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Joint-Stock Company Commercial Bank “Solidarnost”

IFRS Consolidated Financial Statements and Independent Auditor’s Report

for the year ended 31 December 2019

Moscow | 2020

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Independent Auditor's Report [Translation from Russian original]

To the shareholders of Joint-Stock Company

Commercial Bank "Solidarnost"

Report on the audit of the consolidated financial statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the audited entity in accordance with the Rules of Independence of the Auditors and Audit Organizations and the Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Notes 1, 3 and 6 of the consolidated financial statements of the Group for the year ended 31 December 2019, which, among other matters, comprise the information about the fact that the Bank has been operating under the Participation Plan of the State Corporation "Deposit Insurance Agency" aimed at taking measures on the prevention of bankruptcy of JSC CB "Solidarnost" and the Financial Rehabilitation Plan (the FRP), being its integral part, approved by the Board of Directors of the Bank of Russia on 10 November 2017 (Minutes No. 29).

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We also draw attention to Note 33 of the consolidated financial statements of the Group for 2019, which, among other matters, comprises the information about the fact that the Board of Directors of the Bank of Russia (Minutes No.10 of 16 April 2020) approved changes to the Participation Plan of the State Corporation "Deposit Insurance Agency" aimed at bankruptcy prevention measures regarding JSC CB "Solidarnost".

Our opinion is not modified in respect of these matters.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report comprises the information included in the report titled "Information on Accepted Risks, Procedures of Their Assessment, Risk and Capital Management" of JSC CB "Solidarnost" for 2019, but does not include the consolidated financial statements of the Group for the year ended 31 December 2019 and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to communicate that fact. We have nothing to report in this regard.

Responsibilities of Management and Members of the Board of Directors of the Audited Entity for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

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audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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 audited entity's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the audited entity;

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 audited entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the audited entity to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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Report on audit according to the requirements of Federal Law No. 395-1 dated 2 December 1990 “On banks and banking activities”

Management of the Bank is responsible for compliance by the Group with the mandatory requirements set by the Bank of Russia as well as for internal control and organization of risk management systems of the Group to meet the requirements set by the Bank of Russia to the systems like this.

According to Article 42 of Federal Law No. 395-1 dated 2 December 1990 “On banks and banking activities” during the audit of the consolidated financial statements of the Group for the year ended 31 December 2019 we verified whether:

- the Group was in compliance with the mandatory requirements set by the Bank of Russia as at 1 January 2020;
- internal control and organization of risk management systems of the Group were in compliance with the requirements set by the Bank of Russia to the systems like this.

The said audit was limited to such procedures selected based on our judgement as requests, analysis, document examination, comparison of requirements, order and methodologies approved by the Group with the ones set by the Bank of Russia as well as restatement and comparison of amounts and other information.

The audit has established the following:

1) as for the Group’s meeting the mandatory requirements set by the Bank of Russia:

- we established that as at 1 January 2020 mandatory ratios of the Group were within the limits set by the Bank of Russia, except for maximum exposure per one borrower or a group of related borrowers (N6). The N6 ratio calculated for OJSC JSCB “Probusinessbank” will not be within the required limits during the rehabilitation phase of the Bank due to the fact that the previous rehabilitation manager is the biggest borrower of JSC CB “Solidarnost”. This violation will be eliminated after the financial rehabilitation of the Bank, when outstanding loans are written off through the established allowance for possible loan losses, as provided for in the Financial Rehabilitation Plan approved by the Board of Directors of the Bank of Russia on 10 November 2017 (Minutes No. 29).

We did not conduct any procedures as to accounting records of the Group other than procedures we believed were necessary for the purpose of expressing our opinion on whether the Group’s consolidated financial statements presented fairly, in all material respects, its financial position as at 1 January 2020, financial performance and cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards;

2) as for compliance of internal control and organization of risk management systems of the Group with the requirements set by the Bank of Russia to the systems like this:

a) in accordance with the requirements and recommendations of the Bank of Russia as at 1 January 2020 the internal audit service of the Bank reported to the Bank's Board of Directors, the risk management departments of the Bank did not report to the departments assuming the respective risks, the chiefs of the internal audit service and the risk management departments of the Bank met the qualifications set by the Bank of Russia;

b) as at 1 January 2020 the effective internal documents of the Bank indicating the methodologies for identification and management of credit, operational, market, interest rate, legal, liquidity and goodwill risks

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relevant for the Group, methodologies for stress-testing were approved by the empowered bodies of the Bank in accordance with the requirements and recommendations of the Bank of Russia;

c) as at 1 January 2020 the Bank had the reporting system for credit, operational, market, interest rate, legal, liquidity and goodwill risks relevant for the Group as well as for the equity (capital) of the Group;

d) frequency and order of reports prepared by the risk management departments of the Bank and the internal audit service of the Bank during 2019 as to management of credit, operational, market, interest rate, legal, liquidity and goodwill risks of the Group were in compliance with the Bank's internal documents; the said reports comprised the results of observation of efficiency measurement of the Group's respective methodologies conducted by the Bank's risk management departments and the Bank's internal audit service as well as recommendations to improve them;

e) as at 1 January 2020 the powers of the Board of Directors of the Bank and its executive bodies comprised control over the Group's compliance with risk limits and capital adequacy set by the Bank's internal documents. For the purpose of control over efficiency of risk management procedures applied in the Group and order of their application during 2019, the Board of the Directors of the Bank and its executive bodies discussed on a regular basis reports prepared by the risk management departments and the internal audit service, and dealt with the recommended measures to remove defects.

The procedures in respect of internal control and organization of risk management systems of the Group have been conducted only to verify whether internal control and organization of risk management systems of the Group are in compliance with the requirements set by the Bank of Russia to the systems like this.

President of FBK, LLC

RUSSIAN ORIGINAL IS DIGITALLY SIGNED
Certificate: [illegible]
Owner: Sergey Shapiguzov
Valid from 21 Oct 2019 to 21 Oct 2020

S.M. Shapiguzov
on the basis of Charter,
audit qualification certificate No. 01-001230 dated
28 January 2013, registration number 21606043397

Engagement partner on the
audit resulting in this independent
auditor's report

RUSSIAN ORIGINAL IS DIGITALLY SIGNED
Certificate: [illegible]
Owner: Semion Gobozov
Valid from 16 Mar 2020 to 16 Mar 2021

S.A. Gobozov
audit qualification certificate No. 02-000057 dated
28 December 2011, registration number
21706014385

Date of Independent Auditor's Report:
06 May 2020

Limited liability company
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Auditor's report

Audited entity

Name:

JSC CB “Solidarnost”

Place of business:

90 Kuibisheva St, Samara, 443099, Russian Federation.

State registration:

State Registration Certificate No. 1026300001848 issued by the Department of the Ministry of Taxes and Levies of Russia for the Samara Region on 7 August 2002.

General License of the Bank of Russia No. 554 dated 14 July 2017.

Auditor

Name:

FBK, LLC

Address of the legal entity within its location:

44/1 Myasnitskaya St, Bldg 2AB, Moscow, 101990, Russian Federation.

State registration:

Registered by the Moscow Registration Chamber on 15 November 1993, registration number 484.583.

The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number 1027700058286

Membership in a self-regulatory organization of auditors:

Member of the Self-regulatory organization of auditors Association "Sodruzhestvo".

Primary number of registration entry in the register of auditors and audit organizations of the self-regulatory organization of auditors 11506030481

БАНК СОЛИДАРНОСТЬ

Group Commercial Bank “Solidarnost” (Joint-Stock Company)

IFRS Consolidated Financial Statements

for the year ended 31 December 2019

2020

CONTENTS

Consolidated Statement of Financial Position as at 31 December 2019

in thousands of Russian Roubles	Note	2019	2018
ASSETS			
Cash and cash equivalents	14	7,948,832	5,658,202
Mandatory reserve balances with the Bank of Russia		200,826	212,708
Due from financial institutions	15	284,662	269,832
Loans and advances to customers	16	13,502,214	6,366,526
Financial assets held for income or sale	17	6,649,664	8,896,564
Financial assets at fair value through profit or loss	18	1,308,389	1,695,599
Investment property	19	1,211,275	909,438
Property, plant and equipment	20	965,936	773,977
Intangible assets	21	108,032	71,330
Assets of disposal groups, classified as "held for sale"		-	3,535
Other assets	22	609,781	271,282
Total assets		**32,789,611**	**25,128,993**
LIABILITIES			
Financial liabilities at fair value through profit or loss		2,276	-
Due to financial institutions	23	327,350	238,980
Customer accounts	24	26,413,518	18,382,316
Debt liabilities issued		86,645	3,460
Deferred tax liability	11	82,418	-
Other liabilities and provisions	25	500,573	104,870
Total liabilities		**27,412,780**	**18,729,626**
EQUITY			
Share Capital	26	10,110,001	10,110,001
Additional capital	27	4,011,960	4,011,960
Revaluation reserve for financial assets measured at fair value through other comprehensive income, held for income or sale		117,736	(10,852)
Revaluation reserve for property, plant and equipment		206,359	192,628
Accumulated loss		(9,069,225)	(7,904,370)
Total equity		**5,376,831**	**6,399,367**
Total liabilities and equity		**32,789,611**	**25,128,993**

Signed on behalf of the Management on 6 May 2020

Russian original is digitally signed
Series number of the key certificate:
01a123af007aab2582492ac91c2cf94722
Owner: Commercial Bank "Solidarnost" (JSC),
I.O. Chumakovsky
Valid from 10 March 2020 to 10 March 2021

Chairman of the Management Board
I.O. Chumakovsky

Russian original is digitally signed
Series number of the key certificate:
0142df5c0096ab5e984b81c4c930ca787c
Owner: Commercial Bank "Solidarnost" (JSC),
Yu.V. Malysheva
Valid from 07 April 2020 to 07 April 2021

Chief Accountant
Yu.V. Malysheva

Notes on pages 9 to 76 form an integral part of these financial statements.

Consolidated Statement of Profit or Loss for the Year Ended 31 December 2019

in thousands of Russian Roubles	Note	2019	2018
Interest income	5	2,533,875	1,690,529
Interest expense	5	(1,753,608)	(1,197,357)
Net interest income		**780,267**	**493,172**
Change in allowance for expected credit losses on interest-bearing assets	6	(466,486)	400,552
Net interest income after change in allowance for expected credit losses		**313,781**	**893,724**
Operating income		**285,523**	**864,305**
Net realized gains / (losses) from securities held for income or sale		109,522	380,431
Income on revaluation of financial assets at fair value through profit or loss		37,690	-
Net gain from transactions with foreign currency and foreign exchange revaluation	7	122,059	128,671
Fee and commission income	8	198,426	63,226
Fee and commission expense	8	(26,745)	(15,798)
Change in other provisions and estimated liabilities	6,25	(133,358)	(620)
(Loss) / gain on revaluation and transactions with investment property		(97,352)	154,365
Other operating income	9	75,281	154,030
Operating expenses	10	**(1,684,386)**	**(1,549,811)**
(Loss)/Profit before tax		**(1,085,082)**	**208,218**
Current income tax expense	11	(73,641)	(204,110)
NET (LOSS) / PROFIT		**(1,158,723)**	**4,108**

Signed on behalf of the Management on 6 May 2020

Russian original is digitally signed
Series number of the key certificate:
01a123af007aab2582492ac91c2cf94722
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I.O. Chumakovsky
Valid from 10 March 2020 to 10 March 2021

Chairman of the Management Board
I.O. Chumakovsky

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Series number of the key certificate:
0142df5c0096ab5e984b81c4c930ca787c
Owner: Commercial Bank "Solidarnost" (JSC),
Yu.V. Malysheva
Valid from 07 April 2020 to 07 April 2021

Chief Accountant
Yu.V. Malysheva

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Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2019

in thousands of Russian Roubles	Note	2019	2018
(Loss) / Profit for the year		**(1,158,723)**	**4,108**
Other components of comprehensive income			
Items that are or may be subsequently reclassified to profit or loss			
Debt financial instruments held for income or sale, including			
- net change in fair value		159,921	(293,209)
- accumulated revaluation transferred to profit or loss account as a result of disposal, net of tax		(79,769)	(94,511)
Total other comprehensive income / (loss) to be reclassified to profit or loss on disposal, net of tax		**80,152**	**(387,720)**
Items that will not be subsequently reclassified to profit or loss			
Revaluation of intangible assets and property, plant and equipment, net of tax		13,731	(22,106)
Fair value revaluation of equity financial assets held for income or sale, net of tax		48,436	(273,855)
Total other comprehensive income / (loss) that will not be reclassified to profit or loss on disposal, net of tax		**62,167**	**(295,961)**
Total other components of comprehensive income / (loss), net of tax		**142,319**	**(683,681)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,016,404)**	**(679,573)**

Signed on behalf of the Management on 6 May 2020

Russian original is digitally signed Series number of the key certificate: 01a123af007aab2582492ac91c2cf94722 Owner: Commercial Bank "Solidarnost" (JSC), I.O. Chumakovsky Valid from 10 March 2020 to 10 March 2021	Russian original is digitally signed Series number of the key certificate: 0142df5c0096ab5e984b81c4c930ca787c Owner: Commercial Bank "Solidarnost" (JSC), Yu.V. Malysheva Valid from 07 April 2020 to 07 April 2021
Chairman of the Management Board **I.O. Chumakovsky**	**Chief Accountant** **Yu.V. Malysheva**

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Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019

in thousands of Russian Roubles	Share capital	Additional capital	Revaluation reserve for financial assets at fair value through other comprehensive income, held for income or sale	Revaluation reserve for premises and equipment	Accumulated loss	Total equity
Balance as at 31 December 2017	**10,110,001**	**3,350,288**	**650,723**	**214,734**	**(7,908,478)**	**6,417,268**
Total change in equity for the year ended 31 December 2018, net of tax						
Net profit for the year	-	-	-	-	4,108	**4,108**
Other comprehensive loss	-	-	(661,575)	(22,106)	-	**(683,681)**
Change in the carrying amount of the subordinated debt	-	661,672	-	-	-	**661,672**
Balance as at 31 December 2018	**10,110,001**	**4,011,960**	**(10,852)**	**192,628**	**(7,904,370)**	**6,399,367**
Total change in equity for the year ended 31 December 2019, net of tax						
Loss for the year	-	-	-	-	(1,158,723)	**(1,158,723)**
Disposal of revaluation of property, plant and equipment	-	-	-	(203)	203	**-**
Disposal of revaluation of equity securities	-	-	6,335	-	(6,335)	**-**
Other comprehensive income	-	-	122,253	13,934	-	**136,187**
Balance as at 31 December 2019	**10,110,001**	**4,011,960**	**117,736**	**206,359**	**(9,069,225)**	**5,376,831**

Signed on behalf of the Management on 6 May 2020

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Valid from 07 April 2020 to 07 April 2021

Chief Accountant
Yu.V. Malysheva

Notes on pages 9 to 76 form an integral part of these financial statements.

Consolidated Statement of Cash Flows for the Year Ended 31 December 2019

in thousands of Russian Roubles	Note	2019	2018
Cash Flows from Operating Activities:			
(Loss) / profit before tax		**(1,085,082)**	**208,218**
Adjustments for:			
Net interest income		(780,267)	(493,172)
Provision for impairment	6	599,844	(399,932)
Depreciation/amortization of property, plant and equipment and intangible assets	20,21	168,445	97,636
Loss on disposal of propery, plant and equipment, and intangible assets		651	629
Revaluation of financial assets at fair value through profit or loss		(37,690)	-
Net change in other accruals		26,377	167,891
Unrealized loss / (gain) on transactions with foreign currency	7	165,907	(311,168)
		(941,815)	**(729,898)**
Net decrease / (increase) in mandatory reserve deposits with the Bank of Russia		11,882	(65,946)
Net decrease in financial assets at fair value through profit or loss		100,000	-
Net decrease / (increase) in financial assets held for income or sale		2,249,364	(1,904,609)
Net (increase) / decrease in due from financial institutions		(20,691)	263,603
Net increase in loans and advances to customers		(8,027,696)	(1,824,422)
Net (increase) / decrease in investment property		(13,930)	-
Net (increase) / decrease in other assets		(43,653)	42,483
Net increase / (decrease) in due to financial institutions		88,370	(569,574)
Net increase in customer accounts		8,098,196	7,078,060
Net increase / (decrease) in other liabilities		65,514	(17,380)
Interest received		2,503,372	1,749,914
Dividends received		30,080	56,165
Interest paid		(1,651,732)	(1,248,915)
Income tax paid		(52,604)	(33,479)
Net cash inflows from operating activities		**2,394,657**	**2,796,002**

Consolidated Statement of Cash Flows for the Year Ended 31 December 2019 (continued)

in thousands of Russian Roubles	Note	2019	2018
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment and intangible assets		(65,901)	(40,014)
Proceeds from disposal of property, plant and equipment and intangible assets		6,234	16,682
Net cash outflows from investing activities		**(59,667)**	**(23,332)**
Cash Flows from Financing Activities:			
Proceeds from issue of debt securities		81,860	3,460
Total cash outflow on lease liabilities		(104,121)	-
Net cash (outflows) / inflows from financing activities		**(22,261)**	**3,460**
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		(20,823)	20,883
Effect of changes in allowance for expected credit losses on cash and cash equivalents	6	(1,276)	(404)
Net increase in cash and cash equivalents		**2,290,630**	**2,796,609**
Cash and cash equivalents at the beginning of the year	14	5,658,202	2,861,593
Cash and cash equivalents at the end of the year	**14**	**7,948,832**	**5,658,202**

Signed on behalf of the Management on 6 May 2020

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Chief Accountant
Yu.V. Malysheva

Notes on pages 9 to 76 form an integral part of these financial statements.

(in thousands of Russian Roubles)

Notes to the Consolidated Financial Statements

1. Principal activities

The consolidated financial statements of Joint-Stock Company Commercial Bank "Solidarnost" (hereinafter, JSC CB "Solidarnost" or "the Bank") and its subsidiaries (jointly referred as the Group) were prepared for the year ended 31 December 2019 in accordance with International Financial Reporting Standards. As at 31 December 2019, JSC CB "Solidarnost" is the parent organization of the Group comprising the following entities:

Subsidiaries	% in share capital	Country of registration
Real Estate Investment Trust Residential Property 01.10	100%	Russia
Closed-End Investment Fund of combined category Commercial Real Estate 01.10	100%	Russia
Closed-End Investment Fund of combined category Business South	100%	Russia

On 12 November 2019, Closed Joint Stock Company "Privolzhskoye Credit Bureau" was excluded from the Group as the Federal Tax Service of Russia had removed this organization from the Unified State Register of Legal Entities. As at 31 December 2019, the Bank's share in the consolidated Group's assets was 93.7% (as at 31 December 2018: 91.2%).

The Bank is a joint stock company and operates as a commercial bank. It was established on 23 October 1990 as a limited liability company according to the legislation of the Russian Federation and was reorganized into an open joint stock company on 5 June 2000 and into a joint stock company on 9 June 2017. The only shareholder of the Bank is Joint Stock Company "Zarubezhenergoproekt" (hereinafter – JSC "Zarubezhenergoproekt").

The Bank's owner / shareholder name	2019	2018
Joint Stock Company "Zarubezhenergoproekt"	100.0%	100.0%
Total	100.0%	100.0%

The Bank operates under general license for banking activities No. 554 issued by the Central Bank of the Russian Federation (hereinafter, "the Bank of Russia") on 14 July 2017. Additionally, the Bank has licenses required for securities-related activities, as follows:

- License of a professional participant of the securities market for carrying out broker activities, No. 036-02782-100000 dated 16 November 2000, issued by the Federal Commission for the Securities Market without limitation as to validity period;
- License of a professional participant of the securities market for carrying out dealer activities, No. 036-02825-010000 dated 16 November 2000, issued by the Federal Commission for the Securities Market without limitation as to validity period; and
- License of a professional participant of the securities market for carrying out depositary activities, No. 036-03749-000100 dated 15 November 2000, issued by the Federal Commission for the Securities Market without limitation as to validity period.

The Bank and member-companies of the Group carry out its business in accordance with legislation of the Russian Federation. The Bank's activity is regulated and overseen by the Bank of Russia, which is the single regulator in banking, insurance and financial markets in Russia.

Principal activities of the Group comprise taking corporate and household deposits (demand and term deposits), placing the attracted funds of legal entities and individuals on its behalf and for its own account, opening and keeping bank accounts of its customers, performing settlements on behalf of individuals and legal entities (including corresponding banks) through their bank accounts, providing cash-desk services to its customers, conducting sale/purchase of foreign currency in cash and non-cash forms, issuing bank guarantees, making money transfers on behalf of individuals without opening bank accounts (except for money orders) and conducting professional activities on the securities market.

The Bank is one of the large financial institutions in the Volga Region and is a member of the following associations, foundations and partnerships:

- National Association of Stock Market Participants (NAUFOR);
- Moscow Exchange (MOEX);

(in thousands of Russian Roubles)

- Society for Worldwide Interbank Financial Telecommunications (SWIFT);
- International payment system VISA (an associated member);
- National payment system MIR (Russia) (a direct participant);
- International payment system UnionPay (a full participant (Principal));
- Chinese Interbank Payments System (CIPS);
- Russian-Asian Union of Industrialists and Entrepreneurs;
- Association "China Business Center" (assistance in establishing business ties);
- Sino-Russian Financial Council;
- Russian Union of Industrialists and Entrepreneurs;
- Non-for-profit partnership "Banking Union of the Samara Region";
- Foundation "Housing and Mortgages of the Samara Region";
- Non-for-profit partnership "Finance and Banking Council of the CIS countries" (assistance in cooperation between CIS member-states);
- Association of timber producers and exporters of the Irkutsk Region.

The Bank is also a member of the Deposit Insurance System for household depositors. On 21 September 2004, the Agency for Deposit Insurance included the Bank into the state register of member-banks of the system of obligatory deposit insurance under Entry No.8.

The head office is located in Samara. The registered office of the parent company of the Group is 90 Kuibisheva Street, Samara, 443099, Russia.

The Group does not have business units abroad and operates in the Russian Federation. As at 31 December 2019, the office network of the Group comprises 30 structural units (as at 31 December 2018: 28 structural units). As at 31 December 2019, the regional network comprises the following structural units:

Region	Number of offices
Samara region	17 structural units: 17 supplementary offices
Irkutsk	2 structural units: Branch "Irkutsky" of JSC CB "Solidarnost" and 1 supplementary office
Moscow and the Moscow region	4 structural units: Branch "Moskovsky" of JSC CB "Solidarnost" and 3 supplementary offices
St. Petersburg	1 structural unit: Branch "Peterburgsky" of JSC CB "Solidarnost"
Vladivostok	2 structural units: 1 Front office and 1 stand-alone cash desk outside the main cash-desk area (henceforth, stand-alone cash-desk)
Ekaterinburg	2 structural units: Branch "Uralsky" of JSC CB "Solidarnost" and a stand-alone cash-desk
Blagoveshchensk	2 structural units: Branch "Dalnevostochny" of JSC CB "Solidarnost" and a stand-alone cash-desk

In 2019, the Bank's regional network kept on growing and streamlining its qualitative aspects, which related to broadening geographic presence of the Bank, improvements in quality service to its customers, and the Bank's resource management. In the third quarter of 2019, the Bank closed its stand-alone cash-desk in the town of Kinel (JSC CB "Solidarnost") at 80A Mayakovskogo Street, Kinel. In the fourth quarter of 2019, the Bank launched a stand-alone cash-desk at "Rechnoy Port" of Branch "Dalnevostochny" (JSC CB "Solidarnost") at 1 Chaykovskogo Street, Blagoveschensk.

As at 31 December 2019, the total headcount in the Bank, including part-time employees, was 522 (as at 31 December 2018: 498).

Since 2013, the parent company of the Group has been operating under the Participation Plan of the State Corporation "Deposit Insurance Agency" (hereinafter, the SC "DIA") aimed at taking financial recovery measures on the Bank (hereinafter, the Participation Plan), approved by the Board of Directors of the Bank of Russia on 29 November 2013 (Minutes No. 26). The approved Financial Rehabilitation Plan (hereinafter, the FRP) forms an integral part of the Participation Plan of the SC "DIA". The FRP is a financial model of the Bank's development. The model meets the main requirements for the Bank's stability and sound development in the future. Financial rehabilitation of the Bank represents a transition phase from crisis to soundness and stability.

The aims of financial rehabilitation of the Bank are:

- to overcome the problem of capital deficiency at the Bank;
- to solve liquidity problem at the Bank and restore its full solvency;
- to recover financial stability of the Bank, to strengthen its activities and to meet all regulatory requirements of the Bank of Russia;
- to ensure effective functioning of the Bank;
- to implement the new development strategy of the Bank;
- to keep developing and to evolve from this basis into a modern credit institution able to provide banking services in demand on the market in a timely and high-quality manner.

Originally, the Bank's financial rehabilitation measures were started by "Probusinessbank" (Open Joint Stock Company, Commercial Bank), which at the time was the parent credit institution of the banking group "Probusinessbank" and the Bank became a member of that group. When the Bank of Russia revoked a banking license from "Probusinessbank" (OJSC) on 12 August 2015, the SC "DIA" was again elected as a temporary management company put in charge of financial rehabilitation of the Bank. The SC "DIA" launched an investor selection process, with JSC "Zarubezhenergoproekt" being the winner, to take part in activities to prevent the Bank's bankruptcy. On 5 November 2016, the Bank of Russia approved changes to the Participation Plan.

According to the new revision of the Participation Plan, starting 25 November 2016 JSC "Zarubezhenergoproekt" is the sole shareholder of the Bank. In 2017, the shareholder increased the Bank's capital to RUB 14,174,036 thousand as at 31 December 2017. The shareholder's funding source used to boost the Bank's capital is the SC "DIA". The funding was obtained on the terms and conditions provided for in the FRP (see Notes 26 and 27).

The development strategy of JSC CB "Solidarnost", that is, the FRP approved on 10 November 2017 by the Board of Directors of the Bank of Russia (Minutes No.29), provides for establishment of a specialized Bank to service trade and financial ties between the Russian Federation, the People's Republic of China, the Socialist Republic of Vietnam and countries in South-East Asia. The principal areas of the development strategy assume:

- supporting business activities of the companies engaged in export-import trade by means of disbursements of working capital loans, issuing guarantees to secure their liabilities, performing factoring and forfeiting transactions and organization of settlements by letters of credit;
- organizing settlements for goods and services, development of instant cross-border money transfers in national currencies between countries by using national payment systems. This includes implementation of own payment system, if necessary, or participation in other existing payment systems;
- supporting investment projects in Russia, China, Vietnam and other countries of the region, which are to be implemented jointly with partners from South-East Asia and China. This is to be achieved by offering project financing to the industries supported by the state, including those linked to the Chinese Belt and Road Initiative. In particular, these industries comprise production (such as power, chemicals, petro-chemicals, textile, clothing and footwear industries, timber, woodworking, pulp and paper, construction), agriculture, logistic business (including air cargo carriage), domestic and international tourism, and other industries;
- developing projects to service individuals in Russia, China, Vietnam by using national payment systems and financial organizations of the said countries.

These activities are to be implemented by 2025. As at the reporting date, the Bank opened direct correspondent accounts with Chinese and Vietnamese banks, which help embrace a significant customer base. These banks are as follows:

- Harbin Bank (Harbin, China);
- HeiHe Rural Commercial Bank Co., LTD (Hei He, China);
- INDUSTRIAL BANK CO., LTD., GUANGZHOU BRANCH;
- Longjang Bank Corporation (China);
- Techcombank (Vietnam Technological and Commercial Joint Stock Bank) (Vietnam), and
- Vietnam-Russia Joint Venture Bank (VRB).

The Bank has concluded banknote deal contracts, cooperation agreements in respect of agency import operations with settlements by letters of credit and interbank lending agreements with the banks with established correspondent relationships. Work to expand the correspondent bank network in China and to grow volumes of mutual transactions will continue.

On 20 June 2019, the Bank joined the Chinese payment system CIPS. CIPS is a system of international interbank payments in Yuan, aimed at creation of a stable infrastructure to use Chinese Yuan in foreign settlements. Joining CIPS is a major step to promote settlements in national currencies and reduce dependence on third countries in international settlements with China. At present, the system comprises over 700 member-banks from 87 countries, with only 9 banks from the Russian Federation. The Bank and its customers enjoy the main advantage, namely, shorter time required for processing of payment transactions.

Following its main business strategy, the Bank has finalized compliance procedures with China Export & Credit Insurance Corporation, SINOSURE, and is ready to arrange credit limits for this customer to assist deliveries of equipment by Chinese producers.

In 2019, the Bank became a full participant (Principal) of the international Chinese system of payments UnionPay and started issuing cards to its clients (individuals). To increase a card issue volume and to attract other financial organizations for card of other international payment systems, the Bank has launched its own processing center.

A separate business direction to ensure bilateral payments is the Bank's participation in transactions of payment services of non-financial organizations, operators of main digital payment services, commercial brands, such as WeChatPay, AliPay, HuaweiPay and other. This activity ensures trading volumes of small and medium businesses, which accept payments by using the said services. At present, the Bank is at the final stage of signing a direct contract of a payment service participant with the Chinese company Tencent (payment service WeChatPay). Additionally, the Bank assists its customers in Russia by meeting their demand for Yuan by concluding deals at the Moscow Exchange. The Bank is one of the leading operators (market makers) in the market Yuan-Russian Rouble.

The main focus of the Bank is on retention of the existing customer base and its further expansion. The Bank conducts transactions with small and medium entities and develops business with individuals. The principal activities of JSC CB "Solidarnost" regarding its customers are as follows:

- attracting cash to deposit accounts (on demand and term accounts) from individuals and legal entities;
- lending and rendering of full banking services to corporate customers;
- lending to small and medium businesses (hereinafter – SME) and sole proprietors (hereinafter – SP);
- lending to individuals, including credit cards;
- opening and keeping bank accounts of individuals and legal entities;
- making money transfers on behalf of individuals and legal entities (including the authorized correspondent banks and foreign banks) on their bank accounts;
- making money transfers without opening an account with the Bank, including electronic funds transfers (except for bank post remittances);
- cash services for individuals and legal entities;
- sale-purchase of foreign currency in a cash and non-cash form;
- issuing bank guarantees;
- investing in securities; and
- on-line banking services.

In the medium term, the Bank plans to:

- develop further its customer service business regarding individuals, small and medium businesses, as well as medium and large-scale enterprises;
- actively use the existing network of structural business units in the regions of the Bank's presence;
- expand geography of the Bank's presence;
- ensure lower service cost by reduction of expenses;
- reduce the share of non-performing assets in the loan portfolio;
- develop remote customer service facilities; and
- extend the existing product range by offering new fee-based products and services.

On 22 May 2019, the Bank obtained B(RU) credit rating with stable outlook from the Analytical Credit Rating Agency (ACRA).

2. Operating environment of the Group

The Group operates in the Russian Federation. The economy of the Russian Federation matches certain characteristics of an emerging market. The economy of the country is particularly sensitive to changes in oil and gas prices. Legal, tax and administrative framework is subject to frequent changes and varying interpretations.

In 2019, the economic growth rate in Russia decelerated to 1.3%, in contrast to 2.5% in 2018. This happened against the background of the largest slowdown of the world economy since 2009, which is reflected in the IMF's estimates of the global GDP growth in 2019 of just 2.9%. The main factors of low growth rates of the world economy are increasing trade and economic disagreements between leading countries as well as growing political uncertainties in the world.

Over 2019, inflation was steadily declining and reached 3% at the end of the year. It is worth to note some reasons for lower inflation, namely, a significant strengthening of the Russian Rouble against foreign currencies as well as a weak economic demand, including demand from the state-controlled industry sector.

Changes in the monetary policy of the Federal Reserve in the USA and of the central banks in many other countries, along with lower inflationary risks, made it possible for the Bank of Russia to choose a softer monetary policy starting June 2019. The key rate was reduced for five meetings in succession and reached 6.25% as at the end of 2019.

Favorable external environment was supportive of higher foreign investments in Russian assets. Therefore, by the end of the year, the volume of non-resident investments in OFZ securities has reached a record RUB 2.87 trillion, or 32.2% of the market. A general trend of increasing appetite for assets in developing countries made additional impact on the national currency exchange rate in Russia.

For all that time, the Ministry of Finance of the Russian Federation (the Minfin) has been an important player on the foreign currency market. To reduce dependence of the budget revenues on changes in oil prices, the Minfin has established a specific fiscal rule, which requires the Bank of Russia to buy foreign currency to the benefit of the Minfin in the volume of extra oil and gas revenue of the Federal Budget if URALS oil price per barrel exceeds 41.6 US dollars per barrel. Starting January 2019, the Bank of Russia resumed its regular purchases of foreign currency, postponed in August 2018, because of increasing exchange rate volatility at that time. In February 2019, deferred currency purchases restarted, intended to be realized within the next three years.

Russian financial markets saw a hike in volatility in August – September of 2019, after the USA-imposed massive trade duties against China. However, as early as in autumn, the situation stabilized after trade negotiations between the USA and China had resumed, and the US had strated transaction to expand the US Federal Reserve's balance sheet. In 2019, the US dollar rate fluctuated in the range of 61.5-69.8 Rouble/US dollar, with the average URALS oil price being 63.6 US dollars per barrel. Driven by the growing risk appetite in the world markets, the MOEX Index for Russia in 2019 increased by 28.9%, and the RTS index grew by 45.3% due to a strengthening Rouble.

A decline in the economic growth rate of the Russian economy had an impact on the banking sector rate of growth. In 2019, assets of the banking sector (as at 1 January 2020: RUB 96.6 trillion) grew by RUB 2.5 trillion in absolute terms, with Rouble assets being RUB 78.1 trillion, or 80.9%. Banking assets in foreign currency declined over the year from 22.4% to 19.1%. A relative asset growth in 2019 was 2.6%, in contrast to 11.0% in 2018, which means reduction of banking sector assets in real terms and may suggest significantly weaker business activity in the Russian economy in the short term.

The banking sector's profit for 2019 was RUB 2,037 billion, 1.5 times higher than for 2018. Financial performance of the sector was significantly impacted by loss reduction in the banks at financial rehabilitation stage, financed by the Banking Sector Consolidation Fund. The losses reduced from RUB 0.5 trillion in 2018 to negligent amounts close to zero. Another effect on the banking sector's profit had a technical surplus posted in the books due to adjustments resulted from implementation of a new IFRS for risk reporting IFRS 9 *Financial Instruments* (hereinafter – IFRS 9). As a result of the adjustment, banks earned a technical income of RUB 0.4 trillion. These were one-off effects on banking performance in 2019 and without them the net profit of the banking sector for the year would have declined by 11% to RUB 1.3 trillion.

3. Basis of preparation

Statement of compliance

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs), including all previously issued IFRSs and Interpretations of the International Accounting Standards Board (IASB) and Interpretations of the International Financial Reporting Committee (IFRIC). The Bank and its subsidiaries and associates keep books and prepare financial statements in accordance with the requirements of the legislation applicable in countries of their registration. These consolidated financial statements have been prepared on the basis of financial statements under RAS, adjusted as necessary to bring them in compliance with all material aspects of IFRSs. Principles of the accounting policies applied in preparation of these consolidated financial statements are set out below. The principles were consistently applied to all the periods presented in these financial statements, unless stated otherwise.

The Bank keeps its books in the currency of the Russian Federation and makes accounting entries according to requirements of the Russian banking legislation. These consolidated financial statements have been prepared on the basis of such accounting entries, adjusted as necessary to bring them in compliance with all material aspects of IFRSs.

Going concern principle

These financial statements have been prepared by the management based on the going concern principle, on assumption that the Group will operate in the foreseeable future according to the approved Financial Rehabilitation Plan supported by the SC "Deposit Insurance Agency" (the SC "DIA") and JSC "Zarubezhenergoproekt". By making this judgment, the management has taken into account the existing intentions, profitability of operations, available financial resources and an impact of the current economic environment on the Bank's business.

The Bank makes estimates and assumptions that have impact on recognition of assets and liabilities during a financial year. The estimates and judgements are based on historical experience and other factors, including expected future events that are considered to be relevant under the circumstances.

Functional and presentation currency

The functional currency of each consolidated entity of the Group is the currency prevailing in the economic environment where that entity operates. The Bank's functional currency and the presentation currency of the Group is the national currency of the Russian Federation, Russian Rouble (RUB). Unless stated otherwise, the figures in these financial statements are presented in thousands of Russian Roubles.

Critical estimates and professional judgments in application of accounting policies

Estimation of Allowance for Expected Credit Losses. The Management has estimated allowance for impairment of financial assets and credit-related commitments by applying the "expected credit loss" model (ECL), as required by appropriate accounting standards. Since 1 January 2018, the Group has recognized allowance for ECLs for all loans and other debt financial assets not measured at fair value through profit or loss, and also on credit-related commitments and financial guarantee contracts (jointly referred to as "financial instruments" in this section). To estimate allowance for ECLs it is necessary to use models and to make important assumptions regarding future economic environment and changes in counterparties' credit risk. Principal professional judgements to estimate expected credit losses are related to choosing proper models and making assumptions, as well as setting criteria of significant growth in credit risk. The size of allowance for ECLs on financial instruments depends on the following:

- transfers of financial instruments and corresponding estimates of allowances for ECLs between impairment Stage 1 (for 12-month expected credit losses) and Stages 2 and 3 (lifetime expected credit losses for unimpaired and impaired assets, respectively) as a result of material change in assessment of credit risk;
- change in additional allowance resulting from changes in the gross carrying amount of the financial instruments caused by transactions with them over the reporting period;
- changes in parameters of the models used, namely, Probability of Default, Exposure at Default and Loss Given Default; and
- effect of exchange rates at translation of foreign-currency-denominated financial instruments in Roubles.

Information on the estimation methods and judgements applied to determine ECLs is provided in detail in Note 29. The description of accounting for ECLs is provided in Note 4.

Definition of a lease term. The Group leases real estate assets and motor vehicles from third parties. A number of lease agreements are short term or do not specify a particular contractual term but continue indefinitely until either party to the contract gives notice to terminate. The Group determines the term of such leases depending on its intentions or reasonable expectations to use the leased assets in the Group's business operations, as well as after consideration of the contracts with regard to penalties on early lease termination. As a result, a lease term of real estate assets and motor vehicles is up to 5 years.

(in thousands of Russian Roubles)

Fair value of financial instruments. The Group measures the fair value of financial instruments on the basis of available market information, if any. In the absence of price quotations of financial instruments in the active market, the fair value is determined by other methods by adjusting market values, as detailed in the approved internal methodologies of the Group. If market information or a principal market for a financial instrument does not exist, the Group may determine the fair value by seeking independent professional appraisers' advice. The management has made use of all available market information to measure the fair value of financial instruments as at the reporting date.

Real estate asset revaluation. The Group accounts for real estate assets within property, plant and equipment and investment property at fair value, based on independent professional appraisers' reports. The Group makes arrangements for the fair value appraisal of its real estate assets regularly, at least once per year. The valuation performed by independent appraisers reflects current market values of the assets. The revaluation of the real estate assets recognized in these financial statements for 2019 was made as at 31 December 2019 and 31 December 2018.

Transition to new or revised standards and interpretations

IFRS 16 Leases. The Group applied IFRS 16 *Leases* (hereinafter - IFRS 16) issued on 13 January 2016 from its effective date, 1 January 2019.

The new standard sets out the principles of recognition, measurement, presentation and disclosure of information in respect of leases in the financial statements. All lease agreements give the lessee a right to use leased asset from the effective date of the agreement as well as to receive financing, if lease payments have been made during a period of time. IFRS 16 excludes classification of leases as operating and finance leases, as used to be the case under IAS 17 *Leases,* and instead provides a single accounting model for lease transactions of the lessee. The Group has adopted this standard by applying a modified approach retrospectively, without restatement of the comparative balances. On the first adoption of this IFRS, the Group also applied the following practical expedients, which are allowed by this standard:

- accounting for operating leases with the remaining maturity as at 1 January 2019 of less than 12 months as short-term leases;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application of the standard;
- accounting for lease payments for low-value assets as operating expenses without their recognition as right-of-use assets as at the date of initial recognition;
- identification and commencement of a lease term for long-term lease agreements as at the date of initial application of the standard using the weighted average lessee's incremental borrowing rate as at 1 January 2019.

The Group recognized right-of-use assets in the total amount of RUB 319,757 thousand and also the corresponding lease liability as at 1 January 2019. The weighted average discount rate applied to liabilities was 7.4%. The table below shows the reconciliation of contractual operating lease liabilities with the recognized lease liability under IFRS 16:

	1 January 2019
Operating lease payments payable	416,431
Adjustments to lease payments:	
Practical expedients: short-term leases	(14,577)
Practical expedients: low-value underlying assets	(3,199)
Future lease payments qualifying for IFRS 16	**398,655**
Discounting effect at 7.4%	
Lease liabilities under IFRS 16	**299,277**
Earlier made advance payments and irrecoverable guarantee deposits under the contracts	20,480
Right-of-use assets under IFRS 16	**319,757**

The recognized right-of-use assets primarily comprise office real estate assets and land (see Note 20).

The below amendments to the standards became effective for the Group starting 1 January 2019 but did not have any material impact on the Group:

- Interpretation of 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); and
- Annual Improvements to IFRSs – Amendments to IFRS 3 *Business Combinations*, IAS 12 *Income Taxes* (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

New accounting provisions

The standards, interpretations and amendments listed below entered into force for the reporting periods of the Group starting 1 January 2020 and had not been applied earlier to these financial statements. Provisions of these standards will or may have an impact on the financial statements of the Group in the future. The Group believes that the application of the amendments will not have a material impact on its financial statements.

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

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (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 provide guidance about the application of that concept, also the revised standard has improved clarifications and added recommendations on certain definitions. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

4. Significant accounting policies

Accounting policies and computation methods applied in preparation of the consolidated financial statements are consistent with those applied to the annual consolidated financial statements for the year ended 31 December 2018, except for certain new standards, interpretations and amendments to the existing standards listed as obligatory from 1 January 2019 in the consolidated financial statements of the Group. Except for IFRS 16, with the effect of transition to the standard being disclosed in these financial statements, other new standards and interpretations as well as changes thereon did not have any material impact on these consolidated financial statements of the Group. As allowed in the transitional provision of IFRS 16, the Group does not restate comparative information. The relevant comparative information is presented in accordance with the accounting policy as disclosed in the consolidated financial statements of the Group for 2018. Adjustments to carrying balances of financial assets and liabilities as at 1 January 2019 were recognized through retained earnings and other components of equity in the current period.

4.1. Consolidated financial statements

Subsidiaries are those entities, including Special purpose entities (SPEs), which the Group has invested in and controls. The Group has powers to control an investee's activity, which has a significant effect on returns of the latter, runs the risk of potential losses or has rights to variable returns from its involvement with the investee and has the ability to affect the investor's returns through its power over the investee. Existence and effect of material rights, including independent potential voting right, are considered when deciding on the Group's powers to control another entity. The right is material if the investor is able in practice to use it at the time of decision-making to manage an investee's activities. The Group may have powers to control the investee even when it does not have a majority voting in this entity. In this case, to determine the actual power to manage the investee, the Group evaluates its share of voting rights and compares it with sizes and distribution of voting share packages of other investors. Protective rights of other investors, such as those regarding principal changes in the investees' activities or those used under exceptional circumstances, do not preclude the Group's control of the investee.

Subsidiaries are accounted for by using the acquisition method. They are consolidated in the financial statements from the date on which control over the investees is actually transferred to the Group and are removed from consolidation from the date when the control ceases. On the date of acquisition (i.e. control transfer) the acquirer recognizes the acquiree's identifiable assets, other than goodwill, assumed liabilities and non-controlling interests in the acquiree. Share in the subsidiary's capital that is not owned by the parent organization, directly or indirectly, represents its non-controlling interest. Subsidiary acquisition costs incurred are expensed through profit or loss. The non-controlling interests in the acquiree are accounted for as a separate component in equity.

The acquirer measures identifiable assets received and liabilities assumed and, if the business combination is achieved in stages, also the acquirer's previously held equity interest in the acquiree, at fair value as at the acquisition date (i.e. control transfer). The consideration transferred on acquisition to the acquirer is measured at fair value, which is the aggregate of the assets at fair values as at the acquisition date (control transfer date) transferred by the acquirer, liabilities assumed by it from the previous owners of the acquiree, and share in the equity issued by the acquirer.

Any notional consideration to be transferred by the acquirer in exchange for the acquiree, comprises assets or liabilities arising in accordance with the agreement on notional consideration. If there is a difference between the consideration transferred and the carrying amount of the non-controlling interest acquired, it is recognized as a capital transaction within equity directly. The Group recognizes the difference between the consideration received and the carrying amount of the non-controlling interest sold as a capital transaction in the Statement of changes in equity.

Changes in the ownership interest of a subsidiary, without loss of control by the parent, is recognized as an equity transaction in the Consolidated statement of changes in equity. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Bank and its subsidiaries apply the same accounting policies, which are consistent with those adopted by the Group in preparation of these consolidated financial statements.

4.2. Key measurement criteria

When accounting for financial instruments, the Bank applies the following measurement methods:

- fair value, and
- amortized cost.

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

Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability. Fair value represents a current offer price for financial assets, a current bid price for financial liabilities and average current bid and offer prices when the Group holds both, a short- and a long-term position in a financial instrument. A financial instrument is treated as quoted on the active market if its quotes are regularly made available at any time by the Exchange or another appropriate authority, with such prices representing actual and continuously recurring market transactions. For certain financial instruments with no information about prices on external markets available, fair value is determined by using specific measurement methods.

These measurement methods include discounted cash flow models, prevailing option pricing models, models based on recent transactions between arm's length market players, or a financial analysis of investment objects. Measurement methods may require professional judgement, which is not supported by observable market data.

Additional information on fair value and its measurement is presented in these consolidated financial statements.

Amortized cost is the amount at which a financial instrument has been measured at initial recognition, less any principal repayments, plus interest accrued and, in case of financial assets, adjusted for allowance for ECLs. Interest accrual includes amortization of transaction costs deferred at initial recognition, and also any premium or discount to the redemption amount, by applying the effective interest rate method. In the consolidated statement of financial position, accrued interest income and expenses (including accruals of coupon interest, discount amortization and premium, and also payments deferred at the inception of a transaction, if any) are not disclosed separately and are included into carrying amounts of corresponding assets or liabilities.

Gross carrying amount of a financial asset represents its amortized cost before adjustment for allowance for ECLs.

Transaction costs are additional expenditures directly attributable to a financial instrument acquisition, issuance or disposal. **Additional expenditures** represent costs that would not have been incurred, if a transaction did not occur. Transaction costs comprise remunerations, fees and commissions to agents (also employees acting as sales agents), consultants, brokers and dealers as well as charges by regulating authorities and exchanges, taxes and duties paid at the time of ownership transfer. Transaction costs exclude premiums and discounts on debt liabilities, financial expenses or internal administrative expenses.

The effective interest rate method represents a method of allocation of interest income or expense for the relevant period in order to ensure a constant interest rate (the effective interest rate) on the current value of an instrument for that period. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts (except for ECLs) through the expected life of the financial instrument to amortized cost of the financial instrument.

To compute the effective interest rate on financial instruments, other than impaired financial assets, the Group estimates future contractual cash flows of a financial instrument, with no consideration given to ECL. In case of impaired financial assets, the effective interest rate is adjusted for credit risk and considers ECLs for estimated future cash flows. An integral part of the effective interest rate computation are transaction costs and fees, and commissions paid or received. Transaction costs also include additional expenditures directly related to acquisition or issuance of a financial asset or financial liability.

4.3. Initial recognition and classification of financial instruments

A financial asset or financial liability is initially measured at fair value. If a financial instrument is not measured at fair value through profit or loss, transaction costs directly attributable to the instrument acquisition or issuance are added. A transaction price is the best evidence of fair value at initial recognition. Gain or loss at initial recognition is recognized only if there is a difference between fair value and transaction price, which is observable from the data on other current market transactions with the same instrument, or measurement methods using only observable market data inputs.

All financial asset acquisitions and disposals with delivery within the period generally set by regulation or convention in the marketplace (purchases and sales) are recognized on a transaction date, which is the date when the Group has assumed its liability to deliver the financial instrument. All other acquisitions and disposals are recognized when the entity becomes contractually liable regarding a financial instrument.

From 1 January 2018, financial assets can be put in three categories at initial recognition. These are: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income (FVTOCI) or financial assets measured at fair value through profit or loss (FVTPL).

Financial assets are measured at amortized cost if they meet the following two criteria and do not fall into the category of assets at fair value through profit or loss:

- the asset is held under a business model with the objective to collect contractual income cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments are measured at fair value through other comprehensive income only if they meet the following two criteria and do not fall into the category of instruments at fair value through profit or loss:

- the asset is held under a business model with the objective to collect contractual income cash flows or sell the asset;
- 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.

At initial recognition of investments in equity, which are not held for trading, the Group can make an irrevocable decision to recognize subsequent changes in the fair value through other comprehensive income. This decision is to be made for each investment separately.

All other financial assets are classified as measured at FVTPL.

At initial recognition, the Group can make an irrevocable decision to designate a financial asset, which would have otherwise be measured at amortized cost or FVTOCI, as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch inevitably occurring otherwise.

Financial assets are not subject to reclassification after their initial recognition, except for the period after a change in the business model for managing financial assets. The reclassification is disclosed in the financial statements hereafter.

The Group evaluates objective of a business model under which an asset is held at a portfolio level, taking into consideration all relevant evidence of activities that the Group intends to carry out to achieve targets for the portfolio as at the date of the assessment.

4.4. *Impairment of financial instruments: expected credit losses*

For objective recognition of the assumed risks in the financial statements, the Group, based on its forecasts, establishes allowances for expected credit losses (ECLs) for all types of financial assets, except for those measured at fair value through profit or loss, deferred tax assets and assets arising from employee remunerations, as well as for credit-related commitments and financial guarantees.

The Group measures ECLs and recognizes allowance as at each reporting date. ECLs are measured in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Debt financial assets at amortized cost are reported net of allowance for ECLs in the consolidated statement of financial position. With regard to credit-related commitments and financial guarantee contracts (if these components are separable from the loan), a separate allowance for ECLs is established, which is reported together with liabilities in the consolidated statement of financial position. Allowance for ECLs on debt instruments at fair value through other comprehensive income is recognized within profit or loss and has an impact on gains or losses caused by changes in fair value, recognized in other comprehensive income, rather than on the carrying amounts of these instruments. The statement of financial position does not recognize allowance for ECLs on debt instruments at FVTOCI, but the allowance forms a component of revaluation reserve.

The three-stage impairment model used by the Group for accounting is based on credit risk changes since initial recognition of an asset. A financial instrument, without signs of impairment at initial recognition, with no significant increase in the credit risk on it in the reporting period since initial recognition; and also, an asset put at the reporting date into a low-risk portfolio, is classified as the financial asset of Stage 1. For financial assets at Stage 1, ECLs are measured in the amount equal to a portion of lifetime expected credit losses that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date (12-month ECLs). If a payment term is less than one year, the financial asset's default probability and ECL can be assessed with consideration given to the actual remaining maturity. If the Group's assessment determines that there has been a significant increase in the credit risk for the asset since its initial recognition, given no signs of impairment, the asset is reclassified to Stage 2 and ECLs thereon are recognized in the amount equal to the lifetime ECLs of the financial asset. A description of the Group's approach to determine a material credit risk increase is provided in Note 29. If the Group determines that a financial asset has a credit impaired status, i.e. the borrower is in the default category and/or its loan being at the same time a non-performing asset, the financial asset is transferred to Stage 3 and ECLs thereon are the lifetime ECLs. Clarifications regarding the Group's determination of credit-impaired assets are provided in Note 29. For credit products impaired at disbursement or those purchased with impairment signs (POCI assets) ECLs are always assessed as the lifetime ECLs. Note 29 gives information about how POCI assets can be determined as well as about the input, assumptions and calculation methods used to assess expected credit losses.

4.5. *Derecognition and write-off of financial assets*

The Bank derecognizes a financial asset if at least one of the following conditions is met:

- contractual rights to collect the cash flows on the financial asset have expired;
- the Bank has transferred the financial asset, with such a transfer meeting derecognition criteria.

A financial asset is treated as transferred by the Bank, if at least one of the following conditions is met:

- the Bank has transferred its contractual rights to receive the cash flows from the financial asset;
- the Bank has retained its contractual rights to receive the cash flows from the financial asset but simultaneously assumed a contractual obligation to pass those cash flows to one or several recipients, and also subject to other set conditions.

When the Bank transfers a financial asset, it evaluates extent to which all risks and rewards pertaining to the ownership of this asset are retained. If the Bank:

- has transferred substantially all risks and rewards of the financial asset ownership, this asset is derecognized. Rights and obligations arising or retained during the financial asset transfer are recognized separately as assets and liabilities;

- has retained substantially all risks and rewards of the financial asset ownership, this asset's recognition continues;
- has neither transferred nor retained substantially all the risks and rewards of the financial asset ownership, it is verified if the control over this asset is still present. If the control has not been retained, the Bank ceases recognition of the financial asset transferred. Rights and obligations arising or retained during the financial asset transfer are recognized separately as assets and liabilities. If the control over the asset has been retained, the Bank keeps recognizing the financial asset transferred to the extent to which the Bank has a continued involvement in the asset.

If assets are renegotiated with substantial modification of terms and conditions, recognition of the previously existing asset ceases and the newly revised asset is recognized on the balance sheet as a new asset.

If assets are renegotiated without substantial modification of terms and conditions, recognition of the newly revised asset occurs in the amount equal to the balance sheet value of the previously recorded financial asset.

The Group writes off a loan (and a corresponding allowance for the loan) when it is classified as uncollectible and all necessary procedures on the loan collection have been completed. This sort of decision is made after consideration of information on significant changes in the borrower's financial standing (e.g. no possibility to make loan repayments), and also when collateral sale proceeds are insufficient to fully repay the loan.

Uncollectible loans are written off through the ECL allowance account on the basis of the decision made by the Board of Directors of the parent company of the Group.

4.6. Cash and cash equivalents

The Line "Cash and cash equivalents" includes cash on hand and the Bank's nostro accounts with other banks as well as cash equivalents representing short-term, highly liquid placements that are easily convertible to a known cash amount, and those with insignificant risk of change in value. All short-term interbank placements, excluding placements for less than 30 days, are reported within Due from other banks category. Amounts that are subject to restrictions on their availability for a period beyond 3 months are excluded from Cash and cash equivalents.

4.7. Mandatory reserve deposits with the Bank of Russia (Central Banks)

Mandatory reserve deposits represent funds placed with the Bank of Russia, which are not available to finance the Bank's day-to-day operations. Therefore, they are not considered as a part of cash and cash equivalents and are excluded thereof for the purpose of preparation of the Statement of cash flows.

4.8. Financial assets measured at fair value through profit or loss

At initial recognition, all financial assets not meeting the SPPI criterion "solely payments of principal and interest on the principal amount outstanding", are classified as financial assets at fair value through profit or loss. According to this criterion, debt instruments not meeting the definition of the "base credit agreement", for instance, instruments with an embedded conversion option, or non-recourse credits, are measured at fair value through profit or loss.

Realized and unrealized income and expenses on transactions with financial assets at fair value through profit or loss are reported in the statement of profit or loss for the period when they occurred, within net gain/loss on transactions with financial assets at fair value through profit or loss.

Interest income on financial assets at fair value through profit or loss are reported in the Statement of profit or loss as interest income on financial assets at fair value through profit or loss. Dividends received are reported in Other operating income of the statement of profit or loss, when the credit organization has an established right to receive the dividends and such a receipt is probable.

Purchases and sales of financial assets at fair value through profit or loss, with delivery within the period set in relevant legislation or in convention for a particular market (purchases and sales under "standard contracts"), are recognized on the date of a deal conclusion, that is, on the date when the Bank commits to buy or sell the said asset.

The Bank puts financial assets at fair value through profit or loss in the appropriate category at the time of asset purchase. Once in this group, the financial assets are not reclassified, subject to exceptions, when the Bank changes the business model for managing the financial assets.

4.9. Agreements to sell (purchase) trading securities with obligation to purchase (sell) them back

Agreements to sell trading securities with obligation to purchase them back ("repo") are regarded as secured transactions to get financing against collateral of securities. Trading securities received under repo agreements are reported in Investments at amortized cost, Investments at fair value through other comprehensive income or

Investments at fair value through profit or loss depending on the financial instrument category on the date of sale.

Agreements to purchase trading securities with obligation to sell them back ("reverse repos") are treated as lending transactions collateralized by securities.

Reverse repo transactions are not reported on the balance sheet. Relevant credit exposures to the lending transactions are presented in the categories Due from financial institutions or Loans and advances to customers.

The difference between a trading security purchase and resale prices is accounted for as interest income and is accrued over the whole term of the repo agreement using the effective interest rate method.

Trading securities, offered by the Group to counterparties on the deals in form of a loan, are reported as trading securities in the Bank's financial statements.

Securities received in a form of loans are not reported in the financial statements. If these securities are sold to third parties, the financial result on their purchase and sale is reported in the statement of profit or loss within the category Net gain/loss on transactions with trading securities. The liability to return these securities is reported at fair value through profit or loss.

4.10. Due from other banks

Due from banks comprises financial assets, other than financial derivatives, with established payments, not quoted in the active market, offered by the Group to its counterparty banks (including the Bank of Russia), with the following exceptions:

- placements for the period of less than 30 days;
- the assets for which the Bank has intentions to sell immediately or in the near future, and which shall be classified as held for sale, and those that after initial recognition are designated by the Bank as the assets at fair value through profit or loss;
- the assets that after initial recognition are designated as held for income or sale;
- the assets that shall be classified as held for income and sale, and regarding which the owner will not be able to recover the total amount of its initial investment for reasons other than lower creditworthiness.

The Bank reports issued loans and deposits placed with other credit organizations and financial institutions as well as nostro account balances of the Bank, not qualifying for cash and cash equivalents, in the category Due from other financial institutions of the Statement of financial position.

Due from other financial institutions is measured at amortized cost. Amortized cost represents the amount at which a financial instrument has been measured at initial recognition, less any principal payments, plus interest accrued and, for financial assets, as adjusted for allowance for ECLs.

The difference between fair and nominal values of a loan (deposit) arising due to issuance of loans/deposit placements at interest rates above/below the market is reported at the time of the loans issuance/deposit placements in the category Income (expense) on assets at the rates above/below the market of the consolidated statement of profit or loss. Subsequently, as the carrying amount of these loans/deposits is being adjusted with due consideration of the said income/expense amortization, interest income is recognized in the Statement of profit or loss using the effective interest method.

Defenition of impaired financial assets is disclosed in Note 29.

4.11. Loans and advances to customers

Loans and advances to customers, those that pass SPPI test, are held with the objective to collect contractual cash flows and are measured at amortized cost. Credit impairment of loans at amortized cost or at fair value through other comprehensive income, is determined by using the appropriate forecasting model of ECLs. The Group makes available the information about data input, assumptions and calculation methods used for assessment of ECLs, including its guidance on how forecast information is employed in the ECL model.

SPPI assumes that the cash flows on a financial asset represent principal and interest payments only. For instance, loans with the yield depending on the entity's profit, will not pass the SPPI test and shall be measured at fair value. For the SPPI test all loans are divided into three stages, as follows:

Stage 1. Groups of assets, for which passing the SSPI test can be clearly observed from general contractual terms and conditions;

Stage 2. Subgroup of homogenous assets, for which a collective analysis is possible;

Stage 3. Assets analyzed on an individual basis.

The difference between fair and nominal values of a loan is recognized in the statement of profit or loss as Income from assets placed at rates above the market, or as Expense on assets placed at rates below the market. Subsequently, as the carrying amount of these loans is being adjusted with due consideration of the loan income/expense amortization, a corresponding interest income is recognized in the Statement of profit or loss using the effective interest method.

The gross carrying amount of loans and advances is reduced by the amount of allowance for ECLs. After identification of objective signs of impairment on an individual basis, and if there are none, the loans are put in a group of financial assets with similar credit risk characteristics for their further assessment of impairment on a collective basis.

4.12. Promissory notes purchased

Depending on objectives of acquisition, promissory notes purchased are classified into the categories of financial assets, such as investments at fair value through profit or loss, investments held for income, loan and advances and investments held for income or sale. Subsequently, they are accounted for according to the accounting policies provided for the appropriate asset category in these notes.

4.13. Financial assets held for income or sale

This group includes non-derivative financial assets, designated as held for income or sale, or those not qualifying for the category loans and advances, and also, investments held for income and financial assets at fair value through profit or loss. The Bank classifies financial assets in the appropriate category at the time of their acquisition.

At initial recognition, financial assets held for income or sale are measured at fair value through other comprehensive income. As a rule, the fair value is the price of a financial asset acquisition transaction. Subsequent measurement of financial assets held for income or sale is performed at the fair value, based on quoted prices for the financial assets purchased.

Certain investments held for income or sale, with no independent quotations available, are measured by the Bank at fair value through other comprehensive income, which is based on the results of recent sales of similar equity securities to arm's length third parties, and also, on the analysis of other information, such as discounted cash flows and financial data on an investee, and on other measurements methods.

Interest and dividend income on assets of this category are recognized within profit or loss.

Unrealized income and expenses arising due to changes in the fair value of financial assets held for income or sale, are recognized in the statement of changes in equity. On disposal of debt financial assets held for income or sale, corresponding accrued unrealized income and expenses are reported in the statement of profit or loss in the line "Income less expenses on transactions with financial assets held for income or sale". On disposal of equity financial instrument held for income or sale, corresponding accrued unrealized income and expense are not reclassified into profit or loss. Impairment and impairment reversal on financial assets held for income or sale is recognized in other comprehensive income.

Value of financial assets held for income or sale is reduced if the carrying amount exceeds an estimated recoverable amount. The recoverable amount of an asset is determined as the present value of expected future cash flows discounted at current market interest rates for a similar financial asset.

Given standard settlement terms, purchase and sale of financial assets held for income or sale is recorded on the date when the deal is concluded, that is, on the date when the Bank commits itself to buy or sell the said asset. Alternatively, the Bank may choose to use the settlement date method for accounting for such transactions.

All other purchases and sales are recorded as forward transactions until a deal settlement date.

4.14. Financial assets held for income

This category includes financial assets with a fixed term to repayment/redemption, when the Bank has intention and the ability to hold them till maturity. The Bank classifies financial assets in the appropriate category at the time of their acquisition. The Bank evaluates its intentions and abilities to keep the financial assets, classified by it as those held for income, till maturity. This evaluation is performed as at each reporting date and not only at initial recognition of these financial assets.

Financial assets held for income are measured at amortized cost using the effective interest rate method, less allowance for ECLs, which is calculated as the difference between the carrying value and the present value of expected future cash flows discounted at the original effective interest rate.

Interest income on financial assets held for income is reported in the statement of profit or loss in the line "Interest income on financial assets held for income".

Given standard settlement terms, purchase and sale of financial assets held for income is recorded on the date when the deal is concluded, that is, on the date when the Bank commits itself to buy or sell the said asset. All other purchases and sales are recorded as forward transactions until the deal settlement date.

4.15. Property, plant and equipment

Property, plant and equipment acquired before 1 January 2003 are carried at acquisition cost adjusted to the purchasing power equivalent of the Russian Federation's currency as at 1 January 2003, or else, at revalued amounts, as mentioned below, less accumulated depreciation and allowance for impairment loss (if any).

Property, plant and equipment of the Group, except for the group "land, buildings and premises", are recognized at acquisition cost net of accumulated depreciation. Land, buildings and premises are recognized at revalued amounts. Revaluation for all assets in this category is regularly performed each year. This group of property, plant and equipment is revalued at the same time to avoid any selective approach to valuations of assets as well as inconsistency of balances in the financial statements, which would be the aggregates of property, plant and equipment measured at actual cost and those at revalued amounts at different dates. An increase in the carrying amount resulting from revaluation is recognized within other comprehensive income and equity as a "revaluation gain". A decrease in the carrying amount cancels out a previous revaluation gain of the same asset, and is recognized within other comprehensive income reducing previously reflected in equity "revaluation gain". All other cases of decreases in value are recognized in profit or loss for the year. The revaluation reserve for property, plant and equipment, which is a part of the Group's equity, is recognized directly in retained earnings / (accumulated loss) after an asset has been written off or disposed of and revaluation gain has been realized.

Construction-in-progress assets are measured at actual cost, less allowance for impairment (if necessary). Once construction stage is over, the assets are transferred to appropriate categories of property, plant and equipment or to investment property, and are measured at their carrying amounts at the moment of the transfer. Construction-in-progress assets are not depreciated until the asset's commissioning.

The Bank identifies any signs of impairment of property, plant and equipment at each reporting date. If there is an indication of impairment, the Bank estimates the recoverable amount of an asset, which is the higher of the asset's fair value less costs to sell and the asset's value in use. If the carrying amount of an asset exceeds its estimated recoverable amount, the carrying amount of the asset is reduced to its recoverable amount, with the difference recognized in the statement of profit or loss as property, plant and equipment impairment loss, unless the revaluation has been performed before. In the latter case, a revaluation surplus is offset by the previous revaluation loss and any additional loss is recognized through the profit or loss account. Impairment losses on property, plant and equipment recognized in previous years are reversed, if there have been changes in estimates used to calculate the recoverable amounts of property, plant and equipment.

Gain or loss on property, plant and equipment disposals are determined on the basis of their carrying amounts and are taken into account in calculation of profit or loss amount. Maintenance and repairs expenses are recognized in profit or loss as incurred.

4.16. Depreciation

Depreciation of property and equipment is charged on a straight-line basis, with the initial or revalued amount of an asset being gradually reduced to its residual value within estimated useful life of the asset.

Groups of property and equipment	Useful lives
Buildings	50 years
Equipment	3 - 5 years
Fixture and fittings	4 - 5 years
Motor vehicles	4 - 5 years

The residual value of an asset is an estimated amount, which the Group would receive at present in case of the asset disposal, less expected costs to sell, if the asset condition and age were comparable to those, which the asset would have at the end of its useful life. The residual value of an asset is zero, if the Group has intention to use the asset till the end of its physical life. Residual values of assets and their useful lives are revised and, if appropriate, adjusted at each reporting date.

Depreciation of an asset starts when the asset becomes available for use, that is, when its location and condition ensure the asset's use in line with the Bank's intentions. Depreciation ceases when the asset is derecognized.

4.17. Intangible assets

The Group's intangible assets, except for its goodwill, have limited useful lives and mainly comprise capitalized software costs. Purchased and accepted for accounting intangible assets comprise capitalized costs incurred during acquisition and implementation of these assets. After initial recognition, intangible assets are measured at acquisition cost, less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis and are assessed for impairment, subject to existence of impairment signs. Accounting policy with respect to valuation and recognition of impairment of intangible assets is the same as the accounting policy regarding property, plant and equipment.

Groups of intangible assets	Useful lives
Licenses	5 - 10 years
Purchased and developed software	2 - 5 years

4.18. Investment property

Investment property is property that is not used in the principal activities of the Group and held either to earn rental income or for capital appreciation.

Investment property is measured at fair value. Revaluations of investment property are performed at each reporting date and recognized in the consolidated statement of profit or loss as other net operating income. Rental income earned is reported in other net operating income of the consolidated statement of profit or loss.

Subsequent costs are subject to capitalization only when they can be reliably measured and it is probable, that the Group will receive future economic benefits thereon. All other maintenance and repairs expenses are recognized in profit or loss as incurred.

If the Group starts using investment property in its principal business activities, the property is reclassified into an appropriate category of property and equipment at a carrying amount on the date of reclassification and is accounted for as normally required for assets of that particular category.

4.19. Non-current assets (disposal groups) classified as "assets held for sale"

Non-current assets (or disposal groups) are reported separately in the statement of financial position, if their carrying amounts will be recovered through a sale transaction within 12 months after the reporting period rather than through continuing use.

Reclassification of the assets is allowed if all below criteria are met:

- assets are available for immediate sale in their present condition;
- management of the Group has approved an active program to locate a buyer and has started its implementation;
- active marketing for a sale at price reasonable in relation to its current fair value;
- the sale is expected to be completed within one year;
- no expectations of significant changes in the sale plan or its cancellation.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

Property and equipment, investment property and intangible assets held for sale are not subject to depreciation/amortization.

4.20. Leases

Lease accounting – the Group as a Lessee. Starting 1 January 2019, a lease contract is recognized as a right-of-use asset and its corresponding liability of the same size, and as at the date when the leased asset is available for use by the Group. Each lease payment is separated into a liabilities and financial expenses. Lease liabilities are accounted for at amortized cost with financial expenses recognized through profit or loss over the lease term. This approach is to ensure a constant periodic rate of interest on the remaining balance of the lease liability in each period. A right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life or its lease term. For assets with undefined term of use or for those with actual continued use following regular renewals of short-term leases, the depreciation period is set at 5 years.

Right-of-use assets are disclosed within property, plant and equipment and right-of-use assets in the consolidated statement of financial position. Lease liabilities are disclosed within other liabilities in the consolidated statement of financial position. Financial expenses are included within interest expenses at effective interest rate in the consolidated statement of profit or loss. Depreciation of right-of-use assets is disclosed within operating expenses in the consolidated statement of profit or loss. The total cash outflow in respect of lease liabilities is disclosed within cash flows from financing activities in the consolidated statement of cash flows.

Assets and liabilities arising from a lease are initially measured at present value. Lease liabilities comprise the present value of the following lease payments:

- fixed payments (including direct fixed payments), less any lease incentives receivable in respect of cancellable and non-cancellable operating leases;
- variable lease payments that depend on a purchasing power index or an interest rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease payments are discounted using the lessee's incremental borrowing rate. The rate represents a price that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment and on similar terms.

Right-of-use assets are measured at initial cost, which includes the following components:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be insurred by the lessee in dismantling and restoring the underlying asset.

Payments related to short-term leases and leases of underlying assets of low value are recognized as expenses in profit or loss on a straight-line basis. A short-term lease has a term of 12 months or less.

Until 1 January 2019, leases with all risks and rewards related to use of a leased asset not transferred by the Lessor to the Group, are treated as operating leases. If the Group is the lessee, it recognizes operating lease payments in the statement of profit or loss on a straight-line basis over the lease term. If the operating lease ceases before maturity, any lease payment due to the lessor as a penalty is expensed in the period when the operating lease was terminated.

Until 1 January 2019, leases with all risks and rewards related to use of a leased asset transferred by the Lessor to the Group are treated as finance leases and accounted for in a manner similar to the accounting model for leases used after 1 January 2019.

Lease accounting – the Group as a Lessor. When the Group transfers its assets under an operating lease, lease payments receivable in the future are recognized as a lease income within the lease income of the consolidated statement of profit or loss on a straight-line basis over the lease term.

In finance lease all risks and rewards related to an asset ownership are transferred. If the Group is the lessor, it accounts for lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables. Net investments in the finance lease are reported within loans and advances to customers.

4.21. Borrowings

Borrowings comprise customer accounts, amounts due to financial institutions (including the Bank of Russia), subordinated deposits (loans) and other borrowings.

Borrowings are measured at amortized cost, with the difference between the amounts received and the settlement amount being recognized in the statement of profit or loss over the borrowing period, using the effective interest rate method.

4.22. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise derivative instruments, including FOREX contracts. All derivative financial instruments are carried as assets, if their fair value is positive, and as liabilities, when it is negative. Changes in the fair value of financial derivatives are recognized in income/expenses. The Bank does not apply hedge accounting.

4.23. *Debt securities issued*

Debt securities issued comprise promissory notes, certificates of deposit and bonds issued by the Bank. Debt securities issued are measured at amortized cost.

If the Bank purchases back its own debt securities issued, they are removed from the balance sheet, with the difference between the liability carrying amount and the amount paid being recognized within income/(expense) from (early) debt settlement.

4.24. *Settlements with suppliers and other accounts payable*

Accounts payable are recognized by the Bank when its counterparty has discharged its obligations, and are measured at amortized cost.

4.25. *Credit-related commitments*

The Bank issues credit-related commitments, including commitments to provide loans, to open letters of credit and to issue financial guarantees (jointly referred to in this section as "financial instruments"). Financial guarantees represent irrevocable obligations to make payments in case of non-performance by a customer with regard to third parties. They are subject to the same credit risk as loans.

Credit-related commitments that meet the SPPI test are held with the objective to collect contractual cash flows and are measured at amortized cost. These commitments are initially measured at fair value, which is verified, as a rule, by the amount of remuneration received. The amount is amortized on a straight-line basis over the useful life of the financial instrument. At the end of each period, the commitments are measured at the higher of:

1) the unamortized balance of the commitment at the time of its initial recognition, plus

2) the amount of notional provision determined by the ECL model.

As far as accounts receivable on remuneration from the corresponding financial instruments is concerned, the Bank establishes allowance for expected credit losses.

4.26. *Share capital and share premium*

Share capital comprises the nominal amount of the Group's shares fully paid by the shareholders.

Share premium is the excess of the share capital paid over the nominal value of the shares issued.

4.27. *Dividends*

Dividends declared after the reporting date (if any) are disclosed in the note on the events after the reporting date. Payments of dividends and other profit distributions are made based on the net profit of the reporting year calculated in accordance with rules and regulations of the Russian Federation for financial reporting and accounting.

If dividends attributable to equity instrument holders are declared after the reporting date, they are not recognized as liabilities as at the reporting date.

Subject to approval by the General shareholders meeting (General participants meeting), dividends are disclosed in the financial statements as distribution of profit.

4.28. *Income and expense recognition*

Interest income and expense calculated by the effective interest rate method. Interest income and expenses are calculated using the effective interest rate method. Interest income and expenses on debt instruments at amortized cost or at FVTOCI are recognized on the accrual basis, using the effective interest rate method. According to this method, all payments and receipts between the parties of a transaction are accounted for as a part of interest income or expense and are an integral part of the effective interest rate, transaction costs, premiums or discounts.

Payments integral to the effective interest rate include commission fees received from or paid to the entity, which are related to origination or purchase of a financial asset or issue of a financial liability, such as the fees regarding creditworthiness assessment, assessment and registration of guarantees or collaterals, negotiations on an instrument terms and conditions and transaction document processing. Fees and commissions received by the Group with respect to loan extension at the market interest rates, are integral to the effective interest rate if it is probable, that the Group will enter into a specified credit agreement, rather than seek to sell the loan received soon after its origination. The Group does not designate its commitments to lend money as financial liabilities at FVTPL.

In case of purchased or originated credit-impaired financial assets, the effective interest rate is the rate that discounts expected future cash flows (including initial ECLs) to fair value at initial recognition (normally, is a purchase price).

As a result, the effective interest rate is adjusted with due consideration given to a counterparty's creditworthiness.

Interest income is calculated applying the effective interest rate to gross carrying amounts of financial assets, except for the following:

- financial assets, such as credit-impaired loans (Stage 3), for which interest income is calculated applying the effective interest rate to their amortized cost, i.e. net of allowance for expected credit losses (ECL);

- financial assets that are purchased or issued already impaired, for which applies the actual interest rate adjusted for creditworthiness and used with the amortized cost.

Other interest income and expenses are those recognized for debt instruments at FVTPL. They are accounted for on the accrual basis, using the nominal interest rate.

Commission and fee income and expenses. Fees, commissions and other income and expense items, except for those covered by effective interest rate, are accrued, as a rule, by using the straight-line method over the period when the services are provided to customers, who receive and, at the same time, consume the benefits ensured by the Group's business performance.

Commissions and fees that are recognized on completion of an underlying transaction and are earned at the time when the Group discharges its obligation to deliver a service, are those arising from negotiating or participating in negotiation of a transaction for a third party, such as acquisition of loans, shares or other securities, or sale of businesses. Management, advisory and service fees are recognized on the basis of the appropriate service contracts, as a rule, by using the straight-line method, over the period when such services were provided to customers, who receive and, at the same time, consume the benefits provided by the Group. Payment to investment funds for asset management is recognized over the period when the services are provided, normally, using the straight-line method, as a customer receives and, at the same time, consumes the benefits of the Group's performance. The same principle is applied to capital management, financial planning and custody services, which are constantly provided over a long period of time.

4.29. Income tax

The financial statements disclose income tax expense calculated in accordance with legislation of the Russian Federation.

The income tax expense (recovery) in the statement of profit or loss for the year comprises a current income tax and changes in a deferred income tax. The current tax expense is calculated on the basis of an expected taxable income for the year, using tax rates enacted at the reporting date. A tax expense, other than the income tax expense, is recognized in administrative and other operating expenses.

A deferred tax is calculated by using the balance sheet asset and liability method for temporary differences between the carrying amounts of assets and liabilities used for taxation purposes and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are established using the tax rates that, as it is assumed, will apply in the period when such assets are disposed of and liabilities settled, based on the tax rates enacted in this period or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

The deferred tax arising on fair value revaluation of financial assets held for sale or income, with such revaluation posted to the equity increase or decrease, is also recognized directly in the equity. When such financial assets are disposed of, the corresponding deferred tax amounts are transferred along with the accumulated increase/decrease in fair value of the financial assets.

A deferred tax asset carrying balance is reviewed at the end of each reporting period and is reduced to the extent, that it is no longer probable that a taxable income will be sufficient to utilize all or part of the deferred tax assets. Unrecognized deferred tax assets are reviewed at the end of each reporting period and are recognized to the extent, that it becomes probable that a taxable income will be sufficient to utilize the deferred tax assets. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and deferred taxes relate to the same legal entity.

4.30. Foreign currency revaluation

Items in the financial statements of the Bank are reported in the currency operational in the business environment where it operates (functional currency).

These financial statements are presented and prepared in the currency of the Russian Federation, which is the functional and presentation currency of the Group.

(in thousands of Russian Roubles)

Transactions in foreign currencies are recorded in the functional currency converted at the official rate of exchange of the Bank of Russia ruling at the date of the transaction. Foreign currency translation differences arising as a result of settlements in foreign currency are included in the statement of profit or loss at the official exchange rate of the Bank of Russia on the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated (revalued) at the official exchange rate of the Bank of Russia ruling at the reporting date. For preparation of these consolidated financial statements the following official exchange rates were used:

	31 December 2019	31 December 2018
US dollar	61.9057	69.4706
Euro	69.3406	79.4605
Chinese Yuan	8.8594	10.0997

Foreign currency exchange rate differences related to debt securities and other monetary financial assets measured at fair value, are reported within gains/losses from revaluation of foreign currencies.

4.31. Derivative financial instruments

Derivative financial instruments, including foreign currency forward contracts, interest rate futures, forward rate agreements, foreign currency and interest rate swaps and options and other financial derivatives, are recorded on the balance sheet at fair value through profit or loss. In this case the fair value, as a rule, represents the acquisition value, including transaction costs.

The fair value is estimated on the basis of quoted market prices, discounted cash flow models, option pricing models or spot rates at the year end, depending on transaction type. All derivatives are recognized as assets, when their fair value is positive, and as liabilities, when their fair value is negative.

Derivative financial instruments are recorded in the balance sheet line "Financial assets at fair value through profit or loss", if the fair value of a derivative is positive, or in the balance sheet line "Financial liabilities at fair value through profit or loss", if the fair value of a derivative is negative.

Changes in fair value of derivatives are recognized in net gain/loss on transactions with foreign currency, net gains/loss on transactions with financial assets at fair value through profit or loss, and net gain/loss on transactions with precious metals, depending on transaction type.

Certain derivatives are embedded in other financial instruments, such as a conversion option embedded into a convertible bond. Embedded derivatives are separated from the host contract if their risks and economic features are not closely correlated with those of the host contract and this contract is not accounted for at fair value, with unrealized income and expenses recognized in the statement of profit or loss.

4.32. Offsetting

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

4.33. Provisions for liabilities and charges

Provisions for liabilities and charges are recognized if the Group has liabilities (legal or those occurring due to business custom), that has arisen as a result of past events. Also, to discharge these liabilities, there is a high probability of the Bank's resource outflows, thus limiting economic benefits of the Bank. It is highly probable that the liability amount can be reliably measured.

4.34. Remuneration of personnel and related social contributions

Expenses related to salaries, premiums, vacation leaves, social insurance to the state extra-budgetary funds are recorded over the period when corresponding work is performed by the Group's employees. Expenses related to accruals of temporary disability benefits, child-care leaves and benefits in kind are recorded as incurred.

The Group assumes liabilities for payments regarding unused vacation leaves of its employees. These liabilities are reported in the statement of financial position in the line "Other liabilities", with simultaneous recognition in the statement of profit or loss, with regard to vacations due for the reporting year, and in retained earnings, for vacations due in the periods before the reporting period.

(in thousands of Russian Roubles)

4.35. Related party transactions

The Bank carries out transactions with related parties, defined in accordance with IAS 24 *Related Party Disclosures*. Parties are considered to be related if, among other things, one party has the ability to control the other party or, along with the other party be under common control, or be under common control of the other party and a third party, or can exercise significant influence over the other party in making financial or operational decisions.

In considering each possible related party relationship, the Bank pays attention to the economic substance of the relationship, not merely the legal form.

4.36. Segment reporting

The Group does not disclose information under IFRS 8 *Operating Segments* as its equity and debt securities are not in free circulation on money markets and the Group is not issuing such financial instruments to the open market of securities.

5. Interest income and expenses

	2019	2018
Interest income on assets at amortized cost		
Loans and advances to legal entities	1,174,639	572,766
Loans and advances to individuals	373,154	229,160
Due from financial institutions	370,269	228,130
Total interest income on financial assets at amortized cost	**1,918,062**	**1,030,056**
Interest income on assets at fair value through other comprehensive income		
Financial assets held for income or sale	615,813	660,473
Total interest income on financial assets at fair value through other comprehensive income	**615,813**	**660,473**
Total interest income	**2,533,875**	**1,690,529**
Interest expense on liabilities at amortized cost		
Customer accounts and deposits	(1,597,570)	(1,043,964)
Subordinated debt	(136,407)	(136,407)
Interest expense on lease liabilities	(18,283)	-
Securities issued	(1,325)	(39)
Due to financial institutions	(23)	(16,947)
Total interest expense on financial liabilities at amortized cost	**(1,753,608)**	**(1,197,357)**
Total interest expense	**(1,753,608)**	**(1,197,357)**
Net interest income	**780,267**	**493,172**

(in thousands of Russian Roubles)

6. Allowance for expected credit losses and other provisions

Movement in the allowance for ECLs and other possible losses in 2019 was as shown below:

	Balance as at 31 December 2018	Written off through the allowance account/ cession	Charge / (recovery) of allowance	Balance as at 31 December 2019
Movement in allowance for ECLs on interest-bearing financial assets				
Measured at amortized cost:				
Cash and cash equivalents	404	-	1,276	**1,680**
Due from financial institutions	4,760,998	-	(60,604)	**4,700,394**
Loans and advances to customers	6,629,734	(217,902)	534,766	**6,946,598**
Measured at fair value through other comprehensive income:				
Financial assets held for income or sale	31,310	(14,440)	(8,952)	**7,918**
Total change in allowance for ECLs on interest-bearing financial assets	**11,422,446**	**(232,342)**	**466,486**	**11,656,590**
Change in allowance for ECLs on other assets and other provisions				
Measured at amortized cost:				
Accounts receivable and other assets	10,386	-	15,864	**26,250**
Other				
Credit-related commitments and provision for other contingent liabilities	7,342	(1,050)	117,494	**123,786**
Total change in allowance for ECLs on other assets and other provisions	**17,728**	**(1,050)**	**133,358**	**150,036**
Total change in allowance for ECLs and other provisions	**11,440,174**	**(233,392)**	**599,844**	**11,806,626**

Movement in the allowance for ECLs and other possible losses in 2018 was as shown below:

	Balance as at 31 December 2017	Written off through the allowance account / cession	Charge / (recovery) of allowance	Balance as at 31 December 2018
Movement in allowance for ECLs on interest-bearing financial assets				
Measured at amortized cost:				
Cash and cash equivalents	-	-	404	**404**
Due from financial institutions	5,005,276	-	(244,278)	**4,760,998**
Loans and advances to customers	6,843,099	(39,817)	(173,548)	**6,629,734**
Measured at fair value through other comprehensive income:				
Financial assets held for income or sale	14,440	-	16,870	**31,310**
Total change in allowance for ECLs on interest-bearing financial assets	**11,862,815**	**(39,817)**	**(400,552)**	**11,422,446**
Change in allowance for ECLs on other assets and other provisions				
Measured at amortized cost:				
Accounts receivable and other assets	9,646	-	740	**10,386**
Other				
Credit-related commitments and provision for other contingent liabilities	7,462	-	(120)	**7,342**
Total change in allowance for ECLs on other assets and other provisions	**17,108**	**-**	**620**	**17,728**
Total change in allowance for ECLs and other provisions	**11,879,923**	**(39,817)**	**(399,932)**	**11,440,174**

(in thousands of Russian Roubles)

The opposite directions in the movement of allowance for ECLs over the reporting and comparative periods (a recovery of the allowance in 2018 and a charge in 2019) were due to the Bank's measures on disposal of problem assets in 2018-2019 and expansion of its business operations in accordance with the FRP in 2019. Changes in allowance have made a substantial effect on the Group's financial performance for the reporting and comparative periods. However, the losses posted by the Group for the financial year have been expected and provided for by the current version of the FRP.

7. Net gain from transactions with foreign currency and foreign exchange differences

	2019	2018
Net (loss) / gain from foreign exchange revaluation	(165,907)	311,168
Net gain / (loss) from transactions with foreign currency	298,555	(179,248)
Loss from transactions with derivative financial instruments	(10,589)	(3,249)
Total net gain from transactions with foreign currency and foreign exchange differences	**122,059**	**128,671**

Net gain from foreign exchange translation corresponds to revaluation of the long open balance sheet position in foreign currency, primarily in US dollars (see Note 29), at times of a weakening Russian Rouble.

The Bank manages its foreign currency exposure by concluding foreign currency swap transactions on the Moscow Exchange with its counterparty, Joint-Stock Company NKO NKTs. The Bank minimizes foreign currency exposure to its acceptable level of the assumed currency risk. Transactions of the Bank with foreign currency swap instruments as well as additional yield thereon are recognized within gains from transactions with foreign currency, and partially offset the impact of currency revaluation of the open balance sheet currency position on the Bank's financial results.

8. Fee and commission income and expense

	2019	2018
Fee and commission income		
Settlement fees	117,491	36,744
Banking guarantee issuance fees	18,791	3,977
Bank card transactions fees	13,364	4,463
Foreign currency control fees	13,163	4,353
Bank-customer service fees	11,960	6
Cash transactions fees	9,175	6,614
Foreign exchange transactions fees	8,336	3,476
Agency agreement fees	4,267	1,840
Documentary transactions fees	1,462	1,725
Other fees and commissions	417	28
Total fee and commission income	**198,426**	**63,226**
Fee and commission expense		
Bank card transactions fees	(9,582)	(4,775)
Settlement fees	(8,907)	(9,635)
Fees on transactions with foreign exchange	(5,005)	-
Brokerage fees	(2,744)	(727)
Other fees and commissions	(507)	(661)
Total fee and commission expense	**(26,745)**	**(15,798)**
Total fee and commission income and expense	**171,681**	**47,428**

(in thousands of Russian Roubles)

9. Other operating income

	2019	2018
Dividends received	30,080	56,165
Gains on interest-expense-bearing liabilities	15,069	11,017
Income on property leases	14,216	31,833
Sale proceeds on property, plant and equipment disposal	6,587	418
Income from utilities cost reimbursed to the Bank	3,555	3,675
Accounts payable written off	2,525	46,000
Expenses reimbursed by court orders	663	-
Insurance contracts income	33	2,092
Other	2,553	2,830
Total other operating income	**75,281**	**154,030**

10. Administrative and other operating expenses

	2019	2018
Personnel expenses		
Salaries and bonuses	473,638	385,669
Income tax and mandatory social insurance contributions to the extra-budgetary funds	116,446	95,974
Other personnel costs	890	3,461
Other administrative expenses		
Professional services	201,990	101,043
Depreciation and amortization of property, plant and equipment and intangible assets	168,445	97,636
Deposit insurance system contributions	129,630	59,619
Advertising expenses	90,068	83,349
Loan disposals under cession arrangements	83,725	236,619
Taxes other than corporate income tax	79,827	54,492
Technical maintenance of property, plant and equipment	73,140	66,969
Telecommunication expenses	53,349	46,797
Impairment of property, plant and equipment	35,332	35,786
Security	33,700	32,158
Maintenance of computer equipment	21,075	1,024
Business trip expenses	19,130	22,546
Lease expenses	16,397	95,136
Software acquisition and support	12,215	27,289
Materials and office supplies	10,218	19,435
Entertainment costs	6,390	4,939
Fines and penalties paid	5,456	1,180
Insurance	3,357	27,542
Loss on disposal of property, plant equipment and intangible assets	651	8,804
Furniture and equipment	6,533	7,795
Other	42,784	34,549
Total administrative and other operating expenses	**1,684,386**	**1,549,811**

(in thousands of Russian Roubles)

11. Income tax

Income tax expense includes the following components:

	2019	2018
Current income tax expense	(62,266)	(33,330)
Change in deferred tax due to occurrence and reversal of temporary differences	(11,375)	(170,780)
Income tax expense	**(73,641)**	**(204,110)**

The current tax rate of 20% is applicable to the majority of the Bank's profit for 2019 (2018: 20%). In 2019, the rate of 15% applies to coupon income on debt instruments of the Russian Federation (OFZ) and constituent territories of Russia as well as those of other Russian entities, issued after 1 January 2017 (2018: 15%).

Deferred tax asset represents the tax amount that can be utilized against future income tax charges, and is reported in the statement of financial position as deferred tax asset. The Group recognizes the deferred tax asset only to the extent that it is probable that a corresponding tax benefit will realize in future. As at 31 December 2019 and 31 December 2018 the deferred tax asset is not recognized. Deferred tax liability represents the amount of income tax payable in future and can be offset against realized deferred tax assets. As unrealized deferred tax assets of the Group exceed the assessed amount of deferred tax liabilities, the Group recognizes the deferred tax liabilities only to the extent of the balances within other comprehensive income. As at 31 December 2019, the amount of the deferred tax liability recognized in the statement of financial position, in respect of changes of fair value of property, plant and equipment and financial assets held for income or sale, was RUB 82,418 thousand (as at 31 December 2018: RUB 0).

The table below details deferred tax assets and liabilities in 2019:

	2018	Change to be recognised in profit or loss	Change to be recognised in other comprehensive income	2019
Tax effect of temporary differences reducing the taxable base				
Allowance for ECLs of the loan portfolio	1,595,693	(101,391)	-	1,494,302
Allowance for ECLs and fair value revaluation of financial assets held for income or sale	161	198,950	-	199,111
Property, plant and equipment: depreciation and revaluation	39,596	(1,075)	-	38,521
Other	1,258	(1,258)	-	-
Total deferred tax asset	**1,636,708**	**95,226**	**-**	**1,731,934**
Deferred tax assets not recognized due to accumulated tax loss	683,808	227,602	-	911,410
Net deferred tax asset	**2,320,516**	**322,828**	**-**	**2,643,344**
Tax effect of temporary differences increasing the taxable base				
Allowance for ECLs and fair value revaluation of financial assets held for income or sale	2,713	-	(33,542)	(30,829)
Property, plant and equipment: depreciation and revaluation	(48,157)	-	(3,432)	(51,589)
Deferred tax liability through equity	**(45,444)**	**-**	**(36,974)**	**(82,418)**
Investment property	(87,309)	11,382	-	(75,927)
Other	(24,926)	(4,659)	-	(29,585)
Total deferred tax liability	**(157,679)**	**6,723**	**(36,974)**	**(187,930)**
Total net deferred tax asset (liability)	**2,162,837**	**329,551**	**(36,974)**	**2,455,414**

(in thousands of Russian Roubles)

The table below details deferred tax assets and liabilities in 2018:

	2017	Change to be recognised in profit or loss	Change to be recognised in other comprehensive income	2018
Tax effect of temporary differences reducing the taxable base				
Allowance for ECLs of the loan portfolio	1,574,491	21,202	-	1,595,693
Allowance for ECLs and fair value revaluation of financial assets held for income or sale	165,569	(165,408)	-	161
Property, plant and equipment: depreciation and revaluation	49,967	(10,371)	-	39,596
Other	1,268	(10)	-	1,258
Total deferred tax asset	**1,791,295**	**(154,587)**	**-**	**1,636,708**
Unrecognized deferred tax assets	625,573	58,235	-	683,808
Net deferred tax asset	**2,416,868**	**(96,352)**	**-**	**2,320,516**
Tax effect of temporary differences increasing the taxable base				
Allowance for ECLs and fair value revaluation of financial assets held for income or sale	(162,681)	-	165,394	2,713
Property, plant and equipment: depreciation and revaluation	(53,683)	-	5,526	(48,157)
Deferred tax liability through equity	**(216,364)**	**-**	**170,920**	**(45,444)**
Investment property	(93,415)	6,106	-	(87,309)
Other	(30,915)	5,989	-	(24,926)
Total deferred tax liability	**(340,694)**	**12,095**	**170,920**	**(157,679)**
Total net deferred tax asset (liability)	**2,076,174**	**(84,257)**	**170,920**	**2,162,837**

12. Earnings per share

Basic earnings / loss per share is calculated by dividing the net profit or loss attributable to ordinary shares by the weighted average number of ordinary shares over the year, less average number of ordinary shares purchased back by the Bank from its shareholders.

	2019	2018
(Loss) / profit attributable to ordinary shareholders of the Bank	(1,158,723)	4,108
(Loss) / profit for the year	**(1,158,723)**	**4,108**
Weighted average number of ordinary shares outstanding (thousands)	101,100	101,100
Basic (loss) / earnings per ordinary share (Roubles per share)	(11.46)	0.04

As at 31 December 2019 and 31 December 2018, the parent entity of the Group (the Bank) has neither issued preference shares, nor the ordinary shares that may potentially dilute earnings / loss per share. Therefore, diluted earnings / loss per share are equal to basic earnings / loss per share.

13. Dividends

The amount of dividends, which may be paid by the parent entity of the Group, is limited to its retained earnings, as determined in accordance with the legislation of the Russian Federation.

Management of the Group does not plan to distribute dividends for 2019 and will use the retained earnings for business development (in 2018 no dividends were accrued or paid). Non-distributable reserves comprise the reserve fund, which is set up as required by the legislation to cover general banking risks, including future losses and other unforeseen risks and contingencies. The reserve fund has been created in accordance with the Charter of the parent entity of the Group, which provides for a reserve set-up for these purposes of not less than 15% of the share capital reported in the statutory books under Russian accounting standards.

(in thousands of Russian Roubles)

14. Cash and cash equivalents

	2019	2018
NOSTRO accounts and "overnight" placements with Russian resident banks	6,109,840	3,090,154
Correspondent account with the Bank of Russia (excluding mandatory reserve deposits)	692,369	492,912
NOSTRO accounts and "overnight" placements with non-resident banks	609,887	88,835
Cash on hand	538,416	585,191
Short-term deposits with the Bank of Russia	-	1 401 514
Total cash and cash equivalents before allowance for ECLs	**7,950,512**	**5,658,606**
Allowance for ECLs	(1,680)	(404)
Total cash and cash equivalents	**7,948,832**	**5,658,202**

Cash balances with banks are not secured by any collateral. The Group has established allowance for 12-month expected credit losses (which corresponds to Stage 1 of credit risk change for these investments) on deposits, including "overnight" placements, with counterparty banks, except for the Bank of Russia.

Analysis of cash and cash equivalents by currency structure and maturity is provided in Note 29.

As at 31 December 2019, the Group had cash balances with PJSC "Sberbank", "VTB Bank" (PJSC) and Promsvyazbank PJSC (as at 31 December 2018 cash balances were held with AO "ALFA-BANK", "VTB Bank" (PJSC) and PJSC "Sberbank"). The aggregate amount of such placements as at 31 December 2019 was RUB 6,000,000 thousand (as at 31 December 2018: RUB 3,020,000 thousand).

15. Due from financial institutions

	2019	2018
Interbank loans and placements past due	4,700,394	4,760,998
Settlements with currency and stock exchanges	129,207	206,661
Balances with clearing organizations	107,625	22,719
Contributions to the payment system guarantee fund	35,216	33,669
Other placements with credit organizations	11,502	6,783
Balances on trading bank accounts	1,112	-
Total due from financial institutions before allowance for ECLs	**4,985,056**	**5,030,830**
Allowance for ECLs	(4,700,394)	(4,760,998)
Total due from financial institutions	**284,662**	**269,832**

The line "Interbank loans and placements past due" includes amounts placed with Bank OJSC JSCB "Probusinessbank", the previous owner and rehabilitation phase manager of the Bank. As the license from OJSC JSCB "Probusinessbank" was revoked, these placements were treated as credit-impaired (Stage 3), with a 100% allowance for ECLs of RUB 4,700,394 thousand established as at 31 December 2019 (as at 31 December 2018: RUB 4,760,998 thousand). Claims regarding the placements with OJSC JSCB "Probusinessbank" were on the Bank's balance sheet before the start of the financial rehabilitation by the present Bank's owner. They are documented in the Financial Rehabilitation Plan as non-performing assets (see Note 1). From 2016 to 31 December 2019, the total amount recovered under the claims reached RUB 1,310,980 thousand.

(in thousands of Russian Roubles)

16. Loans and advances to customers

	2019	2018
Loans and advances to individuals	4,699,396	4,761,070
Loans and advances to legal entities	15,749,416	8,235,190
Total loans and advances to customers at amortized cost before allowance for ECLs	**20,448,812**	**12,996,260**
Allowance for ECLs	(6,946,598)	(6,629,734)
Total loans and advances to customers at amortized cost	**13,502,214**	**6,366,526**

Analysis of loans and advances by industry is detailed below.

	2019		2018	
	Amount	%	Amount	%
Commerce and services	5,566,839	27.2%	684,557	5.3%
Individuals	4,699,396	23.0%	4,761,070	36.6%
Transport	2,561,232	12.5%	1,202,145	9.2%
Construction	2,068,756	10.1%	1,362,792	10.5%
Finance and investments	1,620,368	7.9%	829,854	6.4%
Oil & gas and chemicals	1,539,424	7.5%	1,020,775	7.9%
Food and agriculture	928,285	4.5%	1,506,801	11.6%
Leases	748,106	3.7%	685,079	5.3%
Manufacturing	555,488	2.7%	502,758	3.9%
Other	160,918	0.8%	341,782	2.6%
Energy	-	-	98,647	0.8%
Total loans and advances to customers before allowance for ECLs	**20,448,812**	**100.0%**	**12,996,260**	**100.0%**
Allowance for ECLs	(6,946,598)		(6,629,734)	
Total loans and advances to customers	**13,502,214**		**6,366,526**	

Below is a concentration analysis of loans issued by the Group to its ten largest borrowers, non-related parties, as at the reporting dates of 2019 and 2018.

	2019	2018
Gross carrying amount of loans and advances	8,483,505	4,956,013
Share in the loan portfolio	*41.5%*	*38.1%*
Allowance established	(1,563,286)	(2,726,576)

(in thousands of Russian Roubles)

The below table analyzes loans and advances to customers by credit risk level as at 31 December 2019:

	Loans and advances to legal entities			
	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total loans and advances to legal entities
Minimum credit risk	1,549,838	-	-	**1,549,838**
Low credit risk	10,234,688	-	-	**10,234,688**
Medium credit risk	180,724	-	-	**180,724**
High credit risk	-	16,408	303,925	**320,333**
Defaulted assets	-	-	3,463,833	**3,463,833**
Total gross carrying amount of loans and advances to legal entities	**11,965,250**	**16,408**	**3,767,759**	**15,749,416**
Allowance for ECLs	(378,889)	(3,347)	(3,426,269)	**(3,808,506)**
Total loans and advances to legal entities	**11,586,360**	**13,061**	**341,490**	**11,940,910**

	Loans and advances to individuals			
	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total loans and advances to individuals
Minimum credit risk	-	-	-	**-**
Low credit risk	1,417,081	-	-	**1,417,081**
Medium credit risk	114,251	-	-	**114,251**
High credit risk	-	2,819	-	**2,819**
Defaulted assets	-	-	3,165,244	**3,165,244**
Total gross carrying amount of loans and advances to individuals	**1,531,332**	**2,819**	**3,165,244**	**4 699 396**
Allowance for ECLs	(19,361)	(1,469)	(3,117,262)	**(3,138,092)**
Total loans and advances to individuals	**1,511,971**	**1,350**	**47,983**	**1,561,304**

The below table analyzes loans and advances to customers by credit risk level as at 31 December 2018:

	Loans and advances to legal entities			
	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total loans and advances to legal entities
Minimum credit risk	543,129	-	-	**543,129**
Low credit risk	2,295,024	-	-	**2,295,024**
Medium credit risk	1,398,860	-	-	**1,398,860**
High credit risk	-	-	143,735	**143,735**
Defaulted assets	-	-	3,854,441	**3,854,441**
Total gross carrying amount of loans and advances to legal entities	**4,237,013**	**-**	**3,998,176**	**8,235,190**
Allowance for ECLs	(204,981)	-	(3,495,933)	**(3,700,915)**
Total loans and advances to legal entities	**4,032,032**	**-**	**502,243**	**4,534,275**

(in thousands of Russian Roubles)

	Loans and advances to individuals			
	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total loans and advances to individuals
Minimum credit risk	-	-	-	**-**
Low credit risk	1,657,019	235	3,517	**1,660,771**
Medium credit risk	28,852	6,364	-	**35,216**
High credit risk	-	15	5,300	**5,315**
Defaulted assets	-	-	3,059,768	**3,059,768**
Total gross carrying amount of loans and advances to individuals	**1,685,871**	**6,615**	**3,068,585**	**4,761,070**
Allowance for ECLs	(32,172)	(2,641)	(2,894,007)	**(2,928,819)**
Total loans and advances to individuals	**1,653,699**	**3,973**	**174,579**	**1,832,251**

Credit quality of loans and advances to customers analyzed by credit impairment stage is disclosed below as at 31 December 2019.

	Loans and advances to legal entities			Loans and advances to individuals		
	Gross carrying amount	Allowance for ECLs	Net carrying amount	Gross carrying amount	Allowance for ECLs	Net carrying amount
Quality loans	**11,965,249**	**(378,890)**	**11,586,359**	**1,531,332**	**(19,361)**	**1,511,971**
including:						
Non-overdue high-quality loans	11,281,467	(335,530)	**10,945,937**	1,495,399	(19,117)	**1,476,282**
Average quality loans overdue less than 30 days	683,782	(43,360)	**640,422**	35,933	(244)	**35,689**
Loans with a high increase in credit risk	**16,408**	**(3,347)**	**13,061**	**2,819**	**(1,469)**	**1,350**
including:						
Non-overdue loans	16,408	(3,347)	**13,061**	-	-	**-**
Loans overdue less than 60 days	-	-	**-**	823	(448)	**376**
Loans overdue less than 90 days	-	-	**-**	1,996	(1,022)	**974**
Credit-impaired loans	**3,767,759**	**(3,426,269)**	**341,490**	**3,165,244**	**(3,117,262)**	**47,983**
including:						
Non-overdue loans	303,925	(62,001)	**241,924**	8,322	(8,322)	**-**
Loans overdue less than 30 days	-	-	**-**	5,794	(5,794)	**-**
Loans overdue less than 60 days	-	-	**-**	1,194	(1,194)	**-**
Loans overdue less than 90 days	-	-	**-**	5,233	(5,233)	**-**
Loans overdue 90 or more days	3,463,834	(3,364,268)	**99,566**	3,144,701	(3,096,718)	**47,983**
TOTAL	**15,749,416**	**(3,808,506)**	**11,940,910**	**4,699,396**	**(3,138,092)**	**1,561,304**

(in thousands of Russian Roubles)

Credit quality of loans and advances to customers analyzed by credit impairment stage is disclosed below as at 31 December 2018.

	Loans and advances to legal entities			Loans and advances to individuals		
	Gross carrying amount	Allowance for ECLs	Net carrying amount	Gross carrying amount	Allowance for ECLs	Net carrying amount
Quality loans	**4,237,013**	**(204,981)**	**4,032,032**	**1,685,871**	**(32,172)**	**1,653,699**
including:						
Non-overdue high-quality loans	4,237,013	(204,981)	**4,032,032**	1,658,963	(31,952)	**1,627,011**
Average quality loans overdue less than 30 days	-	-	**-**	26,908	(220)	**26,688**
Loans with a high increase in credit risk	**-**	**-**	**-**	**6,615**	**(2,641)**	**3,973**
including:						
Loans overdue less than 30 days	-	-	**-**	6,615	(2,641)	**3,973**
Credit-impaired loans	**3,998,176**	**(3,495,933)**	**502,242**	**3,068,585**	**(2,894,007)**	**174,579**
including:						
Non-overdue loans	138,345	(33,430)	**104,914**	-	-	**-**
Loans overdue less than 90 days	-	-	**-**	5,300	(2,734)	**2,566**
Loans overdue 90 or more days	3,859,832	(3,462,503)	**397,328**	3,063,285	(2,891,273)	**172,013**
TOTAL	**8,235,190**	**(3,700,915)**	**4,534,274**	**4,761,070**	**(2,928,819)**	**1,832,251**

The following tables explain the changes in the credit loss allowance and gross carrying amount of loans and advances to custormers at amortized cost in 2019 year:

	Allowance for ECLs				Gross carrying amount			
	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total
Loans and advances to legal entities								
Balance as at 31 December 2018	**204,981**	**-**	**3,495,933**	**3,700,915**	**4,237,013**	**-**	**3,998,176**	**8,235,190**
Movements with impact on credit loss allowance charge for the year:								
Transfers and corresponding remesuarement of credit loss allowanaces:								
- to 12-month ECL – unimpaired assets	(6,724)	6,724	-	**-**	(73,091)	73,091	-	**-**
- to life-time ECL – impaired assets	(28,211)	-	28,211	**-**	(306,636)		306,636	**-**
Net charge / (recovery) within the same stage	(19,921)	-	130,005	**110,084**	-	-	-	**-**
New originated or purchased and impact of other increases in gross carrying amount	332,347	-	84,539	**416,886**	10,235,286	-	85,149	**10,320,435**
Derecognised during the period and impact of other decreases in gross carrying amount	(103,583)	(3,377)	(94,620)	**(201,580)**	(2,127,323)	(56,683)	(193,983)	**(2,377,989)**
Total movements with impact on credit loss allowance charge for the year	**173,909**	**3,347**	**148,134**	**325,390**	**7,728,236**	**16,408**	**197,802**	**7,942,446**
Movements without impact on credit loss allowance charge for the year:								
Written off through the allowance account / cession	-	-	(217,798)	**(217,798)**	-	-	(428,220)	**(428,220)**
Total movements without impact on credit loss allowance charge for the year	**-**	**-**	**(217,798)**	**(217,798)**	**-**	**-**	**(428,220)**	**(428,220)**
Balance as at 31 December 2019	**378,890**	**3,347**	**3,426,269**	**3,808,506**	**11,965,249**	**16,408**	**3,767,759**	**15,749,416**

(in thousands of Russian Roubles)

	Allowance for ECLs				Gross carrying amount			
	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total
Loans and advances to individuals								
Balance as at 31 December 2018	**32,172**	**2,641**	**2,894,007**	**2,928,819**	**1,685,871**	**6,615**	**3,068,585**	**4,761,070**
Movements with impact on credit loss allowance charge for the year:								
Transfers and corresponding remesuarement of credit loss allowanaces:								
- to 12-month ECL – unimpaired assets	34	(506)	473	**-**	6,521	-	(6,521)	**-**
- to life-time ECL – unimpaired assets	(41)	1,247	(1,206)	**-**	(700)	1,860	(1,160)	**-**
- to life-time ECL – impaired assets	(6,120)	(1,582)	7,702	**-**	(213,846)	(3,586)	217,433	**-**
Net charge / (recovery) within the same stage	-	(44)	209,309	**209,264**	-	-	-	**-**
New originated or purchased and impact of other increases in gross carrying amount	10,018	195	35,640	**45,853**	556,552	(272)	30,251	**586,530**
Derecognised during the period and impact of other decreases in gross carrying amount	(16,701)	(482)	(28,558)	**(45,741)**	(503,064)	(1,797)	(143,240)	**(648,101)**
Total movements with impact on credit loss allowance charge for the year	**(12,811)**	**(1,172)**	**223,359**	**209,376**	**(154,538)**	**(3,795)**	**96,763**	**(61,571)**
Movements without impact on credit loss allowance charge for the year:								
Written off through the allowance account / cession	-	-	(104)	**(104)**	-	-	(104)	**(104)**
Total movements without impact on credit loss allowance charge for the year	**-**	**-**	**(104)**	**(104)**	**-**	**-**	**(104)**	**(104)**
Balance as at 31 December 2019	**19,361**	**1,469**	**3,117,262**	**3,138,092**	**1,531,332**	**2,819**	**3,165,244**	**4,699,396**

The following tables explain the changes in the credit loss allowance and gross carrying amount of loans and advances to custormers at amortized cost in 2018 year:

	Allowance for ECLs				Gross carrying amount			
	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total
Loans and advances to legal entities								
Balance as at 01 January 2018 (with effects from transition to IFRS 9)	**248,820**	-	**3,447,689**	**3,696,508**	**2,335,270**	-	**4,385,281**	**6,720,551**
Movements with impact on credit loss allowance charge for the year:								
Transfers and corresponding remesuarement of credit loss allowanaces:								
- to life-time ECL – impaired assets	(122,992)	-	122,992	**-**	(365,751)	-	365,751	**-**
Net charge / (recovery) within the same stage	386	-	29,567	**29,953**	-	-	-	**-**
New originated or purchased and impact of other increases in gross carrying amount	127,338	-	(71,279)	**56,060**	3,085,846	-	16,446	**3,102,292**
Derecognised during the period and impact of other decreases in gross carrying amount	(48,571)	-	6,782	**(41,789)**	(818,351)	-	(729,485)	**(1,547,836)**
Total movements with impact on credit loss allowance charge for the year	**(43,838)**	**-**	**88,061**	**44,223**	**1,901,743**	**-**	**(347,288)**	**1,554,456**
Movements without impact on credit loss allowance charge for the year:								
Written off through the allowance account / cession	-	-	(39,817)	**(39,817)**	-	-	(39,817)	**(39,817)**
Total movements without impact on credit loss allowance charge for the year	**-**	**-**	**(39,817)**	**(39,817)**	**-**	**-**	**(39,817)**	**(39,817)**
Balance as at 31 December 2018	**204,981**	**-**	**3,495,933**	**3,700,915**	**4,237,013**	**-**	**3,998,176**	**8,235,190**

(in thousands of Russian Roubles)

	Allowance for ECLs				Gross carrying amount			
	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total	12-month ECLs	Lifetime ECLs – unimpaired assets	Lifetime ECLs – impaired assets	Total
Loans and advances to individuals								
Balance as at 01 January 2018 (with effects from transition to IFRS 9)	**6,542**	**12,045**	**3,257,266**	**3,275,852**	**1,325,903**	**30,163**	**3,551,495**	**4,907,561**
Movements with impact on credit loss allowance charge for the year:								
Transfers and corresponding remesuarement of credit loss allowanaces:								
- to 12-month ECL – unimpaired assets	5,609	(1,676)	(3,934)	**-**	211,690	-	(211,690)	**-**
- to life-time ECL – unimpaired assets	(46)	1,589	(1,543)	**-**	(1,918)	2,245	(327)	**-**
- to life-time ECL – impaired assets	(324)	(7,622)	7,946	**-**	(47,542)	(19,480)	67,022	**-**
Net charge / (recovery) within the same stage	46	(98)	(23,964)	**(24,015)**	-	-	-	**-**
New originated or purchased and impact of other increases in gross carrying amount	20,125	881	1,823	**22,829**	664,751	339	28,788	**693,879**
Derecognised during the period and impact of other decreases in gross carrying amount	219	(2,478)	(343,588)	**(345,847)**	(467,014)	(6,653)	(366,703)	**(840,370)**
Total movements with impact on credit loss allowance charge for the year	**25,629**	**(9,403)**	**(363,259)**	**(347,033)**	**359,968**	**(23,549)**	**(482,910)**	**(146,491)**
Total movements without impact on credit loss allowance charge for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 31 December 2018	**32,172**	**2,641**	**2,894,007**	**2,928,819**	**1,685,871**	**6,615**	**3,068,585**	**4,761,070**

A collateral analysis is presented below.

	2019		2018	
	Total loans and advances to customers	Share in the loan portfolio, %	Total loans and advances to customers	Share in the loan portfolio, %
Unsecured loans and advances	4,154,078	20%	3,378,335	26.0%
Loans secured by:				
Guarantees and sureties	6,107,546	30%	4,232,238	32.6%
Real estate	6,048,386	30%	3,119,499	24.0%
Other	1,395,561	7%	1,020,650	7.9%
Inventories	1,381,278	7%	646,183	5.0%
Liquid securities	1,215,669	6%	599,355	4.6%
Securities issued by the Bank	79,638	0%	-	0.0%
Motor vehicles	66,656	0%	-	0.0%
Total loans and advances to customers before allowance for ECLs	**20,448,812**	**100.0%**	**12,996,260**	**100.0%**

Renegotiated loans

A loan is considered to be renegotiated if terms and conditions of the original loan agreement were revised in a new agreement. Renegotiated loans are those, regarding which, forced changes in contractual terms have occurred and they meet the following criteria:

- the changes in the credit agreement bring more advantages to the borrower, who does not have the ability to discharge its obligations on the original terms, with the borrower being classified as a low or average credit risk. Amendment of credit terms is seen as more positive for a borrower if, for instance, the revised terms provide for less frequent payments, the interest rate reduction, a longer maturity or a larger credit limit, reduction in the total loan amount payable or revision of payment time to later dates;

(in thousands of Russian Roubles)

- they represent a refinancing of a loan agreement as the borrower does not have the ability to discharge its obligations under the agreement, with the borrower being classified as a high or average credit risk.

An analysis of renegotiated loans and advances with modified terms, at amortized cost, is disclosed below.

	2019			2018		
	Loans and advances to legal entities	**Loans and advances to individuals**	**Total restructured loans and advances to customers**	**Loans and advances to legal entities**	**Loans and advances to individuals**	**Total restructured loans and advances to customers**
Amortized cost						
Non-overdue loans	864,269	51,155	**915,424**	754,291	66,161	**820,452**
Allowance for ECLs	*(101,793)*	*(575)*	***(102,368)***	*(122,335)*	*(2,199)*	***(124,534)***
Loans overdue 1-30 days	-	5,173	**5,173**	-	392	**392**
Allowance for ECLs	-	*(19)*	***(19)***	-	*(11)*	***(11)***
Loans overdue 30-60 days	-	-	**-**	13,085	198	**13,283**
Allowance for ECLs	-	-	**-**	-	*(127)*	***(127)***
Loans overdue 60-90 days	-	52	**52**	-	235	**235**
Allowance for ECLs	-	*(46)*	***(46)***	-	*(7)*	***(7)***
Loans overdue more than 90 days	1,011,777	63,472	**1,075,249**	1,077,184	81,021	**1,158,205**
Allowance for ECLs	*(782,510)*	*(60,169)*	***(842,679)***	*(854,830)*	*(64,466)*	***(919,296)***
Total amortized cost	**991,743**	**59,043**	**1,050,786**	**867,395**	**81,197**	**948,592**

The outstanding loans disclosed below appeared on the Bank's balance sheet under the previous ownership, prior to the Bank's financial rehabilitation by its present owner. These loan balances are documented in the Bank's Financial Rehabilitation Plan (the FRP) as non-performing assets (see Note 1).

	2019			2018		
	Gross carrying amount	**Allowance for ECLs**	**Net carrying amount**	**Gross carrying amount**	**Allowance for ECLs**	**Net carrying amount**
Loans to legal entities	2,634,320	(2,603,448)	**30,872**	3,306,643	(2,820,294)	**486,349**
Loans to individuals	2,504,766	(2,504,687)	**79**	2,575,377	(2,346,781)	**228,596**
TOTAL	**5,139,086**	**(5,108,135)**	**30,951**	**5,882,020**	**(5,167,075)**	**714, 945**

The net carrying amounts, documented in the FRP as non-performing, represent the Group's estimates of the cash flows that it expects to collect from disposal of these loans, subject to the time value of money as at the reporting dates. From 2016 to 31 December 2019, the Group collected RUB 793,527 thousand from the sale of these non-performing loans.

(in thousands of Russian Roubles)

17. Financial assets held for income or sale

	2019	2018
Equity financial assets measured at fair value through other comprehensive income		
Corporate shares	682,023	419,663
Stakes in share capital of Russian resident entities	80,051	100,148
Total equity financial assets measured at fair value through other comprehensive income	**762,074**	**519,811**
Debt financial assets measured at fair value through other comprehensive income		
Corporate bonds	3,237,724	3,481,118
Bond issues of credit institutions	1,354,776	1,618,423
Eurobond issues of corporations and credit institutions	547,498	1,702,594
Subfederal and municipal bonds	565,345	539,668
Bond issues of foreign states	128,280	-
Bond issues of the Russian Federation	53,967	1,034,950
Total debt financial assets measured at fair value through other comprehensive income	**5,887,590**	**8,376,753**
Total financial assets held for income or sale	**6,649,664**	**8,896,564**

As at 31 December 2019, the characteristics of the debt financial assets were as follows:

- bonds of the Russian Federation have maturities in July 2022, with the interest rate of 7.6% p.a. (as at 31 December 2018: maturity range from January 2020 to February 2027, interest rate range from 7.0% to 8.15% p.a. for Roubles and 8.0% p.a. for US dollars);
- bonds of credit organizations comprise securities with maturities in the period from June 2021 to September 2026, the interest rate range is from 8.6% to 14.25% p.a. (as at 31 December 2018: maturity range from May 2019 to July 2026, interest rate range from 0.01% to 14.25% p.a.);
- bonds issued by constituent territories of the Russian Federation have maturities in the period from June 2022 to September 2025, the interest rate range is from 6.0% to 9.9% p.a. (as at 31 December 2018: maturity range from June 2022 to September 2025, interest rate range from 6.0% to 7.95% p.a.);
- Eurobonds have maturities in the period from July 2020 to December 2020, the interest rate range is from 4.42% to 6.9% p.a. (as at 31 December 2018: maturity range from April 2019 to May 2023, interest rate range from 4.42% to 7.75% p.a.);
- corporate bonds comprise securities of Russian issuers. The bonds have maturities in the period from May 2020 to March 2028, the interest rate range is from 6.95% to 13.25% p.a. (as at 31 December 2018: maturity range from April 2019 to March 2033, interest rate range from 6.95% to 11.50% p.a.).

Investments in debt securities include bonds issued by OJSC JSC "Probusinessbank", with the total due of RUB 14,440 thousand. The bonds have no credit rating and are past due. In accordance with the FRP of the Bank these investments are treated as non-performing assets (see Note 1). As at 31 December 2019 the Bank estimated their fair value at RUB 0 (as at 31 December 2018: RUB 0). Regarding other debt financial instruments, as at 31 December 2019 the Bank established allowance for 12-month ECLs of RUB 7,918 thousand (as at 31 December 2018: RUB 16,870 thousand). The allowance is included in the fair value revaluation reserve for financial assets held for income or sale, through other comprehensive income and without changing the carrying amount of these debt financial instruments.

As at 31 December 2019, the fair value of financial assets pledged as collateral to the SC "Deposit Insurance Agency" and PJSC "Sberbank" is RUB 5,101,397 thousand (as at 31 December 2018: RUB 7,935,197 thousand).

(in thousands of Russian Roubles)

The table below shows the credit quality analysis of debt financial assets held for income or sale as at 31 December 2019.

Rating assigned	**Corporate bonds**	**Bonds of credit institutions**	**Eurobonds of corporations and credit institutions**	**Russian subfederal and municipal bonds**	**Bonds of foreign states**	**Bonds of the Russian Federation**	**Total**
Ratings of International rating agencies:							
- rated from BBB- to BBB+ (Baa3 to Baa1)	402,169	820,613	547,498	370,067	-	53,967	**2,194,314**
- rated from BB- to BB+ (Ba3 to Ba1)	1,223,507	118,704	-	195,278	-	-	**1,537,489**
- rated from B- to B+ (B3 to B1)	-	-	-	-	128,280	-	**128,280**
Ratings of Russian rating agencies as per the national grading scale:							
- rated (ru)AAA	-	415,459	-	-	-	-	**415,459**
- rated from (ru)AA- to (ru)AA+	633,344	-	-	-	-	-	**633,344**
- rated from (ru)A- to (ru)A+	862,272	-	-	-	-	-	**862,272**
- rated from (ru)BBB- to (ru)BBB+	116,432	-	-	-	-	-	**116,432**
- unrated	-	-	-	-	-	-	**-**
Total debt financial assets held for income or sale	**3,237,724**	**1,354,776**	**547,498**	**565,345**	**128,280**	**53,967**	**5,887,590**

The table below shows the credit quality analysis of debt financial assets held for income or sale as at 31 December 2018.

Rating assigned	**Corporate bonds**	**Bonds of credit institutions**	**Eurobonds of corporations and credit institutions**	**Russian subfederal and municipal bonds**	**Bonds of foreign states**	**Bonds of the Russian Federation**	**Total**
Ratings of International rating agencies:							
- rated from BBB- to BBB+ (Baa3 to Baa1)	174,173	722,631	71,479	-	-	308,273	**1,276,556**
- rated from BB- to BB+ (Ba3 to Ba1)	2,884,222	763,125	1,631,115	539,668	-	726,677	**6,544,807**
- rated from B- to B+ (B3 to B1)	422,723	132,667	-	-	-	-	**555,390**
- unrated	-	-	-	-	-	-	**-**
Total debt financial assets held for income or sale	**3,481,118**	**1,618,423**	**1,702,594**	**539,668**	**-**	**1,034,950**	**8,376,753**

(in thousands of Russian Roubles)

The table below analyzes the credit risk of debt financial assets measured at fair value through other comprehensive income as at 31 December 2019 and 31 December 2018, for which allowances for expected credit losses are recognized depending on a credit risk level.

	2019			2018		
		Allowance for ECLs			Allowance for ECLs	
	Carrying amount of debt financial instruments	12-month ECLs	Total ECLs	Carrying amount of debt financial instruments	12-month ECLs	Total ECLs
Corporate bonds						
Minimum credit risk	402,169	74	74	174,173	88	88
Low credit risk	2,546,010	3,002	3,002	2,884,222	4,367	4,367
Medium credit risk	289,545	2,803	2,803	422,723	8,483	8,483
Total corporate bonds	**3,237,724**	**5,878**	**5,878**	**3,481,118**	**12,939**	**12,939**
Bonds of credit institutions						
Minimum credit risk	1,236,072	147	147	722,632	196	196
Low credit risk	118,704	217	217	763,124	482	482
Medium credit risk	-	-	-	132,667	563	563
Total bonds of credit institutions	**1,354,776**	**364**	**364**	**1,618,423**	**1,242**	**1,242**
Eurobonds of corporations and credit institutions						
Minimum credit risk	547,498	135	135	71,480	14	14
Low credit risk	-	-	-	1,631,114	1,593	1,593
Total Eurobonds of corporations and credit institutions	**547,498**	**135**	**135**	**1,702,594**	**1,607**	**1,607**
Russian subfederal and municipal bonds						
Minimum credit risk	370,067	37	37	-	-	-
Low credit risk	195,278	393	393	539,668	561	561
Total subfederal and municipal bonds	**565,345**	**430**	**430**	**539,668**	**561**	**561**
Bonds of foreign states						
Medium credit risk	128,280	1,106	1,106	-	-	-
Total bonds of foreign states	**128,280**	**1,106**	**1,106**	**-**	**-**	**-**
Bonds of the Russian Federation						
Minimum credit risk	53,967	5	5	1,034,950	521	521
Total bonds of the Russian Federation	**53,967**	**5**	**5**	**1,034,950**	**521**	**521**
Total debt financial assets held for income or sale	**5,887,590**	**7,918**	**7,918**	**8,376,753**	**16,870**	**16,870**

(in thousands of Russian Roubles)

The table below analyzes changes in allowances for expected credit losses of debt financial assets measured at fair value through other comprehensive income as at 31 December 2019 and 31 December 2018.

	2019			2018		
		Allowance for ECLs			Allowance for ECLs	
	Carrying amount of debt financial instruments	12-month ECLs	Total ECLs	Carrying amount of debt financial instruments	12-month ECLs	Total ECLs
Balance at the beginning of the year	**8,376,751**	**16,870**	**16,870**	**6,866,324**	**12,802**	**12,802**
Movements with an effect on allowance for ECLs during the year:						
Net charge / (recovery) of allowance for ECLs within the same impairment Stage	(112,463)	(1,196)	(1,196)	13,954	412	412
New disbursements or purchases and effects of other increases in the gross carrying amount	1,600,636	4,801	4,801	4,108,593	8,163	8,163
Derecognition within the reporting period and effects of other decreases in the gross carrying amount	(3,977,334)	(12,557)	(12,557)	(2,612,119)	(4,506)	(4,506)
Total changes with effects on allowance for ECLs for the reporting year	**(2,489,162)**	**(8,952)**	**(8,952)**	**1,510,429**	**4,069**	**4,069**
Balance at the end of the year	**5,887,590**	**7,918**	**7,918**	**8,376,753**	**16,870**	**16,870**

18. Financial assets at fair value through profit or loss

	2019	2018
Equity financial assets at fair value through profit or loss		
Stakes in share capital of Russian resident entities	1,308,389	1,695,599
Total financial assets at fair value through profit or loss	**1,308,389**	**1,695,599**

The Group makes investments into share capital of Russian entities organized in the form of limited liability companies, which carry out investment projects, to generate profit from the revaluation of their fair value or their sale. The Group does not exercise any operational control or a significant influence on the investees' activities. These investments are regularly valued by professional independent appraisers to establish the fair value.

19. Investment property

	2019	2018
Fair value		
Balance as at 1 January	**909,438**	**1,168,586**
Additions	517,995	177,900
Disposals	(167,967)	(591,413)
Gain from revaluation and transactions with investment property	(57,473)	154,365
Other changes	9,282	-
Carrying amount as at 31 December	**1,211,275**	**909,438**

Investment property comprises the real estate assets accounted for as temporarily not used in the principal activities of the Bank, as well as the real estate and corresponding rights thereon that are accounted for at Close-End Investment Funds and Real Estate Investrment Trust, also members of the Group. The investment property at the Funds and the Trust is valued by independent professional appraiser at least annually, as at 31 December of the reporting year. The gain or loss from the revaluation are reflected in the Statement of Profit or Loss within Revaluation gain/loss on investment property.

(in thousands of Russian Roubles)

As at 31 December 2019, the SC "DIA" continued to maintain restrictions regarding ownership rights of the investment property in the total carrying amount of RUB 47,207 thousand (as at 31 December 2018: RUB 94,952 thousand).

20. Property, plant and equipment

Information on changes in the property, plant and equipment value in 2019 is shown below.

	Land, buildings and premises	Right-of-use assets	Office and computer equipment	Motor vehicles and other equipment	Capital investments	Total property, plant and equipment
Carrying amount as at 1 January 2019	**709,789**	**-**	**57,860**	**1,885**	**4,443**	**773,977**
Cost / value						
Cost (or value) as at 1 January 2019	709,789	-	361,161	15,936	4,443	**1,091,329**
Additions	-	325,415	17,274	550	-	**343,239**
Disposals	(48)	(1,259)	(34,396)	(4,742)	(4,443)	**(44,888)**
Revaluation	(18,163)	-	-	-	-	**(18,163)**
Cost (or value) as at 31 December 2019	**691,578**	**324,156**	**344,039**	**11,744**	**-**	**1,371,517**
Accumulated depreciation						
Accumulated depreciation as at 1 January 2019	-	-	303,301	14,051	-	**317,352**
Depreciation charge	12,387	94,442	31,765	927	-	**139,521**
Accumulated depreciation written off on revaluation of assets	(12,387)	-	-	-	-	**(12,387)**
Disposals	-	-	(34,251)	(4,654)	-	**(38,905)**
Accumulated depreciation as at 31 December 2019	**-**	**94,442**	**300,815**	**10,324**	**-**	**405,581**
Carrying amount as at 31 December 2019	**691,578**	**229,714**	**43,224**	**1,420**	**-**	**965,936**

Information on changes in the property, plant and equipment value in 2018 is shown below.

	Land, buildings and premises	Right-of-use assets	Office and computer equipment	Motor vehicles and other equipment	Capital investments	Total property, plant and equipment
Carrying amount as at 1 January 2018	**748,653**	**-**	**78,333**	**3,145**	**535**	**830,666**
Cost (or value)						
Cost (or value) as at 1 January 2018	748,653	-	362,100	18,196	535	**1,129,484**
Additions	-	-	14,000	-	3,908	**17,908**
Disposals	(11,459)	-	(14,939)	(2,260)	-	**(28,658)**
Revaluation	(27,405)	-	-	-	-	**(27,405)**
Cost (or value) as at 31 December 2018	**709,789**	**-**	**361,161**	**15,936**	**4,443**	**1,091,329**
Accumulated depreciation						
Accumulated depreciation as at 1 January 2018	-	-	283,767	15,051	-	**298,818**
Depreciation charge	13,996	-	34,440	971	-	**49,407**
Accumulated depreciation written off on revaluation of assets	(13,030)	-	-	-	-	**(13,030)**
Disposals	(966)	-	(14,906)	(1,971)	-	**(17,843)**
Accumulated depreciation as at 31 December 2018	**-**	**-**	**303, 301**	**14,051**	**-**	**317,352**
Carrying amount as at 31 December 2018	**709,789**	**-**	**57,860**	**1,885**	**4,443**	**773,977**

(in thousands of Russian Roubles)

As at 31 December 2019 and 31 December 2018, the valuation of the Bank's land, buildings and premises was performed by independent appraisers (LLC "VS-otsenka" and LLC "RIGAL Consulting"), approved by the SC "Deposit Insurance Agency" (the SC "DIA").

As at 31 December 2019, the SC "DIA" maintained restrictions regarding ownership rights of the property, plant and equipment in the total amount of RUB 674,048 thousand (as at 31 December 2018: RUB 692,211 thousand).

The table below shows right-of-use assets by asset group as at the reporting date and at the beginning of the year.

	31 December 2019			1 January 2019		
	Initial cost	Accumulated depreciation	Carrying amount	Initial cost	Accumulated depreciation	Carrying amount
Non-residential properties	306,503	(88,254)	**218,249**	316,791	-	**316,791**
Residential properties	3,668	(729)	**2,939**	1,349	-	**1,349**
Motor vehicles	11,305	(4,805)	**6,500**	769	-	**769**
Land	2,680	(654)	**2,026**	848	-	**848**
Total right-of-use assets	**324,156**	**(94,442)**	**229,714**	**319,757**	**-**	**319,757**

21. Intangible assets

Information on the intangible assets value in 2019 is shown below.

	2019
Carrying amount as at 1 January 2019	**71,330**
Cost (or value)	
Cost (or value) as at 1 January 2019	131,223
Additions	65,626
Disposals	(11,308)
Cost (or value) as at 31 December 2019	**185,541**
Accumulated amortization	
Accumulated amortization as at 1 January 2019	59,893
Amortization charge	28,924
Disposals	(11,308)
Accumulated amortization as at 31 December 2019	**77,509**
Carrying amount as at 31 December 2019	**108,032**

(in thousands of Russian Roubles)

Information on the intangible assets value in 2018 is shown below.

	2018
Carrying amount as at 1 January 2018	**99,277**
Cost (or value)	
Cost (or value) as at 1 January 2018	149,309
Additions	20,282
Disposals	(38,368)
Cost (or value) as at 31 December 2018	**131,223**
Accumulated amortization	
Accumulated amortization as at 1 January 2018	50,032
Amortization charge	48,229
Disposals	(38,368)
Accumulated amortization as at 31 December 2018	**59,893**
Carrying amount as at 31 December 2018	**71,330**

Intangible assets comprise licenses for computer software.

22. Other assets

	2019	2018
Claims on accounts receivable	387,770	123,651
Prepayments	143,597	126,624
Claims on fees and commissions	80,044	-
Other accounts receivable	21,331	7,312
Advances on operational taxes	1,902	3,577
Settlements in progress	1,387	-
Guarantee deposits on leases	-	20,504
Total other assets before allowance for expected credit losses	**636,031**	**281,668**
Allowance for ECLs	(26,250)	(10,386)
Total other assets	**609,781**	**271,282**

23. Due to financial institutions

	2019	2018
Correspondent accounts and "overnight" placements of other banks	327,350	238,980
Total due to financial institutions	**327,350**	**238,980**

(in thousands of Russian Roubles)

24. Customer accounts

	2019	2018
Accounts of state and community-based organizations		
Current and settlement accounts	2,129	377
Total accounts of state and public organizations	**2,129**	**377**
Accounts of privately-owned legal entities		
Current and settlement accounts	1,074,802	723,697
Term deposits	720,849	507,429
Total accounts of privately-owned legal entities	**1,795,651**	**1,231,126**
Accounts of individuals		
Current accounts and accounts on demand	752,511	701,366
Term deposits	23,863,227	16,449,447
Total accounts of individuals	**24,615,738**	**17,150,813**
Total customer accounts	**26,413,518**	**18,382,316**

The state and public organizations do not include state-controlled commercial entities.

Over the whole period of the Bank's operations, its client base has been fairly stable, mostly represented by individuals. As at 31 December 2019 and 31 December 2018, the Bank did not have any counterparty with its total account balances exceeding 10% of the aggregate amount of balances on current accounts and deposits from customers.

During 2019 and 2018, the Bank did not attract funds from customers at the rates substantially above or below market.

The industry analysis of customer accounts is shown below.

	2019		2018	
	Amount	**%**	**Amount**	**%**
Individuals	24,615,738	93.19%	17,150,813	93.30%
Commerce and services	567,095	2.15%	243,068	1.32%
Construction	181,021	0.69%	51,180	0.28%
Finance and investments	121,523	0.46%	275,567	1.50%
Manufacturing	119,276	0.45%	9,724	0.05%
Oil & gas and chemicals	104,183	0.39%	1,416	0.01%
Food and agriculture	100,108	0.38%	28,728	0.16%
Transport	71,319	0.27%	304,576	1.66%
Telecommunications	29,006	0.11%	71,316	0.39%
Leases	24,888	0.09%	13,320	0.07%
Energy	11,043	0.04%	683	0.00%
Insurance	10,451	0.04%	35,075	0.19%
Production	8,481	0.03%	28,201	0.15%
State and municipal organizations	2,129	0.01%	375	0.00%
Timber and woodworking industry	4	0.00%	76	0.00%
Other	447,253	1.69%	168,198	0.91%
Total customer accounts	**26,413,518**	**100%**	**18,382,316**	**100%**

(in thousands of Russian Roubles)

25. Other liabilities and provisions

	2019	2018
Lease liabilities	239,963	-
Provisions on off-balance sheet credit-related commitments	123,786	6,292
Payables to personnel	38,153	32,656
Taxes payable	17,846	15,845
Accounts payable to suppliers	58,662	47,440
Settlements on guarantees issued	13,117	-
Corporate income tax payable	3,713	-
Other liabilities	5,333	2,637
Total other liabilities	**500,573**	**104,870**

Lease liabilities analyzed by maturity as at the reporting date are shown below.

	31 December 2019	1 January 2019
Short-term liabilities	99,230	93,164
Long-term liabilities	137,227	206,113
Total lease liabilities	**236,457**	**299,277**

As at 31 December 2019, the average discount rate used in accounting for lease liabilities was 7.4% (as at 31 December 2018: 7.4%).

26. Share capital

On 17 February 2014, temporary administration of the Bank took a decision on additional issue of securities. The way of placement was private offering to Limited Liability Company "ALIVIKT" (hereinafter – LLC "ALIVIKT"). The initiative was made in line with financial rehabilitation measures of the Bank undertaken by the banking group of OJSC JSC "Probusinessbank" (see Note 1). On 26 February 2014, the Department for Licensing of Activities and Financial Rehabilitation of Credit Organizations of the Bank of Russia registered the Report on the results of the additional issue of shares in the amount of RUB 2,200,000,000. The share of the placed securities in this additional issue was 100%. After the additional issue of shares, the size of the share capital of the Bank equaled RUB 2,200,000,001 and the share of LLC "ALIVIKT" in the share capital of the Bank was 99.99%.

In August 2015, as the license from OJSC JSCB "Probusinessbank" had been revoked, a temporary administration was introduced in the Bank, represented by the SC "Deposit Insurance Agency" (the SC "DIA") members. In October 2015, certain activities were carried out to reconcile the share capital of the Bank to RUB 1.

On 5 November 2015, the Bank of Russia approved changes in the Participation Plan of the SC "DIA" in taking measures to prevent bankruptcy of the Bank. The changes provided for control of the Bank by JSC "Zarubezhenergoproekt". On 4 December 2015, the Bank of Russia registered the Report on results of the additional issue of shares in the amount of RUB 10,000,000. The share of the placed securities in this additional issue was 100%. The share of JSC "Zarubezhenergoproekt" in the share capital of the Bank of RUB 10,000,001 was 99.99%. In 2016, JSC "Zarubezhenergoproekt" purchased back the Bank's shares from minority shareholders. Since 25 November 2016, JSC "Zarubezhenergoproekt" has been the only shareholder of the Bank.

On 10 November 2017 (Minutes No.29) the Board of Directors of the Bank of Russia approved changes to the Participation Plan, which provided for alterations to be made in the Financial Rehabilitation Plan (the FRP) of the Bank. In 2017, under the FRP, JSC "Zarubezhenergoproekt" purchased the additional issue of shares to increase the share capital of the Bank, and also issued a subordinated loan (see Note 27). As at 31 December 2019, the share capital of the Bank was RUB 10,110,001,011 and comprised 101,100,000 ordinary shares (as at 31 December 2018: the share capital of RUB 10,110,001,011 comprising 101,100,000 ordinary shares).

(in thousands of Russian Roubles)

27. Subordinated debt

At the end of 2017, to increase the Group's capital under the Financial Rehabilitation Plan (the FRP) of the parent company of the Group, JSC "Zarubezhenergoproekt" provided a subordinated loan of RUB 4,011,960 thousand. The interest rate on this loan is 3.40% p.a.

Given the economic substance of the total purpose financing under the FRP, the Bank classifies this subordinated debt issued by its only shareholder as an element of the equity in the Statement of Financial Position. The amount, along with the effect of discounting, is reflected in the line "Additional capital" in the amount of RUB 4,011,960 thousand at amortized cost, using a market interest rate of 7.51% p.a. as the effective interest rate.

In accordance with the subordinated loan agreement, in case of bankruptcy or liquidation of the Bank the debt will be repaid after discharging other liabilities of the Bank to all other creditors.

28. Capital management

Daily control over observance of the capital adequacy ratio set by the Bank of Russia is exercised by the parent company of the Group. On a monthly basis, the Bank provides information regarding capital adequacy ratio calculations to the Bank of Russia, which is verified and signed by the Chairman of the Management Board and the Chief Accountant of the parent company of the Group. Other goals of capital management are evaluated annually.

The only items defined by the Bank as elements of the total regulatory capital are those designated in the statutory legislation of the Russian Federation regarding calculation of the regulatory capital for credit institutions. The Group calculates its regulatory capital according to the Regulation of the Bank of Russia No. 646-P "On methodology to determine the amount of regulatory capital in credit institutions (Basel III)" of 4 July 2018.

Minimum capital adequacy ratios as at 31 December 2019 and 31 December 2018 are as follows:

	2019	2018
Common equity adequacy ratio (N1.1), %	4.5	4.5
Tier 1 capital adequacy (N1.2), %	6.0	6.0
Total capital adequacy ratio (N1.0), %	8.0	8.0

Calculation of the capital adequacy ratio of the Bank as at 31 December 2019 and 31 December 2018, according to the requirements of the Bank of Russia, was based on the following:

	2019	2018
Sources of common equity capital	10,181,767	10,179,767
Tier 2 capital	3,444,301	4,235,947
Deductions from common equity capital	(1,622,486)	(936,164)
Total capital calculated as per requirements of the Bank of Russia	**12,003,582**	**13,479,550**
Risk assumed by the Bank, calculated as per requirements of the Bank of Russia (includes risk-weighted assets, risk of off-balance sheet estimated liabilities, risk on forward deals, market risk, operational risk)	41,478,911	33,124,985
Capital adequacy ratios calculated in line with requirements of the Bank of Russia		
Common equity adequacy ratio (N1.1)	20.8%	28.1%
Tier 1 capital adequacy ratio (N1.2)	20.8%	28.1%
Total capital adequacy ratio (N1.0)	**28.9%**	**40.7%**

Over the periods ended 31 December 2019 and 31 December 2018, the Bank observed the capital adequacy ratio requirements set by the Bank of Russia.

29. Risk management

The parent company of the Group has designated in the Risk and Capital Management Strategy of the Bank the main types of risks, such as credit risk, market risk, operational risk, interest rate risk of the banking book, liquidity risk, concentration risk, strategic risk, reputation risk, country risk and regulatory risk.

As at 31 December 2019, the following risks are regarded by the Group as significant:

Credit risk is the risk of financial loss to the Group occurring as a result of default by a borrower or of its untimely or incomplete discharge of contractual financial obligations to the Group.

Market risk is the risk of financial losses to the Group occurring as a result of unfavorable movements in market prices of financial instruments and foreign exchange rates.

Market risk comprises equity risk, interest rate risk (of the trading portfolio), currency risk and commodity risk.

Operational risk is the risk of losses to the Group arising from unreliability and shortcomings of internal management procedures of the Group, failure of IT and other systems or as a result of external events affecting the Group's activities.

Operational risk includes a legal risk.

Liquidity risk is the risk that the Group will incur losses due to failure of the parent company of the Group to fully discharge its liabilities. Liquidity risk arises when the maturities of financial assets and financial liabilities of the Group do not match (also due to untimely discharge of financial liabilities by one or several counterparties of the Group) and/ or unforeseen necessity arises for the Group to immediately and simultaneously honor its financial obligations.

Interest rate risk of the banking book is the risk of worsening of the Group's financial position due to decrease in capital, income and asset values, arising as a result of adverse changes in the market interest rates.

Concentration risk is the risk occurring due to the Group's exposure to large risks that may realize and lead to material losses threatening the Group's solvency and ability to continue as a going concern.

There are developed and approved individual internal policies and procedures on risk management and minimization for each significant risk type.

The main objective of risk management is risk assessment and minimization, also by setting risk limits and subsequent observance of them. Assessment of the assumed level of risk is the basis for an optimal capital allocation that considers risks, pricing of transactions and performance results.

The priority is to ensure the maximum safeguards of assets and capital based on minimization of risks that may lead to unexpected losses. All risks that may have a negative impact on the Group's achievement of the set goals, are recognized and assessed in a regular manner.

As a part of risk and capital management, the Group ensures organization of the following procedures:

1) approval of the key principles of risk management and assessment of conformity by the Group's organization structure to these principles; and

2) control over activities of the Group's executive bodies with regard to risk management, identification of weaknesses in risk management and taking appropriate measures.

To reduce risks in the Group a system of limits and caps is in place, which ensures the targeted risk appetite level.

The system of limits has the following multi-layer structure:

- general limits that are set in conformity with the risk appetite defined in the Risk and capital management strategy of the parent company of the Group;
- limits by material risk type;
- limits by volume of concluded transactions per one counterparty or a group of related counterparties, by volume of transactions with financial instruments, etc.;
- limits for particular financial instruments; and
- other limits.

The Group gives consideration to the following main types of limitations:

- capital adequacy to cover assumed risks; and
- mandatory capital adequacy ratios prescribed by the Bank of Russia.

For the purposes of risk reduction, the following methods are used:

1) Risk avoidance is the method prescribing implementation of measures that fully or partially eliminate/minimize

a particular risk type (e.g. a deliberate decision not to carry out transactions with unacceptably high risk);

2) Hedging is a system of measures enabling conclusion of term contracts and deals that take into account possible future movements in currency exchange rates and aim to exclude unfavorable impact of such movements;

3) Diversification is a process of capital allocation between different capital investments that are not directly related to each other;

4) Risk insurance is the Group's property insurance with particular insurance companies (insurers) when an insured event occurs (a loss occurrence). Compensations are paid out from the money accumulated by the insurers by collecting insurance premiums from policy holders;

5) Use of additional collateral.

Risk Management Service of the Group is a division of the parent company of the Group that is independent from other structural units of the Group performing risk-bearing operations.

Risk Management Service of the parent company of the Group performs the following functions:

- develops and defines procedures and principles of risk management;
- organizes risk management process;
- assesses and sets the Aggregate risk value;
- monitors risk level;
- identifies inherent risks for the Group's activities and potential risks;
- highlights material risks and performs their assessment;
- aggregates quantitative assessments of material risks and controls their exposures;
- ensures compliance with the mandatory ratios established by the Bank of Russia;
- establishes limits in the risk management system;
- prepares reports under internal capital adequacy assessment process (ICAAP);
- works out stress-test procedures;
- organizes stress-tests exercises;
- informs the Sole Executive Body about identified shortcomings in the risk management and assessment methodology, as well as about threshold values reached and instances of limit excesses and actions taken for their remedy.

Risk Management Service regularly prepares management reports, which supply the empowered bodies of the Group with information necessary for decision-making.

The Group performs risk management and assessment of the said material risks on a constant basis.

Credit risk

Lending to legal entities and individuals is performed by the parent company of the Group in accordance with the Credit Policy. Credit risk management procedures are established in the Regulation on Credit Risk Management.

The Group assumes certain level of credit risk, such as the risk that a counterparty will not pay in full its loan when due. The Group controls its credit risk by setting limits per one borrower or groups of related borrowers, and also limits by geographic area and industry segment. The Group regularly monitors credit risk and reviews the set limits at least annually. Actual observance of limits of the assumed risk is controlled on a constant basis.

Credit risk management process includes the following:

- credit risk identification;
- quantitative and qualitative assessment of credit risk;
- taking measures to limit and reduce credit risk (including set-up of limits, getting collateral, establishing allowances for potential losses);
- regular monitoring and control over credit risk level (including control of the set limits) regarding individual counterparties (borrowers) and the credit portfolio of the Group in general;
- streamlining of approaches and methods of credit risk assessment, improvement of internal documentation with guidance on credit risk management;
- internal control procedures regarding credit risk management.

The Group closely controls concentration of large credit exposures, compliance with prudential requirements of the Bank of Russia and carefully analyzes and forecasts credit risk levels.

The credit risk level of the Group is assessed as high.

1. *Credit risk management structure*

Decisions about disbursements and lending terms are made by the Credit Committee and the Sub-Committee for

Retail Lending (integral to the Credit Committee) of the parent company of the Group. The Credit Committee decisions are obligatory for all structural units of the Group. All lending terms and conditions approved by the Committee are reflected in a credit agreement concluded by the Group with a customer. The Credit Committee also approves credit limits for borrowers (legal entities, sole proprietors and individuals).

Limits on transactions with credit organizations and for securities are set at the Finance and Budget Committee of the parent company of the Group.

The Group issues short- and long-term loans, overdrafts to borrowers organized in various legal forms. Borrowers are legal entities, individuals and sole proprietors. The purpose of lending may be construction-in-progress, purchase of property, transport vehicles and equipment, production (facility) extension / expansion, launch of new technologies, purchases of raw materials, financing a working capital deficit / liquidity deficit, purchases of real estate assets, consumer needs, etc. Credit limit per one borrower is determined with consideration given to the following: the maximum allowed limits, the borrower's credit history, size of its monthly account turnover and average settlement account balances, collateral level, importance of the borrower for the Group as a client, financial standing, business development forecasts and other available information on the borrower.

Lending decisions in favor of insiders and other related parties of the Group are made without participation of these interested parties in the decision-making process. Decisions about credit risk bearing transactions (regardless of their amount) with the Group's related parties, that is, the interested parties with regards to such decisions, are made only by the Board of Directors of the parent company of the Group. Lending to the Group's related parties (and also assuming credit-related commitments) on non-arm's length terms (e.g. those regarding maturity of payments, interest rates, collateral requirements) in comparison with the loans (and credit-related commitments) to non-related parties of the Group, is not allowed.

Only the Credit Committee makes decisions on prolongation of loan agreements.

2. *Credit risk management*

The aim of the credit risk management is minimization of potential losses by the Group, arising due to failure of borrowers to meet their obligations, and maximization of the Group's returns, subject to credit risk.

Credit risk management objectives are:
1) credit risk analysis and assessment;
2) determination of the risk exposure;
3) credit risk management;
4) control over effectiveness of credit risk management.

Credit assessment criteria are:
1) borrower's financial standing;
2) borrower's debt service quality;
3) collateral.

In managing credit risk, credit limits and investing limits are introduced, such as:
1) lending to legal entities and individuals;
2) interbank lending and forex transactions on the interbank market;
3) investing in securities.

The Group has approved the following limit types:
- risk limits for counterparty banks on interbank transactions (interbank lending and currency conversion transactions);
- limits for securities' issuers (state securities, promissory notes, corporate bonds and shares).

In lending to legal entities and individuals the Credit Committee makes a decision regarding possibility to lend and the maximum loan (credit line) exposure. The decision is made on the basis of an expert lending advice from the Credit Department or Division of Retail Business, and other available information.

Disbursement limits for corporate customers are set up based on the analysis of the ownership structure, business reputation, credit history, financial standing, financial forecasts, position in industry and other criteria.

Disbursement limits for counterparty banks are set up based on the analysis of their financial standing, ratings, capital structure, concentration of banking operations, credit history and business reputation.

The maximum amount of loan to an individual is limited by his solvency, which is calculated individually for each customer.

For monitoring of credit risk, employees of credit departments prepare regular reports based on a structured analysis of business and financial performance of customers. All information about material risks, regarding customers with weakening creditworthiness, is communicated to the Credit Committee and the empowered bodies of the Group for analysis.

The Group uses a formal internal methodology, based on calculation of a cumulative score, characterizing a borrower's financial standing and creditworthiness for the purpose of a quantitative assessment and credit risk monitoring. The assessment of financial standing is underpinned by analysis of the borrower's financial statements and other information received by the Group.

Credit divisions of the Group analyze loans by maturity and perform ex-post control of balances overdue.

In assessing a credit portfolio, the focus is on risk concentration in the portfolio. Concentration may take various forms and occurs when a large number of loans have similar characteristics. The Group takes into consideration the portfolio diversification by maturity, industry, geographic area.

As to credit-related commitments, the Group applies the same credit policy as for its balance-sheet financial instruments, which is based on particular procedures of transaction approvals, risk limit use and monitoring procedures.

3. *Main stages of credit work*

1. Credit application processing, analysis of a borrower's financial standing, economic justification of a loan disbursement decision, legal processing and documentation of the loan.
2. Control over observance of contractual loan terms and conditions with regard to the credit deal, monitoring of the borrower's and its surety's financial standing, control over existence and condition of the collateralized assets, etc. The Group performs a constant monitoring of credit risks. Limits on transactions with counterparty banks are regularly reviewed. Given threatening risks, the limits can be revised. For the purpose of credit risk monitoring, employees of credit departments regularly assess customers' financial indicators, check payment discipline and perform maturity analysis. In addition, the Group monitors the loan balances overdue.
3. Loan repayment. The Group takes measures for debt collection, if there are delays in repayments of the funds disbursed. If the measures do not bring any result, the Legal Department prepares documents to satisfy the debt by foreclosing on the property or for court proceedings. Decision to recognize a loan as a loss is made by the Management Board of the parent credit organization after an expert opinion about inability of the loan recovery.

4. *Taking collateral and other methods of credit quality improvement*

Credit risk management is also achieved by taking collateral in a form of real estate, securities, assets or other, including guarantees and sureties of legal entities and individuals, as well as by monitoring of such collaterals.

Despite the fact that collateral is an important instrument of credit risk reduction, the Group's policy establishes that the loan repayment by the borrower has a higher priority than the collateral sale. Under certain circumstances, depending on the borrower's financial standing and a credit product type, the transaction may be unsecured.

The Group has approved "Methodology on transactions with collateral in commercial lending and providing documentary transactions (services)".

5. *Allowance for expected credit losses*

Model of expected credit losses. The Group establishes an allowance for expected credit losses (ECLs), which reflects an assessment of losses on the credit portfolio as well as on other financial instruments bearing credit risk. The key premise of the model run for assessment of loan allowances is in use of current and forecast information regarding credit quality of financial instruments.

Classification of financial assets depending on changes in credit risk. Below are summarized relationships between probabilities of default based on internal ratings and credit risk levels assessed by the Group:

- quality assets (minimum credit risk): counterparties on these assets demonstrate a consistent ability to timely discharge their financial obligations with a low probability of default (Stage 1);
- assets with identified significant increase in credit risk (moderate credit risk): counterparties on these assets have a moderate probability of default and show an average ability to meet their financial obligations on time; they require more scrutiny at the monitoring stage (Stage 2);

- credit-impaired assets (high credit risk): counterparties on these assets have a high probability of default and require particular scrutiny at the monitoring stage; or are those, given the existing impairment signs, meeting the default definition (Stage 3).

Allowance for credit losses for purchased or originated credit-impaired assets (POCI assets) is made in the amount equal to accumulated changes in ECLs for the whole life of a financial instrument since its purchase or origination. The Group puts in this category assets with the following observable information and surrounding circumstances at the time of their acquisition or origination:

- purchase or origination of an asset at a substantial discount, which reflects material credit losses incurred. A substantial discount is a discount of 15% or higher of the nominal value of an acquired loan;
- provision of favourable terms to a counterparty / an issuer by the Group for economic reasons or contractual terms, underpinned by financial difficulties of such counterparty / issuer, which the Group would not otherwise provide;
- the market becomes inactive for a particular financial asset due to financial difficulties of the issuer;
- signs of a probable bankruptcy or another adverse financial reorganization, which indicates poor credit quality of the counterparty / issuer;
- some types of restructured deals, at the time of their classification as Stage 2 and 3, are treated as impaired on origination.

As at each reporting date, the Group performs an assessment to identify significant increase in credit risk since the financial instrument's initial recognition (Stage 2). The main signs of a significant credit risk increase before the asset is recoginsed as credit-impaired are the following:

1) existing overdue principal and/or interest due to the Group as well as other contractual payments for the period more than 30 days for corporate borrowers and individuals and for the period more than 7 days for financial institutions;
2) increase of probability of default when lending to legal entities;
3) with respect to lending to legal entities, decisions about NPL restructuring are made and / or the corresponding procedures are in progress;
4) with respect to lending to individuals, a decision about non-market restructuring is made and / or this restructuring is actually in progress, when the borrower has no current loans overdue as at the restructuring date and has never had any payments of more than 30 days overdue for the last 6 calendar months preceding the restructuring.

The main signs of credit impairment of a debt financial instrument (Stage 3):

1) a borrower has overdued any payment to the Group for the period of more than 90 days;
2) a financial instrument has an internal credit rating assigned at D (default);
3) a borrower's written refusal to repay its outstanding debt when due;
4) initiated legal proceedings regarding bankruptcy of a borrower or a bankruptcy procedure was commenced;
5) a license for a borrower's principal activities (that is, those generating over 50% of the total revenue of the borrower) is revoked;
6) inclusion of a borrower on the "List of Organizations and Individuals with Known Participation in Extremist Activity or Terrorism";
7) initiated liquidation procedure of a borrower or its exclusion from the Unified State Register of Legal Entities by decision of the tax authorities (except for the cases when such a liquidation is related to a transfer of business operations to another legal entity, with the latter remaining a party to the transaction, such as a guarantor or a surety);
8) a borrower's request suggesting to put its property on the Group's balance sheet, as a way to honor the outstanding credit (except for the cases when such an arrangement is already provided in original contract terms);
9) in lending to legal entities, a decision about default-driven restructuring is made or this restructuring is actually in progress;
10) in lending to individuals, a decision about non-market restructuring is made and / or this restructuring is actually in progress, when the borrower has current loans overdue as at the restructuring date and / or has had payments of more than 30 days overdue for the last 6 calendar months preceding the restructuring;
11) existing impairment signs on other credit liabilities of a borrower to the Group. As far as lending to individuals is concerned, this applies only to credit liabilities arising in the same product group; and
12) other facts and circumstances, based on the Group's professional judgement.

Recovery of credit quality. Recovery of a borrower's credit quality to Stage 1, with material credit risk increase identified at the past reporting dates, are determined on the basis of assessment of a credit risk change as at the reporting date in contrast with the time of the initial recognition. An upgrade of a credit quality from the impaired level to Stage 1 happens subject to removal of impairment signs as at the reporting date and also, when no indications to material credit risk increase exist. This said, it is impossible to classify as Stage 1 credit-impaired assets acquired or disbursed.

Assessment methodology and establishment of allowance for ECLs. To assess ECLs on a collective basis the following individual risk metrics are used, which are assigned to each counterparty / issuer based on an analysis of financial and other information:

PD – The Probability of Default is determined on the basis of a risk segment and internal rating (or days overdue group) for a corresponding period (12 months or lifetime of an instrument (Lifetime PD)). Values are established by applying internally generated statistics and models as well as by using migration matrices (Markov chain). Lifetime PD is determined with due consideration given to forecasts. These forecasts address current and expected changes in the macroeconomic environment, for instance, a real GDP growth, capital outflow, growth of real disposable household income, etc. The main segmentation principle for computation of probability of default (PD), which underlies provisioning, says that debt financial instruments with similar risk profiles shall be grouped in one portfolio with a similar risk level. Risk segment is designated based on specifics of a counterparty/issuer activities, country of incorporation, business model and size. Macroeconomic indicators used are as follows:

- real GDP;
- unemployment level;
- growth in purchasing prices;
- yield on 10-year treasury bonds.

LGD – The Loss Given Default represents a share of the loss in the credit exposure at a given time of default. Values are established by applying the models, based on internally generated statistics.

EAD – The Exposure at Default is the credit exposure under risk of default. Values are established by applying the models based on internally generated statistics.

The size of allowance for ECLs on an individual basis is determined as the difference between the gross carrying amount of the debt financial asset before allowance for ECLs and its recoverable amount.

To estimate the recoverable amount a method of discounted cash flows (DCF) is used, which is based on expected future cash flows on the debt financial asset (or other cash flows) discounted at the effective interest rate or another rate more appropriate for the type of the cash flows. This estimate considers the following sources of cash inflows:

- free cash flows from operating activity;
- future amounts recovered in form of sale proceeds on disposal of a collateral;
- cash inflows from other sources, such as those resulting from legal proceedings (except for collateral disposal), bankruptcy procedures, payments received under guarantees and sureties, etc.

If a counterparty has a current credit outstanding on the balance sheet, assessment of allowance for credit losses on credit-related commitments is performed on the basis of approaches taken to provisioning of balance sheet credits of this counterparty using credit conversion factor (CCF), as calculated with help of statistical data and values consistent with the Basel Accord. If a counterparty has credit-related commitments only, assessment of allowance for credit losses is performed depending on the commitments volume, subject to CCF, on an individual or collective basis.

Credit quality of financial instruments. Classification of financial assets by five credit risk categories represents aggregate information about credit quality of the financial assets covered by IFRS 9:

1) Minimum credit risk: counterparties on these assets demonstrate a consistent ability to timely discharge their financial obligations with a low probability of default;
2) Low credit risk: counterparties on these assets demonstrate a high ability to timely discharge their financial obligations with a low probability of default
3) Medium credit risk: counterparties on these assets have a moderate probability of default and show an average ability to meet their financial obligations on time; they require more scrutiny at the monitoring stage;
4) High credit risk: counterparties on these assets have a high probability of default and require particular scrutiny at the monitoring stage;
5) Default: assets, given the existing impairment signs, meeting the default definition.

Maximum credit risk exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks inherent to particular assets and general market economy risks.

The Group monitors credit risk concentration by industry. The credit risk concentration analysis for loans and advances is provided in Note 16.

Liquidity risk

Liquidity risk management in the Group is regulated by the "Policy on Liquidity Risk Management".

The main aim of liquidity risk management is to ensure the Group's ability timely and fully discharge its monetary and other liabilities.

In liquidity risk management the Group is guided by the following principles:

- liquidity is managed daily and on an ongoing basis;
- methods and instruments of liquidity risk assessment applied are not to be contrary to regulatory documents of the Bank of Russia and the policy on risk management;
- the Group clearly differentiates authority and responsibility for liquidity management between management bodies and subdivisions;
- limits are set to ensure acceptable liquidity and at the same time to correspond to the size, the nature of business and the financial standing of the Group;
- conclusion of large transactions is preliminary analyzed for compliance with the current liquidity status and limits set;
- planning of liquidity needs.

The liquidity ratios are mandatory and are controlled and kept within the set limits by the Treasury.

In case of a "conflict of interest" between liquidity and returns (e.g. due to low returns on liquid assets and high cost of borrowings), all decisions are made only on a collective basis, at the Finance and Budget Committee.

Control over liquidity risk management is exercised by the Board of Directors, the Management Board, the Chairman of the Board, Risk Management Department and Internal Control in line with the Risk and Capital Management Strategy.

Methods of liquidity analysis include:

- liquidity status analysis (analysis of the actual and forecast values of the ratios for the instant, current and long-term liquidity);
- analysis of assets (claims) and liabilities (obligations) structure of the Group;
- taking decisions on the basis of the analysis;
- liquidity forecasts;
- on-hand liquidity management of the Group with due consideration given to matching of assets and liabilities by maturity and amount;
- financial instruments portfolio management in line with the requirements to ensure and maintain the Group's liquidity;
- implementation of the decisions made and current control over liquidity management;
- information support of the liquidity management procedures; and
- performance of liquidity adequacy stress-tests and sustainability of buffer funds sufficient to fully and timely honor all liabilities to customers and counterparties, as well as to ensure normal operations of the Group on the set time horizon.

Factors affecting liquidity risk occurrence:

- mismatch of assets and liabilities by volume and maturity;
- outflow of attracted funds related to an unexpected increase in outgoing payments and/or a decrease in incoming payments on customers' accounts;
- failure to deliver or return an asset due to realization of a market risk;
- liquidity risk driven by realization of an operational risk; and
- liquidity risk related to closure for the Bank of external markets of paid resources.

To control liquidity status of the Group in accordance with the Methodology of liquidity risk analysis and for the purpose of stress-testing, liquidity indicators are calculated (groups of daily and monthly indicators) and liquidity gap analysis is performed on a monthly basis. In addition, in compliance with the requirements of the Bank of Russia, ratios of instant, current and long-term liquidity are calculated and daily controlled.

(in thousands of Russian Roubles)

When analyzing liquidity, a particular attention is paid to credit risk concentration. Also, account is taken of concentration of deposits or loans received by the Group and risk of such concentration is measured.

The Group daily calculates liquidity ratios set by the Bank of Russia. Key ratios in liquidity risk analysis are those calculated for the parent company of the Group:

- instant liquidity ratio (N2). As at 31 December 2019, this ratio was 33.1% (as at 31 December 2018: 57.9%);
- current liquidity ratio (N3). As at 31 December 2019, this ratio was 103.5% (as at 31 December 2018: 90.1%);
- long-term liquidity ratio (N4). As at 31 December 2019, this ratio made 62.3% (as at 31 December 2018: 29.2%).

Carrying amounts of financial instruments by expected maturity as at 31 December 2019 are shown in the table below:

	On demand and up to 1 month	1 to 6 months	6 to 12 months	1 year to 3 years	Over 3 years	Overdue/ maturity not defined	Total
ASSETS							
Cash and cash equivalents	7,948,832	-	-	-	-	-	**7,948,832**
Mandatory reserve deposits with the Bank of Russia	26,822	58,109	111,615	4,280	-	-	**200,826**
Due from financial institutions	284,662	-	-	-	-	-	**284,662**
Loans and advances to customers	46,303	954,420	3,889,120	3,877,939	3,909,423	825,009	**13,502,214**
Financial assets held for income or sale	762,073	23,802	246,115	2,421,333	3,196,341	-	**6,649,664**
Financial assets at fair value through profit or loss	-	-	-	-	-	1,308,389	**1,308,389**
Investment property	-	-	-	-	490,409	720,866	**1,211,275**
Property, plant and equipment	-	-	-	-	-	965,936	**965,936**
Intangible assets	-	-	-	-	-	108,032	**108,032**
Other assets	278,798	185,484	-	-	-	145,499	**609,781**
Total assets	**9,347,490**	**1,221,815**	**4,246,850**	**6,303,552**	**7,596,173**	**4,073,731**	**32,789,611**
LIABILITIES							
Financial liabilities at fair value through profit or loss	2,276	-	-	-	-	-	**2,276**
Due to financial institutions	327,350	-	-	-	-	-	**327,350**
Customer accounts	3,527,774	7,642,780	14,680,080	562,882	2	-	**26,413,518**
Debt liabilities issued	86,645	-	-	-	-	-	**86,645**
Deferred tax liability	-	-	-	-	-	82,418	**82,418**
Other liabilities and provisions	261,499	44,038	57,809	134,207	3,020	-	**500,573**
Total liabilities	**4,205,544**	**7,686,818**	**14,737,889**	**697,089**	**3,022**	**82,418**	**27,412,780**
Net balance sheet position for 2019	**5,141,946**	**(6,465,003)**	**(10,491,039)**	**5,606,463**	**7,593,151**	**3,991,313**	**5,376,831**
Cumulative net balance sheet position for 2019	**5,141,946**	**(1,323,057)**	**(11,814,096)**	**(6,207,633)**	**1,385,518**	**5,376,831**	

(in thousands of Russian Roubles)

Carrying amounts of financial instruments by expected maturity as at 31 December 2018 are shown in the table below:

	On demand and up to 1 month	1 to 6 months	6 to 12 months	1 year to 3 years	Over 3 years	Overdue/ maturity not defined	Total
ASSETS							
Cash and cash equivalents	5,658,202	-	-	-	-	-	**5,658,202**
Mandatory reserve deposits with the Bank of Russia	62,633	75,122	43,832	31,120	1	-	**212,708**
Due from financial institutions	269,832	-	-	-	-	-	**269,832**
Loans and advances to customers	34,209	674,725	960,629	2,451,053	1,650,512	595,398	**6,366,526**
Financial assets held for income or sale	56,456	1,020,993	-	3,439,304	3,879,227	500,584	**8,896,564**
Financial assets at fair value through profit or loss	-	-	-	-	-	1,695,599	**1,695,599**
Investment property	-	-	-	-	-	909,438	**909,438**
Property, plant and equipment	-	-	-	-	-	773,977	**773,977**
Intangible assets	-	-	-	-	-	71,330	**71,330**
Assets of disposal groups, classified as "held for sale"	-	-	-	-	-	3,535	**3,535**
Other assets	141,081	-	-	-	-	130,201	**271,282**
Total assets	**6,222,413**	**1,770,840**	**1,004,461**	**5,921,477**	**5,529,740**	**4,680,062**	**25,128,993**
LIABILITIES							
Due to financial institutions	238,980	-	-	-	-	-	**238,980**
Customer accounts	5,412,752	6,492,082	3,787,985	2,689,414	83	-	**18,382,316**
Debt liabilities issued	1,500	1,960	-	-	-	-	**3,460**
Other liabilities and provisions	102,248	2,622	-	-	-	-	**104,870**
Total liabilities	**5,755,480**	**6,496,664**	**3,787,985**	**2,689,414**	**83**	**-**	**18,729,626**
Net balance sheet position for 2018	**466,933**	**(4,725,824)**	**(2,783,524)**	**3,232,063**	**5,529,657**	**4,680,062**	**6,399,367**
Cumulative net balance sheet position for 2018	**466,933**	**(4,258,891)**	**(7,042,415)**	**(3,810,352)**	**1,719,305**	**6,399,367**	

Market risk

Market risk management in the Group is performed in accordance with the Policy on Market Risk Management of JSC CB "Solidarnost".

The aim of market risk management is to ensure a set of measures to reduce market risk level and to optimize structure of the Group's investments into financial instruments by diversification of assets on the basis of risk return trade off.

This aim is achieved by a consistent and comprehensive approach that assumes that the following objectives are to be met:

- identification and analysis of market risk arising at the Group in the course of its business activity;
- qualitative and quantitative assessment (measurement) of market risk;
- set up of the market risk management system to identify negative trends at early stages, as well as implementation of a system of rapid and adequate adjustments aimed at prevention of market risk build-up;
- verification of interrelation between particular risk types to evaluate effects of the measures planned for a specific risk reduction on increase/decrease of other risks.

Market risk management provides for a choice of one course of actions, such as: risk acception, avoidance of operations leading to higher risk or implementation of risk mitigation measures, based on preliminary risk level assessment.

(in thousands of Russian Roubles)

The market risk management system of the Group comprises the following elements:

- organizational system and market risk management process;
- market risk mitigation procedures;
- a system of limits to restrict market risk;
- financial instruments management;
- open foreign exchange position management; and
- internal control.

The market risk management process includes:

- market risk identification;
- qualitative evaluation and quantitative measurement of market risk, that is, computation and analysis of actual and forecast values of market risk in accordance with Regulation of the Bank of Russia No.511-P dated 3 December 2015 and with frequency established by Instruction of the Bank of Russia No.180-I of 28 June 2017 "On Statutory Ratios for Banks" (used for calculation of the capital adequacy ratio of the Group), as well as by using Value-at-Risk assessment (used for internal assessment procedures of the Group's capital adequacy);
- taking measures on limiting and reducing the market risk (including setting up limits, hedging, diversification, forecasting, managing financial instruments that bear market risk, etc.);
- regular monitoring and control of the market risk level in relation to the total risk and also, to its constituent elements, such as the interest rate risk of trading portfolio, equity price risk, currency risk and commodity risk;
- improvement of approaches and assessment methods of the market risk, perfection of internal documents that regulate the market risk management in the Group;
- activities with regard to internal controls over the market risk management.

To minimize market risk the Group takes the following measures:

- diversification of market risk, by allocating the Group's resources by assets and instruments;
- hedging (insurance), by concluding transaction to protect the Group from adverse changes in the markets of shares, commodities, foreign currency and interest rates;
- limits set-up for positions and transactions of the Group, which assumes restrictions of risk exposures and subsequent control over them by means of: limits for transactions by countferparty, limits by financial instrument type and open foreign currency position limit;
- revaluation of the Group's financial instruments at current (fair) value to ascertain their fair worthiness.

To compute the indicator of comprehensive market risk exposure, the Group assesses interest rate, equity price and currency risks. Commodity risk is not assessed due to non-existence of the corresponding financial instruments at the Group as at 31 December 2019 and 31 December 2018.

The market risk exposure is computed by the Group by applying the method of quantitative evaluation prescribed by Regulation of the Bank of Russia No.511-P dated 3 December 2015 "On computation of market risk exposure by credit organizations" (hereinafter – Regulation of the Bank of Russia No.511- P of 3 December 2015).

	2019	2018
Interest rate risk (IR)	**515,988**	**696,660**
- general interest rate risk (GIR)	85,899	148,788
- specific interest rate risk (SIR)	430,088	547,872
Equity price risk (ER)	**122,874**	**67,134**
- general equity price risk (GER)	61,437	33,567
- specific equity price risk (SER)	61,437	33,567
Currency risk (CR)	**22,680**	**-**
Commodity risk (CR)	**-**	**-**
Market risk (MR)	**8,269,269**	**9,547,431**

Interest rate risk (of the trading portfolio) is defined as the market risk exposure on securities and derivative financial instruments sensitive to changes in interest rates. To compute an interest rate risk the Group measures general and specific interest rate risks. The interest rate risk exposure represents the sum of these two risks.

Equity price risk is defined as the market risk exposure on securities and derivative financial instruments sensitive to changes in fair value of equity securities. The equity price risk exposure represents the sum of the general and specific equity price risks.

Currency risk is defined as the market risk exposure on open positions of the Group in foreign currencies and gold.

(in thousands of Russian Roubles)

Commodity risk is defined as the market risk exposure on commodities, including precious metals (except for gold), and derivative financial instruments sensitive to price changes for such commodities.

Additionally, to determine potential effect of negative factors on the market risk level, the Group performs stress-tests using the methodology set out in its internal document, Regulation on Stress-Testing.

Equity price risk and interest rate risk of the trading portfolio

Sensitivity analysis of the Group's equity and profit or loss to changes in the fair value (quotations) of securities, prepared on the basis of positions existing as at 31 December 2019 and 31 December 2018, was made for three possible scenarios of the price fluctuation range: 5%, 10% and 20%. 5% fluctuation scenario is the most optimistic, whereas fluctuations of 20% represent the most stressful scenario for the market of financial instruments. This scenario assumes that, given negative developments on the market of financial instruments, the capital of the Group will decrease by no more than 20%.

	2019	2018
	Effect on the Group's capital	Effect on the Group's capital
Increase		
5% increase in quotations	328,481	440,778
10% increase in quotations	656,961	881,557
20% increase in quotations	1,313,922	1,763,114
Decrease		
5% decrease in quotations	(328,481)	(440,778)
10% decrease in quotations	(656,961)	(881,557)
20% decrease in quotations	(1,313,922)	(1,763,114)

To limit equity price risk and interest rate risk of the trading portfolio, the Group works with a list of selected issuers, in which securities investments are allowed, also, it sets up limits to the aggregate volume of investments in securities.

Currency risk

A sensitivity analysis of profit or loss for the year and capital to currency risk, prepared on the basis of a simplified scenario of a parallel shift of the yield curves by 100, 200 or 400 bps to decrease / increase interest rates and existing positions on interest-bearing assets and liabilities as at 31 December 2019 and 31 December 2018, can be shown as follows:

	2019		2018	
	Profit or loss	Caiptal	Profit or loss	Caiptal
Rise				
100 bps	29,504	83,790	11,258	137,448
200 bps	59,008	100,548	22,516	164,938
400 bps	118,017	117,306	45,003	192,428
Fall				
100 bps	(29,504)	(83,790)	(11,258)	(137,448)
200 bps	(59,008)	(100,548)	(22,516)	(164,938)
400 bps	(118,017)	(117,306)	(45,003)	(192,428)

The Group sets up limits with regard to the level of assumed risk by currency and in total, at the end of each day but also, during one day. The Group daily controls observance of the limits.

(in thousands of Russian Roubles)

The Bank's general exposure to foreign currency risk as at 31 December 2019 is provided in the table below.

	Rouble	US dollar	Euro	Other currencies	Total
ASSETS					
Cash and cash equivalents	7,186,919	158,471	580,748	22,694	**7,948,832**
Mandatory reserve deposits with the Bank of Russia	200,826	-	-	-	**200,826**
Due from financial institutions	114,824	40,560	129,278	-	**284,662**
Loans and advances to customers	12,786,071	665,363	50,780	-	**13,502,214**
Financial assets held for income or sale	6,142,143	507,521	-	-	**6,649,664**
Financial assets at fair value through profit or loss	1,308,389	-	-	-	**1,308,389**
Investment property	1,211,275	-	-	-	**1,211,275**
Property, plant and equipment	869,827	96,109	-	-	**965,936**
Intangible assets	108,032	-	-	-	**108,032**
Other assets	596,705	11,106	1,964	6	**609,781**
Total assets	**30,525,011**	**1,479,130**	**762,770**	**22,700**	**32,789,611**
LIABILITIES					
Financial liabilities at fair value through profit or loss	2,276	-	-	-	**2,276**
Due to financial institutions	4,468	32,362	290,011	509	**327,350**
Customer accounts, except for accounts of individuals	1,450,622	184,870	111,534	503	**1,747,529**
- current accounts and accounts on demand	*809,496*	*155,398*	*111,534*	*503*	***1,076,931***
- term deposits	*691,377*	*29,472*	-	-	***720,849***
Customer accounts - individuals	23,976,309	479,747	209,360	573	**24,665,989**
- current accounts and accounts on demand	*661,923*	*19,627*	*70,747*	*214*	***752,511***
- term deposits	*23,264,135*	*460,120*	*138,613*	*359*	***23,863,227***
Debt liabilities issued	86,645	-	-	-	**86,645**
Deferred tax liability	82,418	-	-	-	**82,418**
Other liabilities and provisions	351,240	149,333	-	-	**500,573**
Total liabilities	**25,953,978**	**846,312**	**610,905**	**1,585**	**27,412,780**
Net balance sheet position	**4,571,032**	**632,819**	**151,865**	**21,115**	**5,376,831**

(in thousands of Russian Roubles)

The Bank's general exposure to foreign currency risk as at 31 December 2018 is provided in the table below.

	Rouble	US dollar	Euro	Other currencies	Total
ASSETS					
Cash and cash equivalents	5,421,832	113,491	120,236	2,643	**5,658,202**
Mandatory reserve deposits with the Bank of Russia	212,708	-	-	-	**212,708**
Due from financial institutions	30,091	37,823	201,918	-	**269,832**
Loans and advances to customers	6,288,116	16,927	61,483	-	**6,366,526**
Financial assets held for income or sale	7,196,049	1,542,034	158,481	-	**8,896,564**
Financial assets at fair value through profit or loss	1,695,599	-	**-**	**-**	**1,695,599**
Investment property	909,438	-	-	-	**909,438**
Property, plant and equipment	773,977	-	-	-	**773,977**
Intangible assets	71,330	-	-	-	**71,330**
Assets included in the disposal groups, classified as "held for sale"	3,535	-	-	-	**3,535**
Other assets	237,451	33,794	37	-	**271,282**
Total assets	**22,840,126**	**1,744,069**	**542,155**	**2,643**	**25,128,993**
LIABILITIES					
Due to financial institutions	4,528	28,955	205,161	336	**238,980**
Customer accounts, except for accounts of individuals	1,052,225	119,033	60,244	1	**1,231,503**
- current accounts and accounts on demand	*647,484*	*20,330*	*56,259*	*1*	***724,074***
- term deposits	*404,741*	*98,703*	*3,985*	-	***507,429***
Customer accounts - individuals	16,652,374	314,415	183,904	120	**17,150,813**
- current accounts and accounts on demand	*658,403*	*18,066*	*24,894*	*3*	***701,366***
- term deposits	*15,993,971*	*296,349*	*159,010*	*117*	***16,449,447***
Debt liabilities issued	3,460	-	-	-	**3,460**
Other liabilities and provisions	104,843	26	1	-	**104,870**
Total liabilities	**17,817,430**	**462,429**	**449,310**	**457**	**18,729,626**
Net balance sheet position	**5,022,696**	**1,281,640**	**92,845**	**2,186**	**6,399,367**

When entering into speculative FOREX transactions, the Treasury's dealers perform analyses for identification and measurement of currency risks related to financial instruments nominated in foreign currency. Speculative trading operations in foreign currency are restricted by various limits.

Currency risk management is performed on the basis of the current value of the open foreign exchange position and expected change in the position currency exchange rate against Rouble.

The Group analyzes foreign currency sensitivity risk by doing stress-tests under two scenarios.

1) a 15% change in currency exchange rates on open foreign exchange positions in foreign currencies;

2) a 30% change in currency exchange rates on open foreign exchange positions in foreign currencies.

The testing of how changes in foreign currency rates against Rouble influence the Group's regulatory capital is performed quarterly. The testing results as at 31 December 2019 and 31 December 2018 demonstrated no significant impact of exchange rate changes against Rouble.

Interest rate risk of the banking book

Management of interest rate risk of the banking book in the Group is regulated by provisions of the Interest Rate Policy, Deposit Policy, Credit Policy and Regulation on Interest Rate Risk of the Banking Book. These internal documents establish a system of internal indicators that restrict the interest rate risk of the banking book and losses from changes in the market interest rates to acceptable levels.

(in thousands of Russian Roubles)

The Group exploits the risk of the market interest rate fluctuations and its impact on the financial position and cash flows. These fluctuations may lead to higher interest rate margins, however, in case of any unexpected change in the interest rates the margin may fall or turn into a loss as well.

Interest rate risk is inherent to the Group's activity of lending money at fixed interest rates in the amounts and with maturities other than those of the attracted funds at fixed rates.

Managing interest rate risk of the banking book is aimed at lowering impact of changes in interest rates on the net interest income. To this end, the Finance and Budget Committee sets the maximum interest rates, or their ranges, for attracted funds and the minimum interest rates for funds placements.

Assessment of interest rate risk of the banking book is performed on the basis of the gap-analysis, using a standard approach, analysis of yield curves and net interest margins as well as by using stress-test in accordance with Regulation on arrangement of stress-testing, underpinned by international approaches set out in Letter of the Bank of Russia No.15-1-3-6/3995, dated 2 October 2007.

The interest rate risk analysis of the Group as at 31 December 2019 is provided below.

	On demand and up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	Maturity undefined / no interest rate risk	Total
ASSETS						
Cash and cash equivalents	6,000,000	-	-	-	-	**6,000,000**
Loans and advances to customers	46,255	954,420	3,889,168	7,787,362	-	**12,677,205**
Financial assets held for income or sale	-	23,801	246,115	5,617,674	-	**5,887,590**
Total assets	**6,046,255**	**978,221**	**4,135,283**	**13,405,036**	**-**	**24,564,795**
Total assets, cumulative basis	**6,046,255**	**7,024,476**	**11,159,759**	**24,564,795**	**24,564,795**	
LIABILITIES						
Customer accounts	1,698,333	7,642,780	14,680,080	562,883	-	**24,584,076**
Debt liabilities issued	-	-	-	86,645	-	**86,645**
Financial lease	8,161	41,058	50,069	137,227	-	**236,515**
Total liabilities	**1,706,494**	**7,683,838**	**14,730,149**	**786,755**	**-**	**24,907,236**
Total liabilities, cumulative basis	**1,706,494**	**9,390,332**	**24,120,481**	**24,907,236**	**24,907,236**	
Absolute gap	4,339,761	(6,705,617)	(10,594,866)	12,618,281	-	**(342,441)**
Cumulative relative gap for 2019	**4,339,761**	**(2,365,856)**	**(12,960,722)**	**(342,441)**	**(342,441)**	
Interest rate risk sensitivity gap	43,398	(67,056)	(105,949)	126,183	-	**(3,424)**

The table shows assets and liabilities with interest rate risk of the banking book, grouped by different time interval, depending on the contractual dates of interest rate reviews. Interest rate sensitivity represents an effect on the net interest income for one year of the parallel shift of all yield curves by 100 bps.

(in thousands of Russian Roubles)

The Group's interest rate risk analysis as at 31 December 2018 is shown below.

	On demand and up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	Maturity undefined / no interest rate risk	Total
ASSETS						
Cash and cash equivalents	4,420,000	-	-	-	-	**4,420,000**
Loans and advances to customers	34,209	674,725	960,629	4,101,565	-	**5,771,128**
Financial assets held for income or sale	275,129	802,296	-	7,299,328	-	**8,376,753**
Total assets	**4,729,338**	**1,477,021**	**960,629**	**11,400,893**	**-**	**18,567,881**
Total assets, cumulative basis	**4,729,338**	**6,206,359**	**7,166,988**	**18,567,881**	**18,567,881**	
LIABILITIES						
Customer accounts	3,987,312	6,492,082	3,787,985	2,689,497	-	**16,956,876**
Total liabilities	**3,987,312**	**6,492,082**	**3,787,985**	**2,689,497**	**-**	**16,956,876**
Total liabilities, cumulative basis	**3,987,312**	**10,479,394**	**14,267,379**	**16,956,876**	**16,956,876**	
Absolute gap	742,026	(5,015,061)	(2,827,356)	8,711,396	-	**1,579,259**
Cumulative relative gap for 2018	**742,026**	**(4,273,035)**	**(7,100,391)**	**1,611,005**	**1,611,005**	
Interest rate risk sensitivity gap	7,420	(50,151)	(28,274)	86,956	-	**15,951**

Concentration risk

Main principles of concentration risk management in the Group, including procedures of the risk assessment and its minimization methods, are set out in the Concentration Risk Policy and the Regulation on Concentration Risk Management.

In managing concentration risk, the Group aims to limit adverse consequences of this risk realization, which may lead to material losses threatening the Group's solvency and its ability to continue as a going concern.

Lower concentration risk is achieved by the following:

- setting up limits to lower concentration risks with regard to large separate borrowers (e.g. groups of related parties), and also, regarding the borrowers with the same business activities;
- restrictions on transactions / deals with large creditors, depositors or a group of creditors / depositors.

The Group controls and discloses information on the credit risk concentration based on the reports that provide the data on the borrowers with the total credit exposure exceeding 10% of the regulatory capital.

Operational risk

Operational risk management is performed by the Group according to the "Policy on Operational Risk Management in the Group" and the "Rules and Procedures for Maintenance of Events Database Related to Operational, Regulatory and Reputation Risks".

The Head of the Risk Management Service of the parent company of the Group is responsible for collection, arrangement and presentation of information on operational risk level. This subdivision is independent from other subdivisions of the Group that carry out operations bearing risks of losses.

Collection and registration of the data is effectuated on the basis of reports prepared by structural subdivisions on the registered facts, as well as on other facts that did not lead to direct losses. Each incident of an operational loss or a consolidated entry for several incidents of losses is put in a particular category by operational loss type and business activity type.

The Group has defined procedures for review and approval of new products, including credit products. New products are subject to approval by the Technological Committee of the parent company of the Group in a form of an approved product/service sheet describing the main product/service delivery features and terms.

Calculation of capital required to cover operational risk in the Group is carried out by applying the base method (provided for by the Group's "Regulation on Calculation Procedures of Operational Risk"), that is established by the Regulation of the Bank of Russia No.652-P of 3 September 2018 and based on computation of a positive average annual gross income for the last 3 years multiplied by a fixed factor of 15%.

The Group capital requirement with regard to the operational risk, calculated using the base indicative approach, was RUB 125,833 thousand as at 31 December 2019 and RUB 165,188 thousand as at 31 December 2018.

For the purpose of the ICAAP and calculation of the economic capital of the Group (determination of capital requirements), the operational risk is assessed in accordance with the Standardized Approach, as recommended by the Basel Committee on Banking Supervision.

Appropriateness of the operational risk level for the Group is verified by assessing the operational risk impact on the capital adequacy ratio of the Group (N1) as at the reporting date.

To minimize (limit) operational risk, the Group develops a set of measures directed at reduction of probability of events or circumstances leading to losses as a result of the operational risk realization and/or at reduction (mitigation) of such losses amount. The main measures comprise:

- division of responsibility for identification of operational risk;
- continuous maintenance and update of the analytical database of losses incurred as a result of realization of operational risk. The database contains information on loss types and sizes, dates of occurrence, and on all material events that have led to such losses, including circumstances of their occurrence (identification);
- drafting internal regulatory documentation for procedures used in conducting banking operations and other transactions, for division of authority and accountability for conducted banking operations and other transactions, which is to exclude (limit) possibility of the operational loss occurrence;
- control over compliance with the implemented procedures;
- enhancement of systems of automation of banking technologies and information security;
- insurance, including property insurance: property insurance of buildings, other possessions, including currency valuables and securities, from loss, damages, shortages, also as a result of actions of third parties; and personal insurance of the Group employees against accidents and injuries to health;
- training and re-training of personnel;
- implementation of the system of operational risk limits;
- outsourcing as a means of transfer on a contractual basis of non-core functions to other organizations that specialize in a specific area and possess the corresponding expertise, knowledge and equipment. Outsourcing is one of the ways of risk transfer.

The Group has developed measures to ensure business continuity and/or recovery of business activities, including action plans in case of occurrence of unexpected circumstances (business continuity action plans and/or recovery of business activities). These plans comprise the following elements: identification of the internal processes to be protected; the degree of the required protection (keeping normal operations within a certain time period); procedures for transition to the emergency mode and manner of functioning in this mode; appropriate resources; reallocation of functions, authority and duties among subdivisions and employees; procedures for restoring performance of interrupted work processes and systems and return to normal operating mode; and additional procedures of normal operating mode.

Legal risk

Legal risk in the Group is managed within the operational risk management framework according to "Policy on operational risk management" and "Rules and Procedures for Maintenance of Events Database Related to Operational, Regulatory and Reputation Risks".

The legal risk management process comprises the following stages: identification and assessment of legal risk; set-up of acceptable level of legal risk (a system of limits); a system of division of authority and decision-making; control over legal risk when developing and implementing new technologies and conditions for banking operations and other transactions; legal risk minimization; and monitoring and control.

The Risk Management Service is responsible for assessment of an acceptable legal risk level. This subdivision is independent from other subdivisions of the Group that perform operations bearing risks of losses. Verification and assessment of legal risk level is continuously performed by the Group. Collection and registration of the data is effectuated on the basis of reports periodically prepared by structural subdivisions on the registered facts of losses.

The Group has developed "Regulation on Internal Documentation Management". In development of internal regulatory documents, the following subdivisions must participate: the Legal Department, Heads of the Group's structural subdivisions whose activities are affected by the documents being worked out, the Internal Control Service and the Risk Management Service.

Subsequent to its approval an internal regulatory document is subject to a mandatory posting in the Directory of regulatory documents. The Directory is in continuous open access to all employees of the parent company of the Group.

For the legal risk reduction, the Group develops standard contract templates for work with its counterparties.

The Legal Department of the parent company of the Group and heads of structural subdivisions perform a constant monitoring of the legislation. To this end, they use legislation databases on the web sites "Consultant Plus" and "Garant".

Reputation risk

The key principles of reputation risk management, including its assessment procedures and methods of minimization, are established in "Policy on management of the risk of business reputation loss (reputation risk)" in the Group, "Rules and Procedures for Maintenance of Events Database Related to Operational, Regulatory and Reputation Risks" and in "Rules and Procedures for Processing and Accepting Claims".

As reputation risk the Group has defined the risk connected with loss occurrence to the Group as a result of reduction in the number of customers (counterparties) due to negative public perception about the financial sustainability of the Group, quality of services offered or the nature of its activities.

The main means of reputation risk revelation by the Group is based on information analysis in the media and customers' feedback about the Group's activities. The Department of Marketing and Advertising along with the General Affairs Department of the parent company of the Group effectuate collection of such information.

Regulatory risk

The key principles of regulatory risk management, including its assessment procedures and methods of minimization, are established in the "Policy on management of the regulatory risk", the "Regulation on management of the regulatory risk" and in the "Rules and Procedures for Maintenance of Events Database Related to Operational, Regulatory and Reputation Risks".

The Internal Control Service of the Group identifies regulatory risk, keeps records of the regulatory risk events and performs the risk monitoring.

To minimize occurrence of the regulatory risk, the Group informs its employees when:

- there are changes in legislation of the Russian Federation and legal acts of the Bank of Russia,
- there are changes in internal documents of the Group.

Over 2019 and 2018, the Bank has been in compliance with all mandatory ratios established by the Bank of Russia, except for N6 ratio (Maximum risk per one borrower or a group of related borrowers).

The N6 ratio calculated for OJSC JSCB "Probusinessbank" will not be within the required limits during the financial rehabilitation phase of the Bank due to the fact that the previous rehabilitation manager is the biggest borrower of the Bank (see Note 1). This violation will be eliminated after the financial rehabilitation of the Bank, when the outstanding loans of OJSC JSCB "Probusinessbank" are written off through the established allowance for possible loan losses,

(in thousands of Russian Roubles)

30. Contingencies

Legal proceedings

In the normal course of business, claims against the Group are received. The Group management's judgment as well as opinions of internal and external professional advisers is, that no material losses for the Group will be incurred as a result of legal proceedings regarding such claims. Therefore, no provision for legal proceedings as at 31 December 2019 and 31 December 2018 has been made in these consolidated financial statements.

Taxation

Major part of the Group's business activity is carried out in the Russian Federation. Tax legislation of the Russian Federation (including the changes effective from the end of the reporting period) may allow for more than one interpretation regarding the Group's operations and business, and is subject to frequent changes.

Consequently, the Group's judgement in respect of tax treatments and its corresponding official documents supporting this tax position may be challenged by the appropriate tax authorities. The Russian tax authorities take a more assertive position and there is a risk of tax reviews being conducted for operations without clear commercial objectives or for operations with counterparties breaching the tax law. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year of review. Under certain circumstances, tax reviews may cover longer periods.

Russian tax legislation does not contain a full guidance on all tax issues thus, the tax authorities may challenge the interpretations of tax treatments made by the Group. Despite the fact that the management believes that it has necessary supportive evidence and documentation to justify its tax position and interpretations, a risk of potential outflow of resources exists, if the management's tax interpretations are challenged by the appropriate tax authorities. It is hardly possible to assess potential consequences of a tax challenge reliably. However, they may be quite significant for the financial position and/or the Group's business in general.

Apart from the risks mentioned above, in the Group's opinion, it has no other contingent tax liabilities as at 31 December 2019 and 31 December 2018. The above risks represent estimates, that arise due to uncertainties of interpretations in the actual tax legislation and corresponding requirements to documentation. If challenged by the tax authorities, management of the Group will defend its position and tax treatment interpretations used for calculations of the tax reported in these consolidated financial statements.

Capital expenditures commitments

As at 31 December 2019, the Bank had contractual capital expenditures commitments regarding reconstruction of buildings and purchase of equipment in the total amount of RUB 16,476 thousand (as at 31 December 2018: RUB 1,089 thousand). As at 31 December 2019, contractual capital commitments in respect of computer software and other intangible assets were RUB 61,156 thousand (as at 31 December 2018: RUB 53,285 thousand).

As at 31 December 2019 and 31 December 2018, there were no contractual capital commitments related to acquisition, construction or development of investment property.

The Bank has already allocated necessary resources to meet the above commitments. The Bank believes that the level of its net income in the future as well as the financing volume will be sufficient to meet these or similar commitments.

Credit-related commitments

The primary objective of these instruments is to provide financing to customers as required. Guarantees are irrevocable commitments of the Bank to execute payments in case of a client's failure to meets its obligations to third parties. They bear the same level of credit risk as loans. A documentary letter of credit represents the Bank's written obligation to make payments on behalf of its client within the agreed limit, subject to certain conditions met. Documentary letters of credit are secured by corresponding deliveries of goods or cash deposits and, therefore, bear lesser credit risk than direct lending transactions. Commitments to lend at a specified interest rate within a set period of time are recorded as derivative financial instruments, except for cases when their maturities do not meet the standard loan terms.

Credit-related commitments of the Bank were as follows:

	2019	2018
Undrawn credit lines and unused overdraft limits	2,591,473	239,671
Guarantees issued	1,233,519	200,513
Allowance for ECLs	(123,786)	(6,292)
Total credit-related commitments	**3,701,206**	**433,892**

31. Fair value of financial instruments

Fair value is the compensatory amount at transaction with an asset or liability between well-informed, independent and willing parties. A quoted market price is the best approximation of the fair value of a financial instrument.

The Bank estimated the fair value of financial instruments on the basis of market information available, if any, and appropriate valuation methods. However, professional judgements are required to interpret this information and determine the fair value. Despite the fact that the Russian Federation has investment grade ratings, its economy continues to demonstrate certain patterns inherent to emerging countries, and the existing economic environment still restricts activity on financial markets. Market quotations may be outdated or show sales at low prices thus, they may fail to properly approximate fair values of financial instruments. Management uses all available market information to determine fair values of financial instruments.

Financial instruments at fair value

Trading and other securities, loans and advances to customers, securities treated as "accounts receivable on REPO transactions" for which changes in fair value are recognized through the statement of profit or loss, as well as derivative financial instruments and financial assets held for income or sale are reported at fair value in the statement of financial position.

In determining the current (fair) value of financial instruments the Group applies the principles of IFRS 13 *Fair Value Measurement* (with due consideration to the terminology used), that establish a three-level hierarchy of input data affecting reliability of current (fair) value measurements of securities.

The current (fair) value of a security is the price that would be received at a sale of the security at the measurement date in an orderly transaction between willing parties on the securities market.

Depending on the type of input data used for current (fair) value measurements of securities, the Group applies the following fair value hierarchy:

Level 1 inputs: quoted prices (unadjusted) in active markets for the financial instrument measured. An active market quoted price is the most reliable approximation to the fair value and is used without adjustments. The following sources of the input data are used: PJSC "Moscow Exchange", the information system Reuters, fixing of the SRO National Finance Association (MIRP) and the information system Cbonds.

Level 2 inputs: data inputs other than quoted market prices in active markets that are observable, either directly or indirectly. In particular, these are prices (prices, quotations) in markets that are not active for the financial instrument, and also, market data for identical or similar financial instruments.

Level 3 inputs: unobservable inputs for the asset or liability. Measurements are based on common measurement methods for financial instruments using unobservable data and assumptions, which the market participants would use when pricing the asset or liability.

If no active market exists, the fair value measurement of financial instruments is performed using Level 2 inputs or lower. The Bank applies the following methods for a reliable fair value measurement of securities:

- the method based on adjustments to market prices or the method employing observable market data inputs. If there are observable prices but no active market criteria, the Bank applies adjusting factors to the observable prices of the inactive market to determine the fair value of financial instruments traded on the established market. The adjusting factors depend on inactivity degree of the market. For the instruments traded on the established market, given no active market criteria and arm's length market transactions for the period over 30 calendar days, and also for the instruments of the over-the-counter market with no active market criteria, the Bank uses the data from the information system Reuters. To determine fair value of debt and equity securities, an average quotation for the last 60 calendar days is used;
- the methods using observable inputs for similar instruments, that is, fair value determination of equity and debt securities on the basis of comparable securities. Comparable financial instruments are those that have identical or comparable key characteristics, such as:
  - maturity and/ or put term;
  - their issuers are from the same industry;
  - currency of payment;
  - have at least one similar credit rating of long-term debt under the international grading scale applied by such rating agencies as Standard&Poors, Fitch Ratings or Moody's Investors Service, or under the Russian scale of such rating agencies as ACRA and Expert RA.

- the methods employing unobservable inputs. A discounted cash flows (DCF) method is used if there is no active market and no possibility to determine fair value of a financial instrument on the basis of the previous fair value methods. This method is used for equity securities, except for investment fund shares. The DCF method is based on the assumption that a company's value equals to the present value of the future economic income.

Cash and cash equivalents and due from financial institutions measured at amortized cost

Cash and cash equivalents are measured at amortized cost, which approximates to their current fair value.

Management has assumed that fair value of the amounts due from financial institutions does not significantly differ from their carrying amounts. This is justified by the existing practice of interest rate reviews to accommodate them to market conditions. Therefore, major part of these funds is placed under interest rates that approximate to the market.

Loans and advances to customers at amortized cost

Normally, fair values of instruments with floating interest rates equal their carrying amounts. As to loans and advances to customers and Due from other banks placed at fixed interest rates, the Bank can revise the terms if the market conditions substantially change. Consequently, interest rates on loans issued before the reporting date do not significantly differ from the current rates offered by the lending market for new instruments with similar credit risk and maturities. If the Bank estimates that the interest rates on the previously issued loans significantly differ from those effective at the reporting date for similar instruments, the fair value of such loans is measured. The fair value measurement is based on the DCF method using actual interest rates on the lending market for new instruments with similar credit risk and maturities. The discounting rates used depend on currency, maturity of an instrument and a counterparty's credit risk.

Financial assets held for income

The amortized cost of financial assets held for income is calculated on the basis of market quotations / prices.

Due to a short-term nature of the assets, the Bank measures the fair value of other financial assets, including trade accounts receivable and receivables on general administrative transactions, at their carrying amounts.

Liabilities at amortized cost

Fair value of these liabilities is based on market prices, if available. The fair value measurement of instruments with fixed interest rates, established maturities and no market prices available, is based on the cash flows, discounted using interest rates for new instruments with a similar credit risk and maturity. The fair value of liabilities payable on demand or subject to prior notification ("liabilities payable on demand"), is calculated as the amount payable on demand, discounted from the first date of a potential notification to discharge the obligation.

The fair value of issued bonds and subordinated liabilities is based on market quotations. If no such quotations are available, the fair value is calculated by discounting the expected cash flows using market interest rates for similar securities or funds quoted on the market.

Derivative financial instruments

All derivative financial instruments are measured at fair value and accounted for as assets if the fair value of these instruments is positive, and they are accounted as liabilities if their fair value is negative.

(in thousands of Russian Roubles)

The fair value of financial instruments as at 31 December 2019 is shown below.

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets at fair value					
Financial assets at fair value through profit or loss	**1,308,389**	-	-	1,308,389	**1,308,389**
Financial assets at fair value through other comprehensive income					
Financial assets held for income or sale	**6,649,664**	5,399,937	622,177	627,550	**6,649,664**
Financial assets at amortized cost					
Cash and cash equivalents	**7,948,832**	1,230,785	6,718,047	-	**7,948,832**
Mandatory reserve deposits with the Bank of Russia	**200,826**	**-**	200,826	-	**200,826**
Due from financial institutions	**284,662**	-	284,662	-	**284,662**
Loans and advances to customers	**13,502,214**	-	-	13,664,992	**13,664,992**
Other assets	**609,781**	-	-	609,781	**609,781**
Total financial assets	**30,504,368**	**6,630,722**	**7,825,712**	**16,210,712**	**30,667,146**
Financial liabilities					
Financial liabilities at fair value					
Financial liabilities at fair value through profit or loss	**2,276**	-	2,276	-	**2,276**
Financial liabilities at amortized cost					
Due to financial institutions	**327,350**	-	327,350	-	**327,350**
Customer accounts	**26,413,518**	-	1,829,442	25,162,294	**26,991,736**
Debt liabilities issued	**86,645**	-	-	87,490	**87,490**
Other liabilities and provisions	**500,573**	-	-	500,573	**500,573**
Total liabilities	**27,317,245**	**-**	**2,159,068**	**25,737,240**	**27,896,308**

The fair value of financial instruments as at 31 December 2018 is shown below.

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets at fair value					
Financial assets at fair value through profit or loss	**1,695,599**	-	-	1,695,599	**1,695,599**
Financial assets at fair value through other comprehensive income					
Financial assets held for income or sale	**8,896,564**	6,423,263	2,372,103	101,198	**8,896,564**
Financial assets at amortized cost					
Cash and cash equivalents	**5,658,202**	1,078,103	4,580,099	-	**5,658,202**
Mandatory reserve deposits with the Bank of Russia	**212,708**	-	212,708	-	**212,708**
Due from financial institutions	**269,832**	-	269,832	-	**269,832**
Loans and advances to customers	**6,366,526**	-	-	6,533,418	**6,533,418**
Other assets	**271,282**	-	-	271,282	**271,282**
Total financial assets	**23,370,713**	**7,501,366**	**7,434,742**	**8,601,497**	**23,537,605**
Financial liabilities					
Financial liabilities at amortized cost					
Due to financial institutions	**238,980**	-	238,980	-	**238,980**
Customer accounts	**18,382,316**	-	1,425,440	16,975,113	**18,400,553**
Debt liabilities issued	**3,460**	-	-	3,550	**3,550**
Other liabilities and provisions	**104,870**	-	-	104,870	**104,870**
Total liabilities	**18,729,626**	**-**	**1,664,420**	**17,083,533**	**18,747,953**

(in thousands of Russian Roubles)

32. Related party transactions

The largest related parties of the Group, by volume of transactions, are its main shareholders and key management personnel. Other related parties include subsidiaries, associates of the Group as well as persons with significant control or influence on activities of the parent organization of the Group.

As at the reporting date, related parties of the Group include the following legal entities:

- JSC "Zarubezhenergoproekt";
- JSC Insurance Company "Solidarnost";
- TERMOELEKTRO GROUP LIMITED;
- SOLIDARITY FINANCE LIMITED;
- AO FIRMA "TEPINGENEERING"; and
- AO "TEPINGENEERING.

Related-party transactions are grouped below by category adopted in the statement of financial position and by type of contingent liabilities as at 31 December 2019 as well as by income and expense categories for 2019:

Statement of financial position components	Main shareholders	Key management personnel	Other related parties	TOTAL
ASSETS				
Loans and advances to customers	1,549,838	290,308	3,527	**1,843,673**
Other assets	-	11,200	357	**11,557**
Total assets	**1,549,838**	**301,508**	**3,884**	**1,855,230**
LIABILITIES				
Customer accounts, except for accounts of individuals	7,943	-	358,590	**366,533**
Customer accounts, individuals	-	34,837	7,720	**42,557**
Liabilities on derivative financial instruments	-	-	1,957	**1,957**
Subordinated debt	4,011,960	-	-	**4,011,960**
Undrawn credit lines and unused overdraft limits	-	8,636	90	**8,726**
Guarantees issued	153,465	-	43,259	**196,724**
Total liabilities	**4,173,368**	**43,473**	**411,616**	**4,628,457**

Statement of profit or loss components	Main shareholders	Key management personnel	Other related parties	TOTAL
Interest income	89,677	32,068	23,715	**145,460**
Interest expense	(136,407)	(720)	(1,449)	**(138,576)**
Fee and commission income	3,310	2	317	**3,629**
Income (expense) on derivative financial instruments	-	-	981	**981**
Total net income / (expense) from transactions with related parties	**(43,420)**	**31,350**	**23,564**	**11,494**

(in thousands of Russian Roubles)

Related-party transactions are grouped below by category adopted in the statement of financial position and by type of contingent liabilities as at 31 December 2018 as well as by income and expense categories for 2018:

Statement of financial position components	Main shareholders	Key management personnel	Other related parties	TOTAL
ASSETS				
Loans and advances to customers	543,129	16,185	787	**560,101**
Total assets	**543,129**	**16,185**	**787**	**560,101**
LIABILITIES				
Customer accounts, except for accounts of individuals	11,634	-	-	**11,634**
Customer accounts, individuals	-	25,342	38,701	**64,043**
Subordinated debt	4,011,960	-	-	**4,011,960**
Undrawn credit lines and unused overdraft limits	28,502	552	176	**29,230**
Guarantees issued	106,288	-	-	**106,288**
Total liabilities	**4,158,384**	**25,894**	**38,877**	**4,223,155**

Statement of profit or loss components	Main shareholders	Key management personnel	Other related parties	TOTAL
Interest income	78,299	284	33	**78,616**
Interest expense	(136,551)	(524)	(2,236)	**(139,311)**
Fee and commission income	293	-	579	**872**
Income (expense) on derivative financial instruments	(399)	-	-	**(399)**
Total net income / (expense) from transactions with related parties	**(58,358)**	**(240)**	**(1,624)**	**(60,222)**

The key management personnel of the Group comprise the members of the Board of Directors and the Management Board of the Bank as well as Heads of Divisions. Short-term remunerations to the key management personnel for 2019 and 2018, included in the line "Personnel expenses", is provided below:

	2019	2018
Salaries	120,162	84,253
Severance payments	1,011	-
Total remunerations	**121,173**	**84,253**

33. Events after the reporting date

The Bank's Chairman of the Management Board was appointed starting 2 March 2020.

In March 2020, market oil prices and the Russian Rouble exchange rate rapidly and significantly declined over a short time. This was caused by disagreements between oil exporting OPEC+ countries over prolongation terms of oil production limits by the member-countries, as well as by severe negative effects of the rampant COVID-19 pandemic on business activity in the world. In two weeks, the Brent oil price was declining from the level above 50 US dollars to below 25 US dollars per barrel, with the RUB/US dollar exchange rate approaching 80 RUB per US dollar, weakening from 67 RUB per US dollar. At the same time, the stock indices of the MOEX (the Moscow Exchange) and the RTS saw a dramatic drop beyond 30%. Under the circumstances, the Bank of Russia announced particular measures to ensure sound economy and financial stability on the financial market by easing certain regulatory requirements, introducing liquidity support instruments for credit institutions and some other.

Under the current circumstances, the Bank's management regularly evaluates effects of the above negative developments on the Bank as a whole and also, on its main business processes, such as loan disbursements, attracting funds from customers, investing in traded financial instruments, etc. Immediate measures taken by the management are to minimize adverse consequences of economic effects, caused by the coronavirus and volatility on global financial and commodity markets, on the current operations of the credit organization.

Evaluation of financial soundness of the Bank

The Bank has established an adequate capital level to withstand different adverse scenarios regarding the loan and securities portfolios, which are the two principal factors. During testing of negative scenarios, the capital adequacy ratios do not go down below the allowed minimum set by the Bank of Russia.

(in thousands of Russian Roubles)

In addition, the Bank has a sufficient pool of liquid assets, which can be used in the short term for unexpected settlements with creditors caused by a negative scenario realization. If necessary, the Bank will undertake other steps to meet the creditors' claims, which include sale of assets, borrowing, etc.

As at the current date, the Bank has a low open foreign exchange position estimated in the amount of USD 4.5 million. The open foreign exchange position is long and, consequently, in the circumstances of continued strengthening of foreign currencies against Rouble the Bank will not post losses, thus no risk of breaching the limits of the capital adequacy ratios.

The Bank has material investments in the trading portfolio of securities, which primarily comprise Rouble-denominated corporate bonds of some RUB 6 billion in total, with duration from 1 to 3 years. Given the Bank's high capital adequacy ratio of 27%, the Bank is not running the risk of breaching / reaching the allowed limits of the capital adequacy ratios even if a disaster scenario of a total impairment of the trading portfolio of securities does realize. In this case capital adequacy ratios N1.1 and N1.2 would be 8.8% each and N1.0 would equal 17.2%.

The stress testing performed by the Bank, among other, is based on development scenarios for main macroeconomic indicators similar to those actually observable currently. Additionally, the tests consider the measures approved by the Bank of Russia that are aimed at easier regulatory requirements and oversight. These stress-tests are effectively indicative of no material negative impact on the Bank's ability to continue as a going concern within the next 12 months after the reporting date and further beyond this period. The Bank does not see signs of any risky and substantial reduction of its capital, nor it observes any breaches of prudential ratios set by the Bank of Russia, including the capital adequacy ratio and liquidity ratios, subject to the exceptions stipulated in the Financial Rehabilitation Plan (the FRP).

This said, currently, the ongoing crisis situation, both in Russia and generally in the world, does not render it possible to determine accurately the exact impact of the observable negative factors. The Bank anticipates that these developments along with their consequences will affect borrowers' creditworthiness and their ability to discharge obligations to the Bank. Thus, there will be a need for additional allowances to be established in the future.

Currently, the extent of this impact cannot be reliably determined as important economic and financial inputs for such estimates will become available only at a later date, due to a typical time lag for this sort of data.

The Bank considers highly probable that the extraordinary state support to the most risk-ridden industries in form of various measures taken by the Bank of Russia and the Russian government would help avoid the worst-case scenarios for the Bank.

The Group's business continuity measures

To promptly respond to adverse external developments that may threaten the Group's financial standing and its business continuity, the Group regularly takes the following measures:

- regular stress-testing ahead of the planned dates, to determine probability that the Bank will retain its financial soundness / stability in case of stress scenarios realization;
- identification of sources of additional funding to bridge negative liquidity gaps;
- close work and communication with the Bank's large borrowers and the borrowers operating in the riskiest industries (e.g. tourism, transport, services and some other) to obtain up-to-date information about their current creditworthiness and to identify negative trends, thus helping to take measures for credit risk reduction;
- organization of the securities portfolio in a manner to conclude, if necessary, direct REPO deals to attract liquidity.

On 16 April 2020 the Board of Directors of the Bank of Russia approved changes to the Participation Plan (Minutes No. 10) along with a new version of the Financial Rehabilitation Plan. The period of the Bank's financial rehabilitation is extended till the end of 2030 in accordance with changes approved.

Signed on behalf of the Management on 6 May 2020

Russian original is digitally signed Series number of the key certificate: 01a123af007aab2582492ac91c2cf94722 Owner: Commercial Bank "Solidarnost" (JSC), I.O. Chumakovsky Valid from 10 March 2020 to 10 March 2021	Russian original is digitally signed Series number of the key certificate: 0142df5c0096ab5e984b81c4c930ca787c Owner: Commercial Bank "Solidarnost" (JSC), Yu.V. Malysheva Valid from 07 April 2020 to 07 April 2021
Chairman of the Management Board I.O. Chumakovsky	**Chief Accountant Yu.V. Malysheva**

Limited liability company ... Accountants and business advisors"
FBK
Auditor's report
OGRN 1027700058289 Moscow