FBK
Grant Thornton

Interstate Bank

IFRS 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 members of the Interstate Bank

Opinion

We have audited the accompanying financial statements of the Interstate Bank, which comprise the statement of financial position as at 31 December, 2019, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 2019, and notes to the annual financial statements, including a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *"Auditor's Responsibilities for the Audit of the Financial Statements"* section of our report. We are independent of the Interstate Bank in accordance with the Rules of Independence of the Auditors and Audit Organizations and The International 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.

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

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

In preparing the annual financial statements, management is responsible for assessing the entity'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 the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

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

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

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

TRANSLATION NOTE: Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

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 annual financial statements.

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

a) identify and assess the risks of material misstatement of the annual 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 entity's internal control;

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

d) conclude on the appropriateness of the directors' 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 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 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 entity to cease to continue as a going concern;

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

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

We also provide those in charge of corporate governance with a statement that we have complied with all relevant ethical requirements regarding independence and informed them about all relationships and other matters that may reasonably be considered to influence our independence as auditors and, if necessary, about appropriate safeguards.

President of FBK, LLC

S.M. Shapiguzov

(audit qualification certificate № 01-001230, ORNZ 21606043397)

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

A. A. Terekhina

(audit qualification certificate No. 03-000653 dated 14 May, 2014, registration number 21806021441)

Date of the independent auditor's report:
14 February 2020

Audit entity

Name:

Interstate Bank

Address of the legal entity within its location:

15, Shukhova St., Moscow, 115162.

State registration:

The Interstate Bank was registered by the Moscow Registration Chamber on 24 March, 1994, Certificate No. 030.977. Registration number in the Russian Federation: 2639-МГ.

Auditor

Name:

FBK, LLC

Address of the legal entity within its location:

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

State registration:

State Registration Certificate series ЮЗ 3 No. 484.583 РП issued by Moscow Registration Chamber on 15 November 1993.

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

(in thousands of Russian rubles unless otherwise stated)

Statement of comprehensive income

	Note	2019	2018
Interest income	5	795 675	721 961
Interest expense	5	(3 174)	(2 579)
Net interest income		**792 501**	**719 382**
Change in allowance for expected credit losses on interest-bearing assets	6	814	(332)
Net interest income after allowance for expected credit losses		**793 315**	**719 050**
Gains less losses arising from transactions with financial assets		(516)	(67)
Gains less losses arising from operations with foreign currency and derivative financial instruments		13 237	12 476
Gains less losses from revaluation of foreign currency		(10 023)	14 250
Fee and commission income	7	13 555	10 527
Fee and commission expense	7	(12 618)	(9 764)
Other operating income	8	2 576	596
Operating expenses	9	(387 015)	(356 243)
Profit before tax		**412 511**	**390 825**
Income tax		(931)	(376)
NET PROFIT		**411 580**	**390 449**
Other comprehensive income			
Change in the fair value of financial assets through other comprehensive income		344 501	(164 452)
Total other comprehensive income		**344 501**	**(164 452)**
COMPREHENSIVE INCOME		**756 081**	**225 997**

Signed on 14 February, 2020.

President I.G. Souvorov

Chief Accountant L.K. Razdevilova

Notes on Pages 10 to 39 are an integral part of these financial statements.

(in thousands of Russian rubles unless otherwise stated)

Statement of financial position

	Note	31 December, 2019	31 December, 2018
ASSETS			
Cash and cash equivalents	10	514 318	690 662
Due from financial institutions	11	6 879 124	5 362 792
Loans and advances to customers	12	6 754	10 273
Financial assets at fair value through other comprehensive income	13	6 462 421	4 700 142
Fixed assets and intangible assets	14	49 894	51 063
Right-of-use assets	15	2 654	-
Other assets	16	23 509	20 405
Total assets		**13 938 674**	**10 835 337**
LIABILITIES			
Due to financial institutions	17	1 593 530	1 306 496
Due to customers	18	5 647 429	3 560 372
Lease liabilities	15	2 809	-
Other liabilities	19	10 905	9 773
Total liabilities		**7 254 673**	**4 876 641**
EQUITY			
Authorized capital / Paid-in shares	20	212 086	212 086
Shares in authorized capital reacquired from members	20	(1 100)	(1 100)
Revaluation reserve for financial assets at fair value through other comprehensive income		283 622	(60 879)
Other equity instruments		2 052 230	2 052 230
Retained earnings	21	4 137 163	3 756 359
Total equity		**6 684 001**	**5 958 696**
Total liabilities and equity		**13 938 674**	**10 835 337**

Signed on 14 February, 2020.

President I.G. Souvorov

Chief Accountant L.K. Razdevilova

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(in thousands of Russian rubles unless otherwise stated)

Statement of changes in equity

	Authorized capital / Paid-in shares	Shares in authorized capital reacquired from members	Revaluation reserve for financial assets at fair value through other comprehensive income	Other equity instruments	Retained earnings	Total equity
Balance as of 1 January, 2018	**212 086**	**(1 100)**	**103 573**	**2 052 230**	**3 389 487**	**5 756 276**
Impact of adopting IFRS 9	-	-	-	-	7 199	7 199
Balance as of 01 January, 2018 after adoption	**212 086**	**(1 100)**	**103 573**	**2 052 230**	**3 396 686**	**5 763 475**
Comprehensive income for the year ended 31 December, 2018	-	-	(164 452)	-	390 449	225 997
Amounts paid on perpetual subordinated debt	-	-	-	-	(30 776)	(30 776)
Balance as of 31 December, 2018	**212 086**	**(1 100)**	**(60 879)**	**2 052 230**	**3 756 359**	**5 958 696**
Comprehensive income for the year ended 31 December, 2019	-	-	344 501	-	411 580	756 081
Amounts paid on perpetual subordinated debt	-	-	-	-	(30 776)	(30 776)
Balance as of 31 December, 2019	**212 086**	**(1 100)**	**283 622**	**2 052 230**	**4 137 163**	**6 684 001**

Signed on 14 February, 2020

President	I.G. Souvorov
Chief Accountant	L.K. Razdevilova

Notes on Pages 10 to 39 are an integral part of these financial statements.

(in thousands of Russian rubles unless otherwise stated)

Statement of cash flows

	Note	2019	2018
Cash flows from operating activities			
Interest received		802 001	763 863
Interest paid		(2 692)	(2 590)
Fee and commission received		13 555	10 527
Fee and commission paid		(12 618)	(9 764)
Gains arising from operations with foreign currency		13 237	12 476
Other operating income		389	296
Operating expenses paid		(374 205)	(349 819)
Interest expenses paid on the lease liabilities		(482)	-
Cash flows received from operating activities before changes in operating assets and liabilities		**439 185**	**424 989**
Net (increase) / decrease in due from financial institutions		(1 527 914)	(1 882 058)
Net (increase) / decrease in loans and advances to customers		3 519	(5 742)
Net (increase) / decrease in other assets		(3 104)	(5 565)
Net increase / (decrease) in due to financial institutions		287 034	127 881
Net increase / (decrease) in due to customers		2 087 057	863 646
Net increase / (decrease) in other liabilities		8	6
Net cash received from / (used in) operating activities		**1 285 785**	**(476 843)**
Cash flows from investing activities			
Purchase of financial assets at fair value through other comprehensive income		(2 041 618)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income		628 500	641 523
Dividends received from investment securities		300	300
Purchase of fixed assets and intangible assets		(7 432)	(9 696)
Proceeds from disposal of fixed assets		1 888	-
Net cash (used in) / received from investing activities		**(1 418 362)**	**632 127**
Cash flows from financing activities			
Interest paid on perpetual subordinated debt		(30 776)	(30 776)
Repayment of lease liabilities		(2 968)	-
Net cash (used in) financial activities		**(33 744)**	**(30 776)**
Effect of exchange rate changes on cash and cash equivalents		(10 023)	14 250
Net increase in cash and cash equivalents		**(176 344)**	**138 758**
Cash and cash equivalents at the beginning of the reporting period		690 662	551 904
Cash and cash equivalents at the end of the reporting period	10	**514 318**	**690 662**

Signed on 14 February, 2020.

President I.G. Souvorov

Chief Accountant L.K. Razdevilova

Notes on Pages 10 to 39 are an integral part of these financial statements.

Notes to the Financial Statements

1 Principal Activities

The Interstate Bank (hereinafter: the Bank) was established in 1993.

The Bank is an international settlement and financial institution existing and operating in accordance with the provisions of the international public law. The Bank engages in operations in the territory of the states that are parties to the Agreement on Foundation of the Interstate Bank dated 22 January, 1993 (hereinafter: the Agreement), on the basis of agreements with the governments and central (national) banks of such states.

The Bank's members are: the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, Turkmenistan and Ukraine.

Pursuant to the Agreement, the Bank's main functions are:
- arrangement of multilateral interstate settlements in trade and other operations
- provision of assistance for effective and reliable functioning of payment systems in all member states;
- provision of short-term loans to central (national) banks;
- research and analysis of the economies of the states that are parties to the Agreement, elaboration of recommendations and proposals for the central (national) banks regarding the coordination of their monetary and foreign exchange policies;
- other banking operations consistent with the Bank's objectives and goals arising out of the Agreement and the Bank's Charter.

The Bank operates in the Russian Federation as a financial institution in accordance with the Agreement between the Government of the Russian Federation and the Interstate Bank on the Terms of the Interstate Bank presence in the territory of the Russian Federation dated 30 July 1996 and in accordance with the Agreement between the Bank and the Central Bank of the Russian Federation "On the Procedure for and Rules of Conducting by the Interstate Bank of Banking Activities in the Territory of the Russian Federation" dated 2 December 1996. Pursuant to the said Agreements, the Bank is exempt from taxes, duties and other mandatory charges payable in the territory of the Russian Federation and is authorized to engage in banking activities in the Russian Federation without a license from the Bank of Russia. In accordance with the Agreement between the Bank and the Central Bank of the Russian Federation "On the Procedure for and Rules of Conducting by the Interstate Bank of Banking Activities in the Territory of the Russian Federation" dated 2 December, 1996, the Bank is exempt from certain requirements of the federal laws of the Russian Federation "On the Central Bank of the Russian Federation (Bank of Russia)" and "On Banks and Banking Activity", in particular, to provisions regarding bank regulation and banking supervision.

In accordance with the Agreement between the Bank and the Bank of Russia dated 2 December 1996 the Bank is authorized to sell and buy government securities and precious metals, engage in deposit banking, issue guarantees and sureties, make transactions with financial instruments, open accounts with Russian and foreign financial institutions and conduct other banking operations that are not prohibited under Russian laws.

The Bank has no branches in the Russian Federation or abroad. The Bank has representative offices in the Republic of Armenia, the Republic of Belarus, and the Kyrgyz Republic.

The main types of banking transactions conducted by the Bank are as follows: settlement transactions, foreign exchange operations, transactions with securities.

The supreme governing body is the Bank's Council chaired by Ms. Ksenia Yudaeva, First Deputy Governor of the Bank of Russia.

The Bank's principal place of business is Moscow.

The Bank's headquarters are at: 15, Shukhova St. Moscow 115162, Russian Federation.

In September 2019, the international rating agency Fitch Ratings upgraded a long-term credit rating of the Bank from the BB level to BB+ level with a stable outlook.

2 The Bank's Economic Environment

Being an international organization, the Bank operates primarily in the Russian Federation.

In 2019 Russia's economy stabilized, however, there was a clear decline at the year-end. The annual inflation for 2019 was 3%; the annual growth rate of GDP was 1.3%.

The Bank's counterparties are Russian and foreign legal entities; nevertheless, the Bank's business model does not imply exposure to high credit and interest risks. Additionally, the Bank focuses on the development of payment services in Russia and the CIS member countries, which reduces the Bank's dependence on the economic development of the Russian economy. The Bank's management regularly evaluates the economic development of Russia and the CIS member countries and takes measures to prevent the significant impact of negative factors on the Bank's activities. However the business model of the Bank is dependent on the level of interaction between the economies of the CIS member countries. Taking into account all the features of economic development, the Bank's management conducts timely operational planning on the basis of available forecasts.

3 Basis of Preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) including all earlier adopted IFRS and SIC and IFRIC interpretations. The Bank maintains accounting procedures and prepares accounting statements in accordance with the requirements of the laws applicable in the country of its residence. These financial statements have been prepared on the basis of accounting statements subject to adjustments and re-classification of items necessary to bring them in line with IFRS. The accounting policy principles used for the preparation of these financial statements are described below. The said principles have been applied on a consistent basis to all the periods presented in the statements (unless otherwise stated).

The management has prepared these financial statements on a going concern basis. See Note 27 “Effect of estimates and judgments on recognized assets and liabilities”.

The financial statements are presented in the national currency of the Russian Federation – the Russian ruble (RUB) - which is the Bank’s functional currency and the presentation currency. Unless otherwise stated, the amounts disclosed in the financial statements are given in thousands of Russian rubles.

Changes in accounting policy and presentation. The accounting policy and calculation methods employed in preparing these financial statements conform to the accounting policy and methods used and described in the Bank’s annual financial statements for the year ending 31 December, 2018, except for the changes related to the introduction of new and/or revised standards and interpretations as of 1 January, 2019.

During 2019, the Bank adopted IFRS 16 *Leases*. As permitted by the Standard’s transitional provisions, the Bank has not restated the comparatives. Therefore, all the information on the comparative period is presented in accordance with the previous accounting policies as described in the Bank's 2018 annual financial statements.

Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019). Uncertainty in the interpretation of tax laws may have an impact on accounting for current or deferred tax assets or liabilities. The interpretation clarifies the way the requirements of IAS 12 *Income Taxes* apply to recognition and measurement where there is any uncertainty over income tax treatments. In such a case, an entity is required to recognize and measure its current and deferred tax assets or liabilities on the basis of taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates determined in accordance with this Interpretation.

In IFRS 7 *Financial Instruments: Disclosures*, the references to the previous editions of the standards for consolidated and separate statements IFRS 10, IAS 27 have been removed.

The following are new and revised standards and interpretations that have been issued but are not yet effective.

IFRS 17 *Insurance Contracts* (effective for annual reporting periods beginning on or after 1 January 2021). The new standard establishes the principles of recognition, valuation, presentation and disclosure of insurance policies and replaces IFRS 4 *Insurance Contracts*. This standard provides for a general model modified under insurance contracts with direct participation components described as variable premium contracts.

The general model is presented in simplified form, subject to certain criteria, through the valuation of liabilities for the remaining insurance coverage, employing the insurance premium distribution approach. The general model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows, and will separately measure the value of such uncertainty; the model considers market interest rates and the impact of insurance holder options and guarantees. Profit from insurance policy sales is deferred to future periods in a separate liability component on day one and aggregated into groups of insurance contracts; it is then recognized systematically in the profit and loss statement during the period in which insurers provide insurance coverage, adjusting for changes in assumptions regarding future insurance coverage.

The standard is applied retrospectively, except where this is not feasible, whereby a modified retrospective or fair value approach is applied.

The Bank does not expect these amendments to have any material impact on the Bank’s financial statements.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for annual periods beginning on or after 1 January 2020). The amendments clarify that profit or loss shall be recognized in full should the assets transferred to an associate or joint venture constitute a business as defined in IFRS 3 *Business Combinations*. Profit or loss from sale or contribution of assets that do not constitute a business shall be recognized only within the limits of the investor's non-ownership interest in the associate or joint venture.

The Bank does not expect these amendments to have any material impact on the Bank’s financial statements.

4 Principles of Accounting Policies

The principal accounting policies used in the preparation of these financial statements are described below. The Bank has consistently applied these accounting policies in all reporting periods shown in these annual financial statements.

4.1. Financial Instruments

Depending on the classification, financial instruments are reported at fair value or at amortized cost as described below.

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 assumption that the sale of an asset or transfer of a liability occurs either in the principal market for the given asset or liability, or in the absence of the principal market, in the most advantageous market for the asset or liability. Fair value represents the current bid price of financial assets, the asking price of financial liabilities and the average of current bid and ask prices when the Bank holds both a short-term and a long-term position for a financial instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available form an exchange or other institution data, and those prices represent actual and regularly occurring market transactions on an arm/s length basis. Valuation techniques are used to fair value certain financial instruments for which external market pricing information is not available. These valuation techniques include discounted cash flow models, option pricing models, models based on recent arm’s length and the analysis of the financial data of the investees. Valuation techniques may require assumptions not supported by observable market data.

The Bank categorizes information used to determine the fair value of a financial instrument depending on the significance of inputs used in valuation, as follows:

- current prices quoted in the active market for financial instruments identical to the financial instrument under valuation (Level 1 inputs);

- if no information on current quoted prices is available, the price of the most recent transaction closed in the active market, provided there have been no significant changes in the economic circumstances between the date of the transaction and the end of the reporting period, or current quoted prices for similar financial instruments if the conditions have changed since the date of transaction, as well as information derived from observable market data (Level 2 inputs);

- prices calculated using valuation techniques with unobservable inputs (Level 3 inputs).

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

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commission paid to agents (including employees acting as sales agents), consultants, brokers and dealers, levies collected by regulators and exchanges, and transfer taxes and duties. Transaction costs do not include premiums and discounts on debt, financial expenses or internal administrative costs.

The effective interest method is a method for allocating interest income or interest expenses over the relevant period to ensure a constant periodic interest rate (effective interest rate) on the current value of the instrument. Effective interest rate is the exact rate by which estimated future cash payments or receipts (excluding future credit losses) are discounted over the expected lifetime of a financial instrument to the amortized cost of the liability.

When calculating the effective interest rate for any financial instruments other than credit-impaired financial assets, the Bank shall estimate future cash flows taking into account all of the contractual terms of a financial instrument, without considering expected credit losses. For credit- impaired financial assets, effective interest rate is adjusted for credit risk, which includes expected credit losses on estimated future cash flows. An effective interest rate calculation includes transaction costs and levies, as well as paid or received commission fees which are an integral part of effective interest rate. Transaction costs include additional costs directly related to the acquisition or issue of a financial asset or liability.

4.2. Initial recognition and classification of financial instruments

A financial asset or liability is initially recognized at fair value plus, for an instrument not measured at fair value through profit or loss, any transaction costs that are directly attributable to its acquisition or issue. The best evidence of fair value at initial recognition is the transaction price. Profit or loss on initial recognition shall be recognized only if there is a difference between fair value and the transaction price confirmed by other observable current market transactions for the same instrument or valuation techniques whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established generally by regulation or convention in the marketplace concerned (the “regular way” of purchase and sale) are recognized at trade date, which is the date the Bank commits to deliver the financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Classification of financial instruments at initial recognition. From 1 January, 2018, financial assets are categorized on initial recognition as being valued at amortized cost, at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL).

The classification and subsequent measurement of financial assets depend on the business model the Bank employs to manage the assets and their cash flow characteristics.

1. Business model whose objective is to hold the financial assets to collect the contractual cash flows.

The contractual terms and conditions of financial instruments accounted for using this business model allow for contractual cash flows related to these financial instruments only in the form of principal and interest payments on the outstanding principal amount at certain dates. Given the contractual terms, financial assets managed under this business model meet the solely payments of principal and interest on the principal amounts outstanding (SPPI) test.

This business model applies to the following types of financial assets:

1) Interbank term loans and deposits
2) Funds held in correspondent accounts
3) Other funds due from financial institutions
4) Loans and Advances to Customers

In accordance with IFRS 9, paragraph 4.1.2. the Bank recognizes these financial assets as those measured at amortized cost.

2. Business model whose objectives is achieved by collecting contractual cash flows and selling financial assets.

This business model is applied to a debt securities portfolio. Managing a securities portfolio has the objective to maintain a sufficient long-term yield and to provide a liquidity buffer. Decisions to sell are made as opportunities occur to reinvest in financial assets with higher long-term yields, or if there is a need to improve liquidity profile.

Interest payments (coupon payments) and principal payments on the outstanding amount are made on the dates specified in the terms and conditions of the securities issue.

Investments in debt securities held to collect the contractual cash flows and sales not recognized as those measured at fair value through profit or loss are measured at fair value through other comprehensive income. Changes in the fair value of these investments are recognized in other comprehensive income, while the amount of allowance determined according to the expected credit loss model is recognized in the profit or loss for the current year.

Any investments in equity instruments are always measured at fair value. However, the management may make an irrevocable decision to reflect changes in fair value in other comprehensive income, if the instrument is not classified as held for trading. If an equity instrument is classified as held for trading, changes in its fair value shall be recognized in profit or loss.

3. Business model whose objective is generating income from the sale of financial instruments and other business models.

Financial assets without cash flows that meet the criteria for solely paying principal and interest on the outstanding principal amount are measured at fair value with any changes recognized in profit or loss (derivative instruments). Embedded derivatives shall not be separated from financial assets but shall be included for the purpose of SSPI test.

Reclassification of financial assets. Financial assets are not reclassified after their initial recognition, except for the period following a change in the business model in order to manage the financial assets.

Financial Liabilities. The Bank classifies its financial liabilities, other financial guarantees and credit liabilities as measured at amortized cost or fair value through profit or loss.

4.3. Impairment of Financial Assets

For the adequate assessment of credit risk exposure in its statements, the Bank recognizes allowance for all categories of financial assets that are not classified as at fair value through profit or loss. The adoption of IFRS 9 fundamentally changes the Bank's approach to assessment of loan impairment losses. Instead of the incurred losses approach under IAS 39, a forward-looking approach is adopted that requires recognition of expected credit losses (ECL). From 1 January, 2018, the Bank recognizes the allowance for expected credit losses on all loans and other debt financial assets that are not measured at fair value through profit or loss, as well as provision on loan commitments and financial guarantee contracts (together referred to herein as “financial instruments”). IFRS 9 impairment requirements do not apply to equity instruments.

Based on forecasts, the Bank estimates expected credit losses from debt financial assets at amortized cost and at fair value through other comprehensive income, as well as the risks arising from loan commitments and financial guarantee contracts. The Bank estimates expected credit losses and recognizes an allowance for expected credit losses for each reporting date. The estimated expected credit losses reflect the following:

— objective and probability-weighted amounts determined by assessing a range of possible outcomes;

— the time value of money;

— 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 recognized in the statement of financial position net of the allowance for expected credit losses. With respect to loan commitments and financial guarantees (if these can be separated from the loan), a separate provision for expected credit losses is recognized as a liability in the statement of financial position. For debt instruments measured at fair value through other comprehensive income, any allowance for expected credit losses is recognized in profit or loss and affects changes in fair value recognized in other comprehensive income, not the carrying amount of these instruments.

The Bank applies the impairment accounting model in accordance with IFRS 9, based on changes in credit quality since initial recognition:

— a financial asset not impaired on initial recognition and without a significant increase in its credit risk during the reporting period compared to the level established at initial recognition, as well as an asset attributable to a low-risk portfolio on the reporting date, is classified as a Stage 1 asset. For Stage 1 financial assets, expected credit losses are estimated as an amount equal to the portion of lifetime expected credit losses resulting from default events that may occur over the next 12 months (12-month ECLs).

— if the Bank identifies a significant increase in credit risk after initial recognition, the asset is transferred to Stage 2, and the corresponding expected credit losses are recognized as lifetime expected credit losses (lifetime ECLs).

— If the Bank determines that a financial asset is credit-impaired: a default status is assigned to the borrower while simultaneously the loan is recognized as troubled, the asset is transferred to Stage 3 and the corresponding expected credit losses are recognized as lifetime expected credit losses.

For purchased or originated credit-impaired financial assets, expected credit losses are always measured as lifetime expected credit losses.

At each reporting date, the Bank performs an assessment to identify any significant increase in credit risk since the initial recognition of a financial instrument. The following components are used to calculate ECL:

PD - probability of default, determined according to the risk segment and internal rating (or past-due group) for the corresponding period (12 months or the lifetime of the instrument (Lifetime PD).

LGD - loss given default, determined as a share of losses in the credit claim at the time of default. The values are determined using models developed on the basis of internal statistics.

EAD - the credit claim amount exposed to the risk of default. The values are determined using models developed on the basis of internal statistics.

4.4. Derecognition of Financial Assets

The Bank derecognizes a financial asset only if one of the following occurs:

— the contractual right of claim to cash flows from the financial asset expires;

— the Bank transfers the financial asset, and the transfer qualifies for derecognition.

A financial asset is deemed as transferred by the Bank only if one of the following is true:

— the Bank transfers contractual rights to receive the cash flows of the financial asset;

— the Bank retains the contractual right to receive the cash flows of the financial asset, but assumes the contractual obligations to pay the cash flows to one or more recipients, subject to certain other conditions.

When the Bank transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of this financial asset. If the Bank:

— transfers substantially all the risks and rewards of the ownership of the financial asset, this financial asset is derecognized. The rights and obligations created or retained in the transfer of the financial asset are recognized separately as assets and liabilities;

— retains substantially all the risks and rewards of the ownership of the financial asset, this financial asset continues to be recognized;

— neither transfers nor retains substantially all the risks and rewards of the ownership of the financial asset, the Bank determines whether it has retained control of this financial asset. If control is not retained, the Bank derecognizes the transferred financial asset. The rights and obligations that created or retained in the transfer of the financial asset are recognized separately as assets and liabilities. If control is retained, the Bank continues to recognize the transferred financial asset to the extent of its continuing involvement in this asset.

If the asset is modified with a significant change in contractual terms, the modified asset is derecognized and is recorded on the balance sheet as a newly acquired asset.

If the financial asset is modified without any significant change in contractual terms, the modified asset is recognized at the gross carrying amount of the modified financial asset.

4.5. Cash and Cash Equivalents

Cash and cash equivalents are cash on hand and cash balances on the Bank’s current (correspondent) accounts, as well as cash equivalents that are short-term highly liquid investments readily convertible into a known amount of cash and which are subject to an insignificant risk of changes in value. All short-term interbank placements except for overnight placements are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

4.6. Due from Financial Institutions

Amounts due from financial institutions include non-derivative financial assets with fixed or determinable payments not quoted on an active market and provided by the Bank to counterparty banks (including the Bank of Russia), except for:
- overnight deposits;
- assets that are intended by the Bank for immediate or near-term sale and must be classified as measured at fair value through profit or loss;
- assets classified at initial recognition as measured at fair value through other comprehensive income.

Amounts due from financial institutions are recorded at the time of issue (placement). Amounts due from financial institutions are measured at fair value at initial recognition. Subsequently loans and deposits are recorded at amortized cost less allowance for expected credit losses.

The difference between the fair value and the nominal value of a loan (deposit) that arises if a loan is issued (funds are placed) at interest rates above or below established rates is recognized in the statement of profit and loss at the time of loan issue (deposit) as “Income from (Expense on) Assets Placed at Rates Above (Below) Market”. Subsequently, the carrying value of such loans (deposits) is adjusted for amortization of the said income/(expense), and the interest income is recognized in the statement of profit and loss using the effective interest rate method.

4.7. Loans and Advances to Customers

This category includes non-derivative financial assets with fixed or determinable not quoted on an active market except for:
- those which are intended for immediate or near-term sale and which should be classified as measured at fair value through profit or loss
- those which are classified at initial recognition as measured at fair value through other comprehensive income.

Loans and receivables are initially recognized at fair value plus incurred transaction costs. If there is an active market, the fair value of loans and receivables is measured as the present value of all future cash receipts (payments) discounted at the prevailing market interest rate for a similar instrument. If there is no active market, the fair value of loans and accounts receivable is determined using one of the valuation techniques.

Afterwards, loans and accounts receivable are measured at amortized cost using the effective interest rate method.

Loans and receivables are recognized from the moment funds are advanced to borrowers. Loans issued at interest rates other than the market interest rates are measured on the date of issue at fair value, which comprises future interest payments and the principal amount outstanding, discounted considering the market interest rates for similar loans.

The difference between the fair value and the nominal value of a loan is recognized in the statement of profit and loss as “Income from (Expense on) Assets Placed at Rates Above (Below) Market”., Subsequently, the carrying value of these loans is adjusted for amortization of the loan income (expense), and the corresponding income is recognized in the statement of profit and loss using the effective interest rate method.

4.8. Financial Assets At Fair Value through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income are non-derivative financial assets designated as measured at fair value through other comprehensive income or not classified as loans and receivables, investments held to maturity or as financial assets at fair value through profit or loss. The Bank classifies financial assets into a relevant category at the time of their acquisition.

Financial assets initially recognized at fair value through other comprehensive income are recorded at fair value plus transaction costs directly attributable to the acquisition of the financial asset. Generally, fair value is the price of the transaction on the acquisition of a financial asset. Financial assets recognized at fair value through other comprehensive income are subsequently measured at fair value based on quoted bid prices of the financial asset.

Any unrealized gains and losses arising from changes in the fair value of financial assets at fair value through other comprehensive income are recognized in the statement of changes in equity.

Upon the disposal of financial assets at fair value through other comprehensive income, any relevant accumulated unrealized gains and losses are recognized in the statement of profit and loss as “Gains less losses arising from transactions with financial assets at fair value through other comprehensive income”. Impairment and recovery of the previously impaired value of financial assets at fair value through other comprehensive income are recognized in the statement of profit and loss.

The value of financial assets at fair value through other comprehensive income is decreased if their carrying value exceeds the estimated recoverable amount. The recoverable amount is determined as the current cost of expected cash flows discounted at current market interest rates for a similar financial asset.

Interest income from financial assets at fair value through other comprehensive income is recognized in the statement of profit and loss as interest income from financial assets estimated at fair value through other comprehensive income. Any dividends received are recognized in the “Dividend Income” line of the profit and loss statement, as part of operating income from transactions with securities.

4.9. Fixed Assets

Fixed assets are recognized at cost restated to the equivalent of the purchasing power of the national currency of the Russian Federation as of 1 January, 2003, for assets acquired before 1 January, 2003, or at a revalued cost as stated below less accumulated depreciation and impairment provisions.

On each reporting date, the Bank determines whether there is any evidence of fixed asset impairment. If such evidence exists, the Bank measures the recoverable amount, which is determined as the higher of the net selling price of the fixed assets and the value in use.

If the carrying value of fixed assets exceeds their estimated recoverable amount, the carrying value of fixed assets is reduced to the recoverable amount, and the difference is recognized in the statement of profit and loss as fixed asset impairment loss, unless it has previously been revalued. In such case, the revaluation surplus is eliminated first and any additional loss is charged in profit or loss for the year. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount.

Gains and losses on disposal of fixed assets are determined on the basis of their carrying value and are recognized in the amount of profit (loss). Repair and maintenance costs are recognized in the statement of profit and loss when incurred.

4.10. Depreciation

Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Fixed asset group	Useful life, years
Buildings	40
Equipment	5
Intangible assets	3

The depreciation method applied to an asset should be reviewed at least once at the end of each financial year. Every material change in the approach to asset depreciation will affect the depreciation method applied to this asset.

Depreciation is recognized even if the fair value of the asset exceeds its carrying amount, as long as the asset’s residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized

4.11. Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance. Separately acquired intangible assets are initially measured at cost.

After initial recognition, intangible assets are carried at its cost less any accumulated amortization and any accumulated impairment losses. Intangible assets have finite or indefinite useful lives. Intangible assets with a finite useful life are amortized over the useful life and are analyzed for impairment if there is evidence of the intangible asset’s possible impairment. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life or the expected type of use of a certain asset and the receipt of future economic benefits from it are recorded by changing the amortization period or method (as the case may be) and are considered as changes in accounting estimates. The amortization charge for intangible assets with a finite useful life is recognized in the statement of profit and loss as part of expenses according to the intangible asset’s purpose.

Intangible assets with an indefinite useful life shall not be amortized. However, they are annually analyzed for impairment, either individually or at the level of the cash-flow generating unit. The useful life of an intangible asset with an indefinite life is reviewed whether events and circumstances continue to support an indefinite useful life assessment for that asset. Otherwise, the useful life is changed on a prospective basis from indefinite to finite.

Software costs are recorded as expenses as incurred. Costs directly attributable to identifiable software that is controlled by the Bank and whose economic benefits are highly likely to exceed costs for a period longer than one year are recognized as an intangible asset.

Direct costs include expenses arising from employing a software development team and the appropriate proportion of general running costs.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software.

4.12. Lease

The date of the Bank's initial application of IFRS 16 is 1 January 2019.

The Bank applies IFRS 16 using the modified retrospective approach, therefore comparative information has not been restated.

The effect of adopting IFRS 16 is disclosed in paragraph 23 of the Note:

At inception of a contract, the Bank shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank shall recognise a right-of-use asset and a corresponding lease liability in respect of all the lease contracts whereby it is the lessee, at the date when the leased asset becomes available for use (commencement date). The short-term leases (with a term of 12 months or less) and leases for which the underlying asset is of low value might be exempt from this requirement and the lease payments associated with those leases are recognised as expenses on a straight-line basis.

At the commencement date the Bank shall measure the right-of-use asset at cost; afterwards - at cost less accumulated depreciation, losses for impairment, adjusted for revaluation of lease liabilities. Right-of-use asset is depreciated over the shorter of the right-of-use asset's useful life and the lease term on a straight-line basis.

The cost of the right-of-use assets includes the following components:
• the amount of the initial measurement of lease liability;
• any lease payments made at or before the commencement date of the lease less any incentive payments received;
• any initial direct costs incurred by the lessee; and
• estimated costs of restoration and dismantling.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the lease commencement date and are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Bank shall use the incremental borrowing rate being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments:
• fixed payments (including in-substance fixed payments);
• variable lease payments that depend on an index or a rate;
• amounts expected to be payable by the Bank under residual value guarantees;
• the exercise price of a purchase option if the Bank has reasonable grounds to exercise that option; and
• payments of penalties for terminating the lease, if the lease term reflects the Bank exercising an option to terminate the lease.

Subsequently, the carrying amount of lease liability shall be increased by the amount of interest on the lease liability and reduced by the amount of the lease payments made. Thus, each lease payment is distributed between liability and finance costs. Interest on lease liability is recognised within profit or loss over the lease period to ensure a constant periodic rate of interest on the remaining balance of the lease liability for each period. The carrying amount of lease liability is remeasured if there is a change in future lease payments resulting from a change in an index or a rate; a change in the estimate of the amounts expected to be payable under a residual value guarantee or there is a change in the assessment if the Bank is reasonably certain to exercise either an option to purchase the underlying asset or an extension option, or not to exercise a termination option.

4.13. Credit-Related Commitments

The Bank undertakes credit-related commitments, including letters of credit and financial guarantees. Financial guarantees are irrevocable commitments to make payments if a customer fails to fulfill its obligations to third parties and are exposed to the same credit risk as loans.

Financial guarantees and loan commitments are initially recognized at fair value which is normally evidenced by the amount of commissions received. This amount is amortized on a straight-line basis over the life of the commitment, except for loan commitments, if the Bank is likely to enter into a specific lending arrangement and does not expect to sell the loan within a short period after its origination; such commission income relating to the loan commitment are deferred and included in the carrying value of the on initial recognition. On each reporting date, the commitments are measured as the higher of two amounts: the amortized amount at initial recognition and the best estimate of expenditure required to settle the commitment on the reporting date.

Provisions are made for credit-related commitments if such commitments are likely to cause losses.

4.14. Authorized Capital

The authorized capital is recognized at its historical cost and is subject to inflation adjustment if paid with monetary assets before 1 January, 2003.

Shares in the authorized capital purchased by the Bank from the Bank's members are recognized in the decrease of equity (capital).

(in thousands of Russian rubles unless otherwise stated)

4.15. Recognition of Income and Expenses

Interest income and expenses for all debt instruments are recorded in the statement of profit and loss on an accrual basis using the effective interest rate method.

Commission fees integral to the effective interest rate include origination fee received or paid relating to the creation or acquisition of a financial asset or issuance of a financial liability (for example, fees for evaluating creditworthiness, evaluating or recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents). Commission fees received by the Bank for commitments to originate loans at market rates are integral to the effective interest rate if it is probable that the will enter into a specific lending arrangement and does not expect to sell the loan within a short period after its origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful for collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the recoverable amount.

All other fees, commission and other income and expenses are generally recorded on an accrual basis by reference to completion of a specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from transactionы for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts on a time-proportion basis. Asset management *(trust management)* fees are recorded *according to the contractual terms on the date the Bank acquires the right to receive such fees and its amount can be determined*. *Fees for services implying an extended service period are recognized in each reporting period pro rata to the volume of services provided*. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time

4.16. Income Tax

Pursuant to the agreement between the Bank and the Government of the Russian Federation dated 30 July, 1996, the Bank is exempt from taxes, levies and other mandatory charges payable in the territory of the Russian Federation.

The "Income tax (expense)" line of the statement of comprehensive income reflects taxes paid by the Bank on its income received outside the Russian Federation.

4.17. Foreign Currency Revaluation

The financial statements are presented in the national currency of the Russian Federation, which is the Bank's functional and presentation currency.

Transactions in foreign currency are reflected at the Bank of Russia's official rate effective on the transaction date. Exchange differences resulting from transaction settlements in foreign currency are recorded in the statement of profit and loss at the Bank of Russia's official exchange rate effective on the transaction date.

Monetary assets and liabilities in foreign currency are translated to the national currency of the Russian Federation at the Bank of Russia's official rate on the balance sheet date.

Exchange differences related to debt securities and other monetary financial assets at fair value are included in Gains less losses from foreign currency revaluation.

Exchange differences related to non-monetary items such as equity instruments classified as financial assets at fair value through profit or loss are recorded as part of the fair value gain or loss.

On 31 December, 2019, the Bank of Russia's official rate used for balance revaluation on foreign currency accounts was:

US dollar	61.9057
Euro	69.3406
100 Kazakhstani tenge	16.2174
10 Moldovan lei	35.9917
Belarusian ruble	29.4257
100 Armenian drams	12.9239

4.18. Offsetting

Financial assets and liabilities are offset and the net amount is reported on the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

4.19. Subordinated Debt

As of 31 December, 2019, the Bank recognizes perpetual subordinated debt within equity. If certain events occur the Bank's obligations to repay the principal debt (in full or in part) under the subordinated loans agreements terminate (the loans might be considered as loss absorption capacity of the Bank). Interest payments on such loans are not mandatory. Interest payments are made only if the Bank decides to do so, and the amount payables is recognized by the Bank only after relevant interest payment is declared. Interest payments are recorded in the statement of changes in equity similar to dividend payments.

(in thousands of Russian rubles unless otherwise stated)

4.20. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

4.21. Salaries and Related Contributions

Expenses related to wages, salaries, bonuses, paid annual leaves and contributions to state non-budgetary funds are recognized as the associated services are rendered by the employee, whereas sick and childcare leaves as well as non-monetary benefits are recognized as they are incurred.

The Bank undertakes to reimburse the amounts of annual paid leaves, if such leaves were not used by the employees. Such liabilities are recognized in the statement of financial position in Other Liabilities with simultaneous recognition, either in the statement of profit and loss for the amounts related to the reporting period and or in the retained earnings for the amounts in prior periods.

With respect to its employees, the Bank pays contributions to the Pension Fund, the Social Insurance Fund and the mandatory medical insurance funds of the Russian Federation. Such expenses are recorded as incurred and included in staff costs.

4.22. Related Party Transactions

The Bank conducts related party transactions. Parties are deemed as related if one of the parties has control over the other party, is jointly controlled with the other party, is jointly controlled by the other party and a third party or can significantly influence the other party's financial and operational decisions.

When considering relationships with related parties, the Bank takes into account the economic substance of such relationships and not only their legal form.

4.23. Adopting new or revised standards and interpretations.

The effect of adopting IFRS 16 is analyzed below.

The table below shows the amount of adjustment for items on the statement of financial position affected by IFRS 16 for the current and previous year. Comparative information for the prior period has not been restated.

Effect of adopting IFRS 16 as of 1 January 2019.

Lease liabilities under IFRS 16 disclosed in the financial statements as of 31 December 2018	-
Future lease payments of 1 January 2019	7 552
Effect of discounting	(713)
Lease liabilities under IFRS 16 as of 1 January 2019	**6 839**

5 Interest Income and Expense

Interest income and expense was as follows.

	2019	2018
Interest income on assets measured at amortized cost		
Due from financial institutions	346 796	323 640
Loans to customers	408	224
Total interest income on financial assets measured at amortized cost	**347 204**	**323 864**
Interest income on assets at fair value through other comprehensive income		
On financial assets held for profit or for sale	448 471	398 097
Total interest income on financial assets at fair value through other comprehensive income	**448 471**	**398 097**
Total interest income	**795 675**	**721 961**
Interest expense on liabilities at amortized cost		
Due to financial institutions	(2 692)	(2 248)
Accounts and deposits of legal entities	-	(331)
Lease liabilities	(482)	-
Total interest expense on liabilities at amortized cost	**(3 174)**	**(2 579)**
Total interest expense	**(3 174)**	**(2 579)**
Net interest income	**792 501**	**719 382**

(in thousands of Russian rubles unless otherwise stated)

6 Allowance for Expected Credit Losses and Other Provisions

Allowance for expected credit losses recognized in profit and loss include charges made in the current year for allowance based on the expected credit loss model according to IFRS 9.

Change in allowance for expected credit losses in 2019:

	Balance on 31 December, 2018	12-month ECLs	Lifetime ECLs – not credit-impaired assets	Lifetime ECLs - credit-impaired assets	Purchased or originated credit-impaired assets	Net changes in allowance for expected credit losses	Balance on 31 December, 2019
Measured at amortized cost:							
Due from financial institutions	1 193	(814)	-	-	-	(814)	379
Total changes in allowance for expected credit losses on interest-bearing assets	**1 193**	**(814)**	**-**	**-**	**-**	**(814)**	**379**
Total changes in allowance for expected credit losses and other provisions	**1 193**	**(814)**	**-**	**-**	**-**	**(814)**	**379**

Change in allowance for expected credit losses in 2018:

	Balance on 31 December, 2017	Write-off from provision	Impact of adopting IFRS 9	Net changes in impairment provision	Balance on 31 December, 2018
Change in allowance for expected credit losses on interest-bearing assets					
Measured at amortized cost:					
Due from financial institutions	7 997	-	(7 136)	332	1 193
Total changes in allowance for expected credit losses on interest-bearing assets	**7 997**	-	**(7 136)**	**332**	**1 193**
Change in allowance for expected credit losses on other assets and other provisions					
Changes in other provisions	63	-	(63)	**-**	**-**
Total changes in allowance for expected credit losses on other assets and other provisions	**63**	-	**(63)**	**-**	**-**
Total changes in allowance for expected credit losses and other provisions	**8 060**	-	**(7 199)**	**332**	**1 193**

(in thousands of Russian rubles unless otherwise stated)

7 Fee and Commission Income and Expense

Fee and Commission income and expenses were as follows.

	2019	2018
Fee and commission income		
Cash and settlement transactions	13 183	10 251
Other commission income	372	276
Total fee and commission income	**13 555**	**10 527**
Fee and commission expense		
Money transfer services including services of payment and settlement systems	(99)	(94)
Cash and settlement services and account maintenance	(10 734)	(8 160)
Custody services	(1 584)	(1 226)
Transactions with foreign currency	(8)	(103)
Other commission expenses	(193)	(181)
Total fee and commission expense	**(12 618)**	**(9 764)**
Total fee and commission income and expenses	**937**	**763**

8 Other Operating Income

Other operating income was as follows.

	2019	2018
Income from disposal of fixed assets	1 888	-
Dividends received	300	300
Payables write-off	-	98
Other operating income	388	198
Total other operating income	**2 576**	**596**

(in thousands of Russian rubles unless otherwise stated)

9 Operating Expenses

Operating expenses were as follows.

	2019	2018
Staff costs	282 770	268 396
Depreciation	8 601	6 798
Right-of-use asset depreciation	3 123	-
Intellectual property license fees	1 608	2 320
Communications services	15 603	14 312
Expenses related to fixed assets (maintenance, repairs, disposal)	12 209	9 295
Professional services	17 931	11 792
Advertising and marketing	929	1 035
Hospitality expenses	1 012	873
Travel expenses	9 803	4 229
Operating lease expenses	-	4 686
Security expenses	7 795	6 970
Inventory write-off	3 493	3 489
Insurance	2 296	2 125
Membership fees	4 025	4 627
Data processing payment electronic systems	8 942	8 369
Other operating expenses	6 875	6 927
Total operating expenses	**387 015**	**356 243**

Staff costs included:

	2019	2018
Salaries and bonus payments	222 070	205 374
Social security contributions	46 425	42 260
Fixed contributions to the non-state pension fund	-	7 699
Other staff-related payments	14 275	13 063
Total staff costs	**282 770**	**268 396**

10 Cash and Cash Equivalents

	31 December, 2019	31 December, 2018
Cash	33 179	59 945
Cash balances with the Bank of Russia	58 036	34 979
Balances in correspondent accounts	423 103	595 738
Total cash and cash equivalents	**514 318**	**690 662**

Balances in correspondent accounts as of 31 December, 2019 include mainly the balances on accounts with the central (national) banks of member states.

Balances in correspondent accounts do not include NOSTRO accounts that have a country-related credit risk. These funds are included in the Due from financial institutions within the Other funds due from financial institutions.

Currency, maturity and interest rate analysis of cash and cash equivalents are disclosed in Note 22.

(in thousands of Russian rubles unless otherwise stated)

11 Due from Financial Institutions

Funds due from financial institutions are represented by loans (deposits) provided by the Bank to counterparty banks.

	31 December, 2019	31 December, 2018
Interbank term loans and deposits	6 768 103	5 220 889
Other funds due from financial institutions	111 400	143 096
Total due from financial institutions before allowance for expected credit losses	**6 879 503**	**5 363 985**
Allowance for expected credit losses	(379)	(1 193)
Total due from financial institutions	**6 879 124**	**5 362 792**

Funds placed with counterparty banks do not have collateral. During 2019 and 2018 these funds were placed at market rates.

Due from financial institutions (namely, Other funds due from financial institutions) includes balances on NOSTRO accounts placed in the counterparty banks of CIS member states.

Below is the analysis of changes in the allowance of impairment on balances due from financial institutions, for 2019

	Interbank term loans and deposits	Other funds due from financial institutions	Total
Impairment provision at 1 January, 2019	**688**	**505**	**1 193**
Changes in allowance for expected credit losses	(601)	(213)	(814)
Allowance for expected credit losses at 31 December, 2019	**87**	**292**	**379**

Below is the analysis of changes in the allowance of impairment on balances due from financial institutions, for 2018:

	Interbank term loans and deposits	Other funds due from financial institutions	Total
Impairment provision at 1 January, 2018	-	**7 997**	**7 997**
Impact of adopting IFRS 9	833	(7 969)	(7 136)
Changes in allowance for expected credit losses	(145)	477	332
Allowance for expected credit losses at 31 December, 2018	**688**	**505**	**1 193**

Funds placed with banks do not have collateral.

As of 31 December, 2019, there were no overdue balances with counterparty banks. Allowance for expected credit losses is assessed on an individual basis considering country-related risk.

Below is information about the credit quality of due from financial institutions at 31 December, 2019

	Interbank term loans and deposits	Other funds due from financial institutions	Due from financial institutions, total
Due from financial institutions			
- (with the top 20 Russian banks)	5 302 042	18 375	5 320 417
- (with other Russian banks)	1 271 452	-	1 271 452
- (with other banks)	194 609	93 025	287 634
Total due from financial institutions before allowance for expected credit losses	**6 768 103**	**111 400**	**6 879 503**
Allowance for expected credit losses	(87)	(292)	(379)
Total due from financial institutions	**6 768 016**	**111 108**	**6 879 124**

(in thousands of Russian rubles unless otherwise stated)

Below is information about the credit quality of due from financial institutions at 31 December, 2018.

	Interbank term loans and deposits	Other funds due from financial institutions	Due from financial institutions, total
Due from financial institutions			
- (with the top 20 Russian banks)	3 664 984	18 159	3 683 143
- (with other Russian banks)	1 455 861	-	1 455 861
- (with other banks)	100 044	124 937	224 981
Total due from financial institutions before allowance for expected credit losses	**5 220 889**	**143 096**	**5 363 985**
Allowance for expected credit losses	(688)	(505)	(1 193)
Total due from financial institutions	**5 220 201**	**142 591**	**5 362 792**

The fair value of due from financial institutions is disclosed in Note 25.

Interest rate and maturity analysis of due from financial institutions are disclosed in Note 22. Related-party transactions are disclosed in Note 26.

12 Loans and Advances to Customers

	31 December, 2019	31 December, 2018
Measured at amortized cost:		
Loans to individuals	6 754	10 273
Total loans and advances to customers before allowance for expected credit losses	**6 754**	**10 273**
Allowance for expected credit losses	-	-
Total loans and advances to customers	**6 754**	**10 273**

Below is information on the credit quality of loans and advances at amortized cost, as of 31 December, 2019:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses - not-credit-impaired assets (Stage 2)	Lifetime expected credit losses – credit impaired assets (Stage 3)	Purchased or originated credit-impaired assets	Total
Measured at amortized cost					
Loans to individuals					
- Minimal credit risk	6 754	-	-	-	6 754
Total loans to individuals	**6 754**	-	-	-	**6 754**
Total measured at amortized cost	**6 754**	-	-	-	**6 754**

Below is information on the credit quality of loans and advances at amortized cost, as of 31 December, 2018:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses - not-credit-impaired assets (Stage 2)	Lifetime expected credit losses – credit impaired assets (Stage 3)	Purchased or originated credit-impaired assets	Total
Measured at amortized cost					
Loans to individuals					
- Minimal credit risk	10 273	-	-	-	10 273
Total loans to individuals	**10 273**	-	-	-	**10 273**
Total measured at amortized cost	**10 273**	-	-	-	**10 273**

Interest rate and maturity analysis of loans and advances to customers are disclosed in Note 22. Related-party transactions are disclosed in Note 26.

The fair value of loans and advances to customers is disclosed in Note 25

(in thousands of Russian rubles unless otherwise stated)

13 Financial Assets at Fair Value through Other Comprehensive Income

	31 December, 2019	31 December, 2018
Debt- financial assets		
Federal bonds of the Russian Federation (OFZ)	3 072 827	2 269 845
Debt securities of other issuers	3 389 594	2 430 297
Total financial assets at fair value through other comprehensive income before allowance for expected credit losses	**6 462 421**	**4 700 142**
Allowance for expected credit losses	-	-
Total financial assets at fair value through other comprehensive income	**6 462 421**	**4 700 142**

In 2019, the Bank did not invest any funds in financial assets at fair value through other comprehensive income at below-market rates.

The portfolio of federal bonds of the Russian Federation (OFZ) as of 31 December, 2019 includes ten issues (2018: seven issues) with the total nominal value of 2 870 942 thousand rubles (2018: 2 237 000 thousand rubles).

As of 31 December, 2019, the coupon rate on the above bonds is between 6.50% and 8.73%, payable two to four times a year (2018: between 6.50% and 8.25%)

The portfolio of debt securities from other issuers includes: bonds issued by Russian residents with a long-term credit rating of at least BBB- according to Standard and Poor's or Fitch Ratings, with the total nominal value of 3 236 385 thousand rubles (2018: 2 428 400 thousand rubles).

As of 31 December, 2019, the coupon rate on these bonds is between 6.0% and 9.15%, payable two to four times a year (2018: 6.0% to 9.5%).

Interest rate and maturity analysis of financial assets at fair value through other comprehensive income are disclosed in Note 22. Related-party transactions are disclosed in Note 26.

The fair value of financial assets at fair value through other comprehensive income is disclosed in Note 25.

(in thousands of Russian rubles unless otherwise stated)

14 Fixed Assets and Intangible Assets

Below is information on the value of fixed and intangible assets in 2019.

	Buildings	Office and computer equipment	Intangible assets	Total fixed and intangible assets
Carrying amount on 1 January, 2019	**31 830**	**19 086**	**147**	**51 063**
Cost (or estimate)				
Cost (or estimate) on 1 January, 2019	**65 893**	**89 478**	**4 273**	**159 644**
Additions	-	7 432	-	7 432
Disposals	-	(10 726)	-	(10 726)
Cost (or estimate) as at 31 December, 2019	**65 893**	**86 184**	**4 273**	**156 350**
Accumulated depreciation				
ccumulated depreciation as at 1 January, 2019	(34 063)	(70 392)	(4 126)	(108 581)
Depreciation charges	(1 623)	(6 831)	(147)	(8 601)
Disposals	-	10 726	-	10 726
Accumulated depreciation at 31 December, 2019	**(35 686)**	**(66 497)**	**(4 273)**	**(106 456)**
Carrying amount on 31 December, 2019	**30 207**	**19 687**	**-**	**49 894**

Below is information on the value of fixed and intangible assets in 2018.

	Buildings	Office and computer equipment	Intangible assets	Total fixed and intangible assets
Carrying amount on 1 January, 2018	**33 453**	**13 255**	**1 457**	**48 165**
Cost (or estimate)				
Cost (or estimate) on 1 January, 2018	65 893	80 894	4 273	151 060
Additions	-	9 696	-	9 696
Disposals	-	(1 112)	-	(1 112)
Cost (or estimate) as at 31 December, 2018	**65 893**	**89 478**	**4 273**	**159 644**
Accumulated depreciation				
Accumulated depreciation as at 1 January, 2018	(32 440)	(67 639)	(2 816)	(102 895)
Depreciation charges	(1 623)	(3 865)	(1 310)	(6 798)
Disposals	-	1 112	-	1 112
Accumulated depreciation at 31 December, 2018	**(34 063)**	**(70 392)**	**(4 126)**	**(108 581)**
Carrying amount on 31 December, 2018	**31 830**	**19 086**	**147**	**51 063**

(in thousands of Russian rubles unless otherwise stated)

15 Lease

Below is information on the value of right-of-use assets in 2019

	Buildings
Carrying amount on 1 January, 2019	**6 839**
Cost (or estimate) on 1 January, 2019	6 839
Additions	995
Disposals	(1 572)
Effect of exchange rate changes	(485)
Cost (or estimate) as at 31 December, 2019	**5 777**
Accumulated depreciation	
Accumulated depreciation at 1 January, 2019	-
Depreciation charges	(3 123)
Accumulated depreciation at 31 December, 2019	**(3 123)**
Carrying amount on 31 December, 2019	**2 654**

Lease liabilities comprise future payments for the rights to use the relevant underlying assets. As of 31 December 2019 minimum future lease payments were as follows:

Minimum remaining lease payments	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
31 December 2019			-	-	-	-	
Lease payments	2 664	284	-	-	-	-	2 948
Finance costs	(131)	(8)	-	-	-	-	(139)
Net present value	**2 533**	**276**	**-**	**-**	**-**	**-**	**2 809**

As of 31 December 2019 the Bank does not have any leased assets to which the requirements of IFRRS 16 are not applied.

As of 31 December 2019 the Bank was not committed to the leases not yet commenced.

16 Other Assets

	31 December, 2019	31 December, 2018
Accounts receivable and prepayments	15 364	11 109
Other	8 145	9 296
Total other assets	**23 509**	**20 405**

17 Due to Financial Institutions

	31 December, 2019	31 December, 2018
Correspondent accounts of other banks	1 593 530	1 306 496
Total due to financial institutions	**1 593 530**	**1 306 496**

As of 31 December, 2019, deviations from fair value in the carrying amount of funds due to financial institutions are insignificant.

In 2019, the Bank did not receive any funds from financial institutions at above-market rates.

Interest rate and maturity analysis of due to financial institutions are disclosed in Note 22. Related-party transactions are disclosed in Note 26.

The fair value of due to financial institutions is disclosed in Note 25.

(in thousands of Russian rubles unless otherwise stated)

18 Due to Customers

	31 December, 2019	31 December, 2018
Accounts of non-government legal entities		
Current and settlement accounts	5 632 549	3 546 712
Total accounts of non-government legal entities	**5 632 549**	**3 546 712**
Accounts of individuals		
Current and demand accounts	14 880	13 660
Total accounts of individuals	**14 880**	**13 660**
Total due to customers	**5 647 429**	**3 560 372**

In 2019, the Bank did not have any customer funds at above-market rates.

A breakdown of customers by industry is given below:

	31 December, 2019		31 December, 2018	
	Amount	%	Amount	%
International and public organizations	5 600 626	99.2%	3 439 793	96.6%
Individuals	14 880	0.2%	13 660	0.4%
Industrial enterprises	10 972	0.2%	94 536	2.7%
Trade and services	9 555	0.2%	12 086	0.3%
Oil, gas and chemical enterprises	6 247	0.1%	-	0.0%
Transport	5 123	0.1%	107	0.0%
Finance and investments	14	0.0%	7	0.0%
Other	12	0.0%	10	0.0%
Education	-	0.0%	152	0.0%
Insurance	-	0.0%	21	0.0%
Total due to customers	**5 647 429**	**100.0%**	**3 560 372**	**100.0%**

As of 31 December, 2019, the account balance of 1 legal entity amounted to 4 619 090 thousand rubles (in 2018 - 2 440 574 thousand rubles), being 81.79% of total due to customers (in 2018 - 68.55%).

Interest rate and maturity analysis of due to customers are disclosed in Note 22. Related-party transactions are disclosed in Note 26

The fair value of due to customers is disclosed in Note 25.

19 Other Liabilities

	31 December, 2019	31 December, 2018
Accounts payable	10 905	9 773
Total other liabilities	**10 905**	**9 773**

As of 31 December, 2019 (31 December, 2018), the Bank had no overdue liabilities to customers. In 2019 (2018) the Bank did not make any provisions for liabilities.

(in thousands of Russian rubles unless otherwise stated)

20 Authorized Capital

	31 December, 2019			31 December, 2018		
	Nominal value	Inflation-adjusted value	Acquisition cost	Nominal value	Inflation-adjusted value	Acquisition cost
Shares	20 000	212 086		20 000	212 086	
Shares in authorized capital repurchased from members			(1 100)			(1 100)
Total authorized capital	**20 000**	**212 086**	**(1 100)**	**20 000**	**212 086**	**(1 100)**

The Bank was founded by the parties to the Agreement on the Foundation of the Interstate Bank signed on 22 January, 1993, by the heads of the following member states: the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, Russian Federation, the Republic of Tajikistan, Turkmenistan, the Republic of Uzbekistan and Ukraine.

The votes in the Council of the Bank, its supreme governing body, are distributed between the Bank's members as follows:

Russian Federation – 50 % of the total votes; other members – in proportion to each state's share in the total foreign trade turnover for 1990.

21 Retained Earnings

	31 December, 2019	31 December, 2018
Reserve fund	1 416 400	1 416 400
Retained Earnings	2 720 763	2 339 959
Total	**4 137 163**	**3 756 359**

As per the resolution of the Bank's Council of 22 April, 2010, the Bank formed a reserve fund in the IFRS-compliant financial statements equal to the amount of the reserve fund formed in the statements prepared in accordance with the Bank of Russia regulations on the published statements of credit institutions.

22 Risk Management

The Bank has developed and implemented a risk management system, which includes:
- direct risk management (identification, assessment, and response to risks);
- constant monitoring of the risks such as operational risk, legal risk (various jurisdictions), financial risks (credit risk, liquidity risk and market risk), and reputational risk;
- plan to continue as a going concern.

The organizational structure of the Bank's risk management system includes the following levels:
- Council of the Bank
- President of the Bank
- collegial bodies;
- specialist units.

In terms of organization structure, the Bank fully abides by the principle of a clear segregation of duties and responsibilities between the units and staff related to initiating of transactions (financial risk acceptance), transaction administration, accounting, reporting, and risk assessment in order to avoid any possible conflicts of interests.

Risk management in the Bank includes the identification and assessment of risks, their monitoring, control over the volume, structure and concentration, and the development of risk mitigation measures (including an acceptable balance between risks and transaction profit margins).

- **Credit risk**

Credit risk is the risk of losses that may be incurred by the Bank due to a borrower's failure to perform in due time and/or in full on financial obligations to the Bank in accordance with the contractual terms. The Bank becomes exposed to credit risk through the financial asset arising in the course of the Bank's lending and other transactions with counterparties.

The Bank's credit risk management system includes the following:
- structuring of credit risk using a system of limits on decision-making and on credit risk concentration with individual borrowers (counterparty banks, debt security issuers);
- reduction of credit risk by taking collateral and recognition of allowance for impaired loans;
- review (mitigation) of credit risk prior to performance of the transaction, as well as by taking timely measures to identify credit risk factors during subsequent monitoring.

(in thousands of Russian rubles unless otherwise stated)

- **Liquidity Risk**

Liquidity risk is the risk that the Bank's monetary funds will be insufficient for the Bank to perform its obligations to counterparties.

The Bank manages liquidity risk in terms of current and projected (prospective) liquidity.

Current liquidity management comprises short-term (up to one month) cash flow forecasting and management in terms of currencies and maturities in order to allow the Bank to discharge its obligations, perform settlements as instructed by customers and fund active transactions.

Projected liquidity management comprises the development and implementation of measures to manage assets and liabilities for the purpose of maintaining the Bank's solvency over a period of 30+ days and, if possible, increasing the asset portfolio while ensuring an acceptable balance of liquid assets and transaction profitability.

The Bank has virtually no dependence on the money market (where the Bank is a net lender). The Bank also has virtually no risk of liquidity gaps.

The carrying amount of financial instruments by expected maturity dates is shown in the table below, as of 31 December, 2019.

	On demand and less than 1 month	1 to 6 months	6 to 12 months	More than 1 year	Overdue / no stated maturity	Total
ASSETS						
Cash and Cash Equivalents	514 318	-	-	-	-	514 318
Due from Financial Institutions	6 879 124	-	-	-	-	6 879 124
Loans and Advances to Customers	682	2 631	1 658	1 783	-	6 754
Financial Assets at Fair Value through Other Comprehensive Income	673 635	72 175	522 170	5 194 441	-	6 462 421
Fixed Assets and Intangible Assets	-	-	-	-	49 894	49 894
Right-of-Use Assets	-	-	-	-	2 654	2 654
Other Assets	7 807	15 364	-	-	338	23 509
Total assets	**8 075 566**	**90 170**	**523 828**	**5 196 224**	**52 886**	**13 938 674**
LIABILITIES						
Due to Financial Institutions	1 593 530	-	-	-	-	1 593 530
Due to customers other than individuals	5 632 549	-	-	-	-	5 632 549
Due to customers – individuals	14 880	-	-	-	-	14 880
Lease Liabilities	241	1 192	1 100	276	-	2 809
Other Liabilities	7 677	2 202	1 026	-	-	10 905
Total liabilities	**7 248 877**	**3 394**	**2 126**	**276**	**-**	**7 254 673**
Net balance sheet position at 31 December, 2019	**826 689**	**86 776**	**521 702**	**5 195 948**	**52 886**	**6 684 001**
Net balance sheet position cumulative as of 31 December, 2019	**826 689**	**913 465**	**1 435 167**	**6 631 115**	**6 684 001**	

(in thousands of Russian rubles unless otherwise stated)

The carrying amount of financial instruments by expected maturity dates is shown in the table below, as of 31 December, 2018.

	On demand and less than 1 month	1 to 6 months	6 to 12 months	More than 1 year	Overdue / no stated maturity	Total
ASSETS						
Cash and Cash Equivalents	690 662	-	-	-	-	690 662
Due from Financial Institutions	4 249 432	1 113 360	-	-	-	5 362 792
Loans and Advances to Customers	707	3 246	3 450	2 870	-	10 273
Financial Assets at Fair Value through Other Comprehensive Income	27 534	259 782	357 000	4 055 826	-	4 700 142
Fixed Assets and Intangible Assets	-	-	-	-	51 063	51 063
Other Assets	3 552	-	16 515	-	338	20 405
Total assets	**4 971 887**	**1 376 388**	**376 965**	**4 058 696**	**51 401**	**10 835 337**
LIABILITIES						
Due to Financial Institutions	1 306 496	-	-	-	-	1 306 496
Due to customers other than individuals	3 546 712	-	-	-	-	3 546 712
Due to customers – individuals	13 660	-	-	-	-	13 660
Other Liabilities	8 747	-	1 026	-	-	9 773
Total liabilities	**4 875 615**	**-**	**1 026**	**-**	**-**	**4 876 641**
Net balance sheet position at 31 December, 2018	**96 272**	**1 376 388**	**375 939**	**4 058 696**	**51 401**	**5 958 696**
Net balance sheet position cumulative as of 31 December, 2018	**96 272**	**1 472 660**	**1 848 599**	**5 907 295**	**5 958 696**	

(in thousands of Russian rubles unless otherwise stated)

The tables below show the distribution of undiscounted contractual cash flows on the Bank's liabilities by remaining contractual maturities.

The table below is the analysis of financial liabilities by maturity dates, as of 31 December, 2019:

	On demand and less than 1 month	**1 to 6 months**	**6 to 12 months**	**More than 1 year**	**Total**
LIABILITIES					
Due to Financial Institutions	1 593 530	-	-	-	1 593 530
Due to customers other than individuals	5 632 549	-	-	-	5 632 549
Due to customers – individuals	14 880	-	-	-	14 880
Lease Liabilities	263	1 267	1 134	284	2 948
Other Liabilities	7 677	2 202	1 026	-	10 905
Total potential future payments on financial liabilities	**7 248 899**	**3 469**	**2 106**	**284**	**7 254 812**

The table below is the analysis of financial liabilities by maturity dates, as of 31 December, 2018:

	On demand and less than 1 month	**1 to 6 months**	**6 to 12 months**	**More than 1 year**	**Total**
LIABILITIES					
Due to Financial Institutions	1 306 496	-	-	-	1 306 496
Due to customers other than individuals	3 546 712	-	-	-	3 546 712
Due to customers – individuals	13 660	-	-	-	13 660
Other Liabilities	8 747	-	1 026	-	9 773
Total potential future payments on financial liabilities	**4 875 615**	-	**1 026**	-	**4 876 641**

- **Market risk**

The Bank is exposed to market risk, which is the risk of financial losses or a reduction in asset value due to adverse changes in market prices (foreign exchange rates, interest rates, etc.). The Bank sets limits on the level of assumed risk and monitors their observance on a daily basis. But this approach does not prevent losses exceeding the set limits in the event of more substantial market changes.

Market risk is categorized as follows:

- interest rate risk
- other price risk
- currency risk.

(in thousands of Russian rubles unless otherwise stated)

- **Interest rate risk**

The Bank takes the risk of fluctuations in market interest rates on its financial position and cash flows. Such fluctuations may increase interest margin, however sudden changes in interest rates may also cause interest margin to drop or give rise to losses.

The objective of interest rate risk management is to reduce the impact of changes in interest rates on net interest income. For the purpose of managing interest rate risk, the Bank sets maximum interest rates for raising funds and minimum rates for placing resources, minimum rates of return on investment for securities and restrictions on long-term active transactions. Interest rate and other price risks are regulated also by setting maximum amounts of investment in market price sensitive assets, according to terms and rates. But this approach does not prevent losses in the event of material changes in market conditions.

Below is the Bank's sensitivity analysis of interest rate risk as of 31 December, 2019. The table shows assets and liabilities exposed to interest rate risk grouped by different time intervals basing on interest repricing dates.

	On demand and less than 1 month	**1 to 6 months**	**6 to 12 months**	**More than 1 year**	**No stated maturity / Non-interest bearing**	**Total**
ASSETS						
Cash and Cash Equivalents	514 318	-	-	-	-	514 318
Due from Financial Institutions	6 879 124	-	-	-	-	6 879 124
Loans and Advances to Customers	682	2 631	1 658	1 783	-	6 754
Financial Assets at Fair Value through Other Comprehensive Income	831 180	909 565	934 890	3 786 786	-	6 462 421
Fixed Assets and Intangible Assets	-	-	-	-	49 894	49 894
Right-of-Use Assets	-	-	-	-	2 654	2 654
Other Assets	7 807	15 364	-	-	338	23 509
Total assets	**8 233 111**	**927 560**	**936 548**	**3 788 569**	**52 886**	**13 938 674**
Total assets, cumulative	**8 233 111**	**9 160 671**	**10 097 219**	**13 885 788**	**13 938 674**	
LIABILITIES						-
Due to Financial Institutions	1 593 530	-	-	-	-	1 593 530
Due to customers other than individuals	5 632 549	-	-	-	-	5 632 549
Due to customers – individuals	14 880	-	-	-	-	14 880
Lease Liabilities	241	1 192	1 100	276	-	2 809
Other Liabilities	7 677	2 202	1 026	-	-	10 905
Total liabilities	**7 248 877**	**3 394**	**2 126**	**276**	**-**	**7 254 673**
Total liabilities, cumulative	**7 248 877**	**7 252 271**	**7 254 397**	**7 254 673**	**7 254 673**	
Absolute GAP	984 234	924 166	934 422	3 788 293	52 886	
Gap ratio (total relative GAP, cumulative)	**1.14**	**1.26**	**1.39**	**1.91**	**1.92**	
Sensitivity to interest rate risk	9 432	6 546	2 336			18 314

(in thousands of Russian rubles unless otherwise stated)

Below is the Bank’s sensitivity analysis of interest rate risk as of 31 December, 2018.

	On demand and less than 1 month	1 to 6 months	6 to 12 months	More than 1 year	No stated maturity / Non-interest bearing	Total
ASSETS						
Cash and Cash Equivalents	690 662	-	-	-	-	690 662
Due from Financial Institutions	4 249 432	1 113 360	-	-	-	5 362 792
Loans and Advances to Customers	707	3 246	3 450	2 870	-	10 273
Financial Assets at Fair Value through Other Comprehensive Income	820 449	1 146 792	357 000	2 375 901	-	4 700 142
Fixed Assets and Intangible Assets	-	-	-	-	51 063	51 063
Other Assets	3 552	-	16 515	-	338	20 405
Total assets	**5 764 802**	**2 263 398**	**376 965**	**2 378 771**	**51 401**	**10 835 337**
Total assets, cumulative	**5 764 802**	**8 028 200**	**8 405 165**	**10 783 936**	**10 835 337**	
LIABILITIES						-
Due to Financial Institutions	1 306 496	-	-	-	-	1 306 496
Due to customers other than individuals	3 546 712	-	-	-	-	3 546 712
Due to customers – individuals	13 660	-	-	-	-	13 660
Other Liabilities	8 747	-	1 026	-	-	9 773
Total liabilities	**4 875 615**	**-**	**1 026**	**-**	**-**	**4 876 641**
Total liabilities, cumulative	**4 875 615**	**4 875 615**	**4 876 641**	**4 876 641**	**4 876 641**	
Absolute GAP	889 187	2 263 398	375 939	2 378 771	51 401	
Gap ratio (total relative GAP, cumulative)	**1.18**	**1.65**	**1.72**	**2.21**	**2.22**	
Sensitivity to interest rate risk	8 521	16 032	940			25 493

Sensitivity to interest rate changes is the effect of a parallel shift in all yield curves by 100 basis points on the amount of net interest income for one year.

The analysis of interest rate risk based on the above tables is made with respect to the absolute year-end gap value. As of 31 December, 2019, with the interest rate increased by 100 basis points, the effect on the net interest income for the year amounted to 18 314 thousand rubles, and with the interest rate decreased — 18 314 thousand rubles (2018: with the interest rate increased by 100 basis points, the effect on the net interest income for the year was 25 493 thousand rubles, and with the interest rate decreased — 25 493 thousand rubles).

- **Currency risk**

The Bank is exposed to currency risk, which is the risk of losses due to adverse changes in foreign exchange rates on open positions in foreign currencies.

The Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, and monitors compliance on a daily basis.,

The Bank manages currency risk on the basis of the current level of an open foreign currency position and the expected change in the currency exchange rate of the open position with respect to the ruble. The Bank uses stress tests to analyze sensitivity to currency risk, following two scenarios: 1. 10% change in foreign exchange rates for open positions in foreign currencies; 2. 30% change in foreign exchange rates for open positions in foreign currencies. Testing the effects of exchange rate changes against the ruble on the Bank's financial performance and the size of its (equity) capital is conducted on a regular basis. The results of tests conducted as of 31 December, 2019 and 31 December, 2018 showed no significant impact of changes in exchange rates against the ruble.

(in thousands of Russian rubles unless otherwise stated)

The table below shows the general analysis of the Bank's currency risk on the reporting date of 31 December, 2019:

	Ruble	US dollar	Euro	Other currencies	Total
ASSETS					
Cash and Cash Equivalents	72 305	67 215	10 240	364 558	514 318
Due from Financial Institutions	6 591 796	-	-	287 328	6 879 124
Loans and Advances to Customers	6 754	-	-	-	6 754
Financial Assets at Fair Value through Other Comprehensive Income	6 462 421	-	-	-	6 462 421
Fixed Assets and Intangible Assets	49 894	-	-	-	49 894
Right-of-Use Assets	-	439	-	2 215	2 654
Other Assets	11 849	3 216	3	8 441	23 509
Total assets	**13 195 019**	**70 870**	**10 243**	**662 542**	**13 938 674**
LIABILITIES					
Due to Financial Institutions	918 435	50 198	1 385	623 512	1 593 530
Due to Customers other than individuals					
- current and demand accounts	5 610 623	3 013	4 526	14 387	5 632 549
Due to Customers - individuals					
- current and demand accounts	14 880	-	-	-	14 880
Lease Liabilities	-	528	-	2 281	2 809
Other Liabilities	10 798	-	74	33	10 905
Total liabilities	**6 554 736**	**53 739**	**5 985**	**640 213**	**7 254 673**
Net balance sheet position	**6 640 283**	**17 131**	**4 258**	**22 329**	**6 684 001**

The table below shows the general analysis of the Bank's currency risk on the reporting date of 31 December, 2018:

	Ruble	US dollar	Euro	Other currencies	Total
ASSETS					
Cash and Cash Equivalents	66 798	87 918	26 458	509 488	690 662
Due from Financial Institutions	5 238 360	-	-	124 432	5 362 792
Loans and Advances to Customers	10 273	-	-	-	10 273
Financial Assets at Fair Value through Other Comprehensive Income	4 700 142	-	-	-	4 700 142
Fixed Assets and Intangible Assets	51 063	-	-	-	51 063
Other Assets	12 337	3 486	-	4 582	20 405
Total assets	**10 078 973**	**91 404**	**26 458**	**638 502**	**10 835 337**
LIABILITIES					
Due to Financial Institutions	709 628	42 441	1 594	552 833	1 306 496
Due to Customers other than individuals					
- current and demand accounts	3 490 186	7 115	859	48 552	3 546 712
Due to Customers - individuals					
- current and demand accounts	13 660	-	-	-	13 660
Other Liabilities	9 621	-	133	19	9 773
Total liabilities	**4 223 095**	**49 556**	**2 586**	**601 404**	**4 876 641**
Net balance sheet position	**5 855 878**	**41 848**	**23 872**	**37 098**	**5 958 696**

- **Operational Risk**

The Bank's system of operational risk management seeks to prevent (reduce) potential losses and reduce the possibility of irregularities in business processes due to staff error, system malfunction and internal or external unapproved/unlawful actions. Internal documents ensuring the ability of the Bank to continue as a going concern have been developed and are in force.

To assess exposure to operational risk and the effectiveness of the internal control system, the Bank maintains a special operational risk events log which records operational risk events (or significant threats), factors that caused the risk to be realized and the amount of losses incurred (if any).

- **Compliance, reputational risks**

The Bank has appointed a compliance officer, whose duties include:
- informing the Bank's employees about changes in applicable legislation;
- monitoring the Bank's approved internal documents for compliance with the requirements of applicable law, statutory documents and the decisions of the Bank's governing bodies;
- informing the Bank's management in a timely manner about any irregularities (shortcomings) identified and related operational, legal and reputational risks, and of any instances of the Bank's employees acting in breach of the law or the Bank's internal regulations.

To prevent risks associated with the introduction of international sanctions, procedures have been developed to analyze and respond to the introduction/modification of sanctions.

- **Managing risks related to payment systems and information security**

Interbank settlements between the Bank's member states are performed using automated interbank payment systems, which comply with the key principles applied in international practice to systemically important payment systems. The risk management criteria of such systems are established and controlled directly by central (national) banks.

The Bank has joined the payment systems of six founder states (the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation, and the Republic of Tajikistan). Each of the national payment systems has its own electronic messaging format, operating algorithms and procedures. In terms of information technology, each of the systems is a separate infrastructure: communications channels, software and information security tools.
What is common to all the systems is the principle of using electronic signature to guarantee authenticity (integrity) and encryption tools to protect message confidentiality. The architecture, algorithms and operating procedures, specific software and hardware, information security measures and means and system operation regulations are determined directly by central (national) banks, while their implementation is strictly monitored by the participants.

The Bank maintains the internal infrastructure of payment systems (software and hardware, secure communication channels) in full compliance with the standards of central (national) banks, regularly conducts routine maintenance to keep the systems up to date and fully compliant with these standards. This includes changing cryptographic keys regularly, updating software and hardware versions and taking part in events to test new system versions. The Bank has a dedicated expert unit responsible for integrated information security.

23 Capital Management

In accordance with the Agreement between the Bank and the Central Bank of the Russian Federation "On the Procedure and Rules for Banking Activities Conducted by the Interstate Bank in the Territory of the Russian Federation" dated 2 December, 1996, the Bank is not subject to the requirements of the federal laws of the Russian Federation "On the Central Bank of the Russian Federation (the Bank of Russia)" and "On Banks and Banking Activities" in terms of provisions regarding bank regulation and banking oversight, in particular, requirements to observe of the equity (capital) adequacy ratios.

The size and the structure of the capital are disclosed in the statement of financial position and in the statement of changes in equity. As of 31 December, 2018, the Other Funds item in the structure of the Bank's capital (equity) includes a perpetual subordinated debt made up of converted subordinated loans. The nominal value of perpetual subordinated loans on the conversion date was 6 155 215 thousand rubles. Perpetual subordinated loans are recorded in the capital structure at discounted value.

24 Contingent Liabilities

Tax Legislation

Pursuant to the Agreement between the Government of the Russian Federation and the Interstate Bank on the Terms of Presence of the Interstate Bank in the Russian Federation, dated 30 July, 1996, the Bank is exempt from taxes, levies and other mandatory charges payable in the territory of the Russian Federation.

(in thousands of Russian rubles unless otherwise stated)

25 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price of the financial instrument quoted on the market.

The estimated fair value of financial instruments was calculated by the Bank based on existing market data (if available) and appropriate valuation techniques. However, professional judgment needs to be used when interpreting market data to determine fair value. Although the Russian Federation has been assigned investment ratings, the country's economy is still characterized by certain specifics typical of developing countries, and its economic conditions continue to restrict the volume of trading on financial markets. Market quotations can be outdated or can reflect sales at low prices and thus cannot be indicative of the fair value of financial instruments. When determining the fair value of financial instruments, the management uses all available market data.

Financial instruments measured at fair value

Financial assets held for profit or for sale are recorded at fair value. Fair value is calculated on the basis of observable quoted active market prices (Level 1).

Financial instruments not measured at fair value but for which the fair value is disclosed

According to the management's estimates, the fair value of each class of financial assets and liabilities recognized at amortized cost (cash and cash equivalents, due from financial institutions, loans and advances to customers, due to financial institutions, and due to customers) did not differ materially from their respective carrying amounts.

The Bank measures the fair value of other financial assets, including trade and other receivables, as equal to the carrying amount, considering their short-term nature.

The fair value of financial instruments is shown below:

	31 December, 2019		31 December, 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Financial assets recognized at fair value				
Financial Assets at Fair Value through Other Comprehensive Income				
Financial assets held for profit or for sale	6 462 421	6 462 421	4 700 142	4 700 142
Financial assets recognized at amortized cost				
Cash and Cash Equivalents	514 318	514 318	690 662	690 662
Due from Financial Institutions	6 879 124	6 879 124	5 362 792	5 362 792
Loans and Advances to Customers	6 754	6 754	10 273	10 273
Other Assets	23 509	23 509	20 405	20 405
Total financial assets	**13 886 126**	**13 886 126**	**10 784 274**	**10 784 274**
Financial liabilities				
Financial liabilities recognized at amortized cost				
Due to Financial Institutions	1 593 530	1 593 530	1 306 496	1 306 496
Due to Customers	5 647 429	5 647 429	3 560 372	3 560 372
Other Liabilities	10 905	10 905	9 773	9 773
Total financial liabilities	**7 251 864**	**7 251 864**	**4 876 641**	**4 876 641**

(in thousands of Russian rubles unless otherwise stated)

26 Related Party Transactions

For purposes of these financial statements, parties are deemed related if one of the parties is able to control the other party or to significantly influence the other party's financial and operational decision-making as set forth in IFRS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

The Bank's related parties are member states and key management personnel.

As of 31 December, 2019, the Bank's key management personnel includes the management and members of the Asset & Liabilities Management Committee, 7 persons in total. Related party states were the Bank's member states.

Transactions with related parties included settlements, deposit placements and foreign exchange transactions. These transactions were carried out mainly at market rates (unless otherwise specified). Below are balances at the end of the period and income and expense for the year under transactions with related parties.

Balances with the Bank's member states as of 31 December, 2019 and 31 December, 2018, represented by their central (national) banks which are deemed as related parties, are shown in the table below:

	31 December, 2019	**31 December, 2018**
ASSETS		
Cash and Cash Equivalents	176 618	383 868
Total assets	**176 618**	**383 868**
LIABILITIES		
Due to Financial Institutions	905 926	691 118
Total liabilities	**905 926**	**691 118**

Below are expenses on transactions with related parties represented by the Bank's member states, for 2019 and 2018:

	2019	**2018**
Interest expense	(2 627)	(2 208)

Bank's key management personnel

Balances with the Bank's key management personnel as of 31 December, 2019 and 31 December, 2018 are shown in the table below:

	31 December, 2019	**31 December, 2018**
ASSETS		
Loans and Advances to Customers	263	633
Total assets	**263**	**633**
LIABILITIES		
Due to Customers – individual deposits	5 520	5 237
Total liabilities	**5 520**	**5 237**

Below are income and expenses on transactions with key management personnel of the Bank for 2019 and 2018:

	2019	**2018**
Interest income	30	15
Operating expenses	(95 611)	(92 023)

27 Effect of Estimates and Judgments on Recognized Assets and Liabilities

The Bank makes estimates and judgements that affect recognized amounts of assets and liabilities in the next financial year. Estimates and judgments are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses of loans and receivables

The Bank regularly reviews its loan portfolios to assess impairment. In determining whether impairment losses need to be recognized in the statement of profit and loss, the Bank makes professional judgements as to whether there is any objective evidence that the estimated future cash flows for the loan portfolio will decrease before such a decrease can be identified with an individual loan in that portfolio. Such evidence may include data indicating changes in the creditworthiness of the Bank's borrower and national or local economic conditions causing a reduction in the value of the Bank's assets. The Bank uses estimates based both on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used to estimate the amounts and timing of cash flows are reviewed regularly in order to reduce the difference between loss estimates and actual impairment losses.

Initial recognition of related party transactions

In the course of its operations, the Bank enters into related party transactions. In accordance with IFRS 9, financial instruments must be initially recognized at fair value. If there is no active market for such transactions, professional judgments are used in order to determine whether transactions are priced at market or non-market interest rates. The judgment is based on pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

The going concern principle

The management has prepared these financial statements on a going concern basis. Using this judgment, the management took into account existing intentions, profitability of operations and access to financial resources, and the impact of current economic conditions on the Bank's business.

Signed on 14 February, 2020.

President I.G. Souvorov

Chief Accountant L.K. Razdevilova