilities	383	-	-	**383**
Deferred tax liabilities	4,137	-	-	**4,137**
Other liabilities	948	-	-	**948**
Total Liabilities	**68,375**	**129,878**	**3**	**198,256**
Net on balance sheet position as at 31 December 2019	**152,731**	**(52,989)**	**4**	**99,746**

35. Geographical Analysis (continued)

The table below presents the geographical concentration of assets and liabilities as at 31 December 2018:

	Russia USD'000	OECD USD'000	Other USD'000	Total USD'000
Assets				
Cash	1,801	-	-	**1,801**
Amounts due from the Central Bank of Russia	35,668	-	-	**35,668**
Amounts due from banks	16,092	4,533	-	**20,625**
Derivative financial assets	32	-	-	**32**
Loans to customers	123,261	62,016	8	**185,285**
Financial assets at fair value through other comprehensive income	18,663	-	-	**18,663**
Fixed assets and right-of-use assets	112	-	-	**112**
Intangible assets	630	-	-	**630**
Current tax assets	70	-	-	**70**
Other assets	307	21	-	**328**
Total assets	**196,636**	**66,570**	**8**	**263,214**
Liabilities				
Derivative financial liabilities	78	23	-	**101**
Amounts due to banks	-	111,392	-	**111,392**
Amounts due to customers	54,316	5,066	25	**59,407**
Subordinated loans	-	9,133	-	**9,133**
Deferred tax liabilities	3,415	-	-	**3,415**
Other liabilities	523	-	-	**523**
Total Liabilities	**58,332**	**125,614**	**25**	**183,971**
Net on balance sheet position as at 31 December 2018	**138,304**	**(59,044)**	**(17)**	**79,243**

36. Events after the Reporting Date

At the beginning of March 2020, there was a significant increase of the exchange rate of ruble against the dollar and the euro and a decrease in the cost of oil and exchange indices in Russia. As of the reporting date, the official ruble exchange rate was RUB 71,8804 to USD and RUB 78,4431 to EUR.

At the beginning of 2020, the existence of a new coronavirus infection (Covid-19) was confirmed, which spread throughout mainland China and beyond, causing disruptions in business and economic activity. The Bank believes that this outbreak is a non-corrective event after the reporting date.

As the situation is unstable and rapidly developing the Bank’s management does not consider it reasonable to quantify the potential impact of this outbreak on the Bank. The impact of this outbreak on macroeconomic forecasts will be included in the Bank’s estimation of expected credit losses in accordance with IFRS 9 in 2020.

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The engagement partner on the audit
M. Karapetyan ______________