# HSBC BANK (RR) LLC

## Financial Statements and Independent Auditor's Report

## 31 December 2019

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# Independent Auditor's Report

To the Sole Participant and Board of Directors of HSBC Bank (RR) (Limited liability company):

## Report on the audit of the financial statements

### Our opinion

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

**What we have audited**

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

### 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

### Responsibilities of management and those charged with governance for the financial statements

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

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

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

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

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

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

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

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

# Report on other legal and regulatory requirements

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

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

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

- compliance of the Bank as at 1 January 2020 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organisation of risk management systems of the Bank with the requirements set by the Bank of Russia for such systems.

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

We have identified the following based on our examination:

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

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

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

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

   a) in accordance with the Bank of Russia's requirements and recommendations, as at 1 January 2020 subdivisions of the Bank for managing significant risks of the Bank were not subordinated or accountable to subdivisions assuming corresponding risks;

   b) internal documents of the Bank effective as at 1 January 2020 which set out the methodologies to identify and manage significant credit, operational, market and liquidity risks and the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;

   c) as at 1 January 2020 the Bank had in place a reporting system for significant credit, operational, market and liquidity risks and for equity (capital) of the Bank;

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

   e) as at 1 January 2020 the authority of the Board of Directors of the Bank and its executive bodies included control over compliance of the Bank with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2019, the Board of Directors of the Bank and its executive bodies regularly discussed the reports prepared by risk management subdivisions of the Bank and its internal audit function and considered proposed measures to eliminate weaknesses.

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

29 April 2020

Moscow, Russian Federation

E.I. Kopanyova, certified auditor (licence No. 01-000398),

AO PricewaterhouseCoopers Audit

Audited entity: HSBC Bank (RR) LLC

Record made in the Unified State Register of Legal Entities on 2 September 2002 under State Registration Number 1027739139075

Taxpayer Identification Number: 7707115538

Paveletskaya sq., 2, bld.2, Moscow, 115054, Russian Federation

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association «Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 12006020338

| *In thousands of Russian Roubles* | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 8 495 315 | 9 274 039 |
| Mandatory cash balances with the Central Bank of Russian Federation | | 799 547 | 639 718 |
| Due from the Central Bank of the Russian Federation | 8 | 18 386 906 | 19 522 254 |
| Due from other banks | 9 | 30 745 051 | 31 869 506 |
| Investments in debt securities | 10 | 6 293 694 | 6 221 126 |
| Loans and advances to customers | 11 | 12 146 810 | 11 413 810 |
| Repurchase receivables | | - | 125 923 |
| Current income tax prepayment | | - | 46 456 |
| Other financial assets | 12 | 198 228 | 132 239 |
| Derivative financial instruments | 27 | 2 167 643 | 3 236 393 |
| Right-of-use assets | 13 | 366 411 | - |
| Other assets | | 196 442 | 139 802 |
| Intangible assets | 14 | 13 235 | 10 731 |
| Premises and equipment | 14 | 51 583 | 33 930 |
| **TOTAL ASSETS** | | **79 860 865** | **82 665 927** |
| **LIABILITIES** | | | |
| Due to other banks | 15 | 1 174 885 | 10 785 216 |
| Customer accounts | 16 | 61 800 842 | 49 971 209 |
| Trading liabilities (short position) | 10 | 1 134 746 | 4 231 414 |
| Other financial liabilities | 17 | 363 582 | 535 974 |
| Deferred income tax liability | 22 | 116 558 | 101 097 |
| Derivative financial instruments | 27 | 2 002 154 | 3 110 391 |
| Lease liabilities | | 362 456 | - |
| Other liabilities | 18 | 184 287 | 77 893 |
| Current income tax liability | | 22 318 | - |
| **TOTAL LIABILITIES** | | **67 161 828** | **68 813 194** |
| **EQUITY** | | | |
| Charter capital | | 9 249 232 | 9 249 232 |
| Additional paid-in capital | | 3 017 061 | 3 017 061 |
| Retained earnings | | 424 635 | 1 623 209 |
| Revaluation reserve for debt securities at fair value through other comprehensive income (FVOCI) | | 8 109 | (36 769) |
| **TOTAL EQUITY** | | **12 699 037** | **13 852 733** |
| **TOTAL LIABILITIES AND EQUITY** | | **79 860 865** | **82 665 927** |

Approved for issue and signed on 29 April 2020.

Malachy McAllister
Chief Executive Officer

Elena Koneva
Chief Accountant

| *In thousands of Russian Roubles* | Note | 2019 | 2018 |
|---|---|---|---|
| Interest income calculated using the effective interest method | 19 | 3 692 113 | 3 849 691 |
| Interest expense | 19 | (1 798 078) | (1 892 327) |
| **Net margin on interest income** | | **1 894 035** | **1 957 364** |
| Credit loss allowance | 7,8, 9,10,11 | 16 690 | 35 992 |
| **Net margin on interest income after credit loss allowance** | | **1 910 725** | **1 993 356** |
| Fee and commission income | 20 | 791 982 | 898 003 |
| Fee and commission expense | 20 | (203 643) | (283 285) |
| Gains less losses from debt securities at fair value through profit or loss | | 265 476 | 58 019 |
| Gains less losses from foreign exchange and derivatives trading | | 1 236 468 | 1 152 529 |
| Losses less gain from disposals of debt securities at fair value through other comprehensive income | | - | (32 545) |
| Provision for credit related commitments | | (1 982) | 53 310 |
| Other operating income | | 151 497 | 213 486 |
| Administrative and other operating expenses | 21 | (2 117 320) | (2 205 264) |
| **Profit before tax** | | **2 033 203** | **1 847 609** |
| Income tax expense | 22 | (419 714) | (396 487) |
| **PROFIT FOR THE YEAR** | | **1 613 489** | **1 451 122** |
| **Other comprehensive income / (loss):** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Debt securities at fair value through other comprehensive income: | | | |
| - Gains less losses/(losses less gains) arising during the year, net of tax | 22 | 44 878 | (93 362) |
| **Other comprehensive income/(loss) for the year** | | **44 878** | **(93 362)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **1 658 367** | **1 357 760** |

| *In thousands of Russian Roubles* | **Note** | **Charter capital** | **Additional paid-in capital** | **Revaluation reserve for debt securities at FVOCI** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2018** | | **9 249 232** | **3 017 061** | **56 593** | **1 899 658** | **14 222 544** |
| Profit for the year | | - | - | - | 1 451 122 | 1 451 122 |
| Other comprehensive income | 22 | - | - | (93 362) | - | (93 362) |
| Total profit and other comprehensive income for 2018 | | **-** | **-** | **(93 362)** | **1 451 122** | **1 357 760** |
| Dividends paid to the Sole Participant | | - | - | - | (1 727 571) | (1 727 571) |
| **Total transactions with owner for 2018** | | **-** | **-** | **-** | **(1 727 571)** | **(1 727 571)** |
| **Balance at 31 December 2018** | | **9 249 232** | **3 017 061** | **(36 769)** | **1 623 209** | **13 852 733** |
| **Balance at 1 January 2019** | | **9 249 232** | **3 017 061** | **(36 769)** | **1 623 209** | **13 852 734** |
| Profit for the year | | **-** | **-** | | 1 613 489 | 1 613 489 |
| Other comprehensive income | 22 | - | - | 44 878 | - | 44 877 |
| Total profit and other comprehensive income for 2019 | | **-** | **-** | **44 878** | **1 613 489** | **1 658 367** |
| Dividends paid to the Sole Participant | | **-** | **-** | - | (2 812 063) | (2 812 063) |
| **Total transactions with owner for 2019** | | - | - | - | **(2 812 063)** | **(2 812 063)** |
| **Balance at 31 December 2019** | | **9 249 232** | **3 017 061** | **8 109** | **424 635** | **12 699 037** |

| *In thousands of Russian Roubles* | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest income | | 3 700 124 | 3 898 301 |
| Interest paid | | (1 933 367) | (1 965 405) |
| Fees and commissions received | | 792 485 | 898 442 |
| Fees and commissions paid | | (203 643) | (283 285) |
| Income received from trading in trading securities | | 220 563 | 104 751 |
| Gains less losses derivative trading received | | (877 514) | 1 694 056 |
| Other operating income received | | 178 074 | 796 057 |
| Administrative and other operating expenses paid | | (1 902 080) | (1 951 675) |
| Income tax paid | | (346 747) | (412 892) |
| **Cash flows (used in)/from operating activities before changes in operating assets and liabilities** | | **(372 105)** | **2 778 350** |
| *Net (increase)/decrease in:* | | | |
| - mandatory cash balances with the CBRF | | (159 835) | (18 736) |
| - investments in debt securities at fair value through profit or loss (trading securities) | | (1 643 339) | 552 862 |
| - repurchase receivables | | 125 923 | (125 923) |
| - due from the CBRF | | 1 113 050 | (16 199 988) |
| - due from other banks | | 1 070 825 | 5 840 634 |
| - loans and advances to customers | | (857 666) | 142 270 |
| - investments in debt securities at fair value through OCI | | 1 651 106 | 1 724 498 |
| - other financial assets | | 70 800 | (72 874) |
| - other assets | | (423 051) | (64 449) |
| *Net increase/(decrease) in:* | | | |
| - due to other banks | | (9 524 169) | 1 591 637 |
| - customer accounts | | 14 353 664 | 1 949 413 |
| - trading securities | | (3 068 498) | 2 657 010 |
| - other financial liabilities | | 166 184 | (197 967) |
| - other liabilities | | 106 125 | (26 491) |
| **Net cash from operating activities** | | **2 609 014** | **530 248** |
| **Cash flows from investing activities** | | | |
| Acquisition of premises and equipment | 14 | (33 213) | (8 248) |
| Acquisition of intangible assets | 14 | (6 391) | (2 540) |
| **Net cash used in investing activities** | | **(39 604)** | **(10 788)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (2 812 063) | (1 727 571) |
| **Net cash used in financing activities** | | **(2 812 063)** | **(1 727 571)** |
| **Effect of exchange rate changes on cash and cash equivalents** | | **(536 071)** | **468 708** |
| **Net decrease in cash and cash equivalents** | | **(778 724)** | **(739 403)** |
| Cash and cash equivalents at the beginning of the year | 7 | 9 274 039 | 10 013 442 |
| **Cash and cash equivalents at the end of the year** | 7 | **8 495 315** | **9 274 039** |

## 1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019 for HSBC Bank (RR) LLC (the "Bank").

The Bank was registered in the Russian Federation on 23 April 1996 as limited liability company. The Bank is 100% owned by HSBC Europe B.V.(Holland). HSBC Europe B.V. (Holland) is a wholly-owned subsidiary of HSBC Bank plc. The ultimate controlling party of the Bank is HSBC Holdings plc ("HSBC Group"). At 31 December 2019 HSBC Holdings plc and HSBC Bank plc had accordingly A+ and AA- credit ratings based on Fitch ratings scale (2018: AA-). The activities of the Bank are coordinated by the requirements of the HSBC Group. As such, the Bank is economically dependent on the HSBC Group. Information on related party transactions is disclosed in Note 30 of the financial statements

***Principal activity.*** The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a full banking licence № 3290 issued by the Central Bank of the Russian Federation ("CBRF"). The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 1 (2018: 2) branch within the Russian Federation. The Bank had 275 employees at 31 December 2019 (2018: 269 employees).

***Registered address and place of business.*** The Bank's registered address is: bld. 2, 2, Paveletskaya sq., 115054, Moscow, Russian Federation.

***Presentation currency.*** These financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

## 2 Operating Environment of the Bank

**Russian Federation.** The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 5). The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019. The operating environment has a significant impact on the Bank's operations and financial position. Management is taking necessary measures to ensure sustainability of the Bank's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL") the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 23 provides more information of how the Bank incorporated forward-looking information in the ECL models,

Please refer to Note 33 for description of current economic environment at the date of issue of these financial statements.

## 3 Significant Accounting Policies

***Basis of preparation.*** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5

## 3 Significant Accounting Policies (Continued)

***Financial instruments – key measurement terms.*** *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note28.

*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 commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

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

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

***Financial instruments – initial recognition***. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

## 3 Significant Accounting Policies (Continued)

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

The Bank uses discounted cash flow valuation techniques to determine the fair value of currency swaps, Foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. If any differences remain after calibration of model inputs, such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight-line basis over the term of the currency swaps, Foreign exchange forwards, loans to related parties. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

***Financial assets – classification and subsequent measurement – measurement categories.*** The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

***Financial assets – classification and subsequent measurement – business model.*** The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

***Financial assets – classification and subsequent measurement – cash flow characteristics.*** Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

***Financial assets – reclassification.*** Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Bank did not change its business model during the current and comparative period and did not make any reclassifications.

***Financial assets impairment – credit loss allowance for ECL***

The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

**3 Significant Accounting Policies (Continued)**

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 23 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank 's definition of credit impaired assets and definition of default is explained in Note23. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 23 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

***Financial assets – write-off.*** Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

***Financial assets – derecognition.*** The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

***Financial assets – modification.*** The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners. In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets) and recognises a modification gain or loss in profit or loss.

***Financial liabilities – measurement categories.*** Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

## 3 Significant Accounting Policies (Continued)

***Financial liabilities – derecognition.*** Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

***Cash and cash equivalents.*** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and all nostro due from banks. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

***Mandatory cash balances with the CBRF.*** Mandatory cash balances with the CBRF are carried at AC and represent non interest-bearing mandatory reserve deposits, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

***Due from other banks.*** Amounts due from other banks are recorded when the Bank advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

***Investments in debt securities.*** Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at FVOCI or FVTPL.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases. Interest income as well as trading result are recognised within Gains less losses from debt securities at fair value through profit or loss.

## 3 Significant Accounting Policies (Continued)

***Loans and advances to customers.*** Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 23 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

***Loan commitments.*** The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

***Financial guarantees.*** Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

***Performance guarantees.*** Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

***Sale and repurchase agreements and lending of securities.*** Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are reclassified as repurchase receivables in the statement of financial position if the transferee has the right by contract or custom to sell or repledge the securities. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

## 3 Significant Accounting Policies (Continued)

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in due to other banks.

Based on classification of securities sold under the sale and repurchase agreements, the Bank classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, and FVTPL.

***Premises and equipment.*** Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

***Depreciation.*** Depreciation of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

| | **Useful lives in years** |
|---|---|
| Leasehold improvements | 2 to 20 |
| Equipment | 2 to 25 |
| Furniture | 5 to 10 |

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**Intangible assets.** The Bank's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight-line basis over expected useful lives of 1 to 5 years.

**New accounting policy for leases by the Bank as lessee**. The Bank adopted IFRS 16, *Leases*, using modified retrospective method and applied certain simplifications or practical expedients. Refer to Note 4. From 1 January 2019, the date of initial application of the standard, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank, Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

**3 Significant Accounting Policies (Continued)**

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee 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.

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

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

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects the assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of RR 175 428 thousand.

Weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application was 4.4%.

***Accounting policy for Operating leases effective before 01/01/2019***

Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

***Due to other banks.*** Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at AC. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

***Customer accounts.*** Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

***Financial liabilities designated at FVTPL.*** The Bank may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in OCI and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss.

***Trading liabilities.*** Trading liabilities are short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security. Short sales are classified as financial liabilities at fair value through profit or loss.

## 3 Significant Accounting Policies (Continued)

***Derivative financial instruments.*** Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

***Income taxes.*** Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Bank.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

***Uncertain tax positions.*** The Bank 's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

***Provisions for liabilities and charges.*** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued 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.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

***Trade and other payables.*** Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at AC.

***Dividends.*** Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

## 3 Significant Accounting Policies (Continued)

***Interest income and expense recognition.*** Interest income and expense are recorded for all debt instruments, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

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

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

***Fee and commission income.*** Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees, portfolio and other asset management advisory and service fees, wealth management and financial planning services, or fees for servicing loans on behalf of third parties, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

***Sales and purchases of foreign currencies and currency conversion.*** The Bank sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Bank, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Bank rates are recognised as gains less losses from trading in foreign currencies at a point in time when a particular performance obligation is satisfied.

***Foreign currency translation.*** The functional currency of the Bank and the Bank's presentation currency- is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each functional currency at year-end official exchange rates of the CBRF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2019, the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 62.011 EUR 1 = RR 69.601 (2018: USD 1 = RR 69,641 EUR 1 = RR 79,756).

## 3 Significant Accounting Policies (Continued)

***Offsetting.*** Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

***Staff costs and related contributions.*** Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

***Share-based payments.*** The Bank enters into cash-settled share-based payment arrangements with its employees as compensation for the provision of their services. The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates. Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

***Presentation of statement of financial position in order of liquidity.*** The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 23 for analysis of financial instruments by expected maturity.

***Amendments of the financial statements after issue.*** The Bank's Sole participant and management have the power to amend the financial statements after issue.

## 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

***ECL measurement.*** Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 23. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Bank uses methodology of HSBC Group for ECL measurement. HSBC Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

***Significant increase in credit risk ("SICR").*** In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 23.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by RR 121 729 thousand as of 31 December 2019 (1 January 2019: higher by RR 114 517 thousand).

## 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

***Business model assessment.*** The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

***Assessment whether cash flows are solely payments of principal and interest ("SPPI").*** Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. The Bank applied a threshold of 5% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual paramount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Banks' loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Bank or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Bank. The cash flows are SPPI if such clauses merely reduce the Bank's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

## 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

***Fair value of derivatives and certain other instruments.*** Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 28.

***Tax legislation.*** Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 25.

***Initial recognition of related party transactions.*** In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 30.

***Net assets attributable to participants in the Bank, which was created as a limited liability company.*** In April 2016 the management of the Bank reviewed legal requirements and amended charter documents of the Bank and concluded that the Bank had no unconditional obligation to purchase any interests of the Bank's participant. Participant's interests may be repurchased in the cases provided by the Russian law, however, the events which may trigger such situation are controlled by the Bank, therefore the interests of the Bank's participant can be classified as equity component. Before the amendment of the charter documents of the Bank the management considered that the interest of the Bank's participant can be classified as equity component because according to the Russian law and charter documents of the Bank, sole participant of the Bank is not permitted to dispose of its interest in the Bank.

## 5 Adoption of New or Revised Standards and Interpretations

***IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).*** The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Bank recognised a right of use asset of RR 190 984 thousand against a corresponding lease liability on 1 January 2019, with no effect on net assets or retained earnings:

| *In thousands of Russian Roubles* | **1 January 2019** |
|---|---|
| **Assets** | |
| Right-of-Use - Property and Buildings | 190 984 |
| **Total assets** | **190 984** |
| **Liabilities** | |
| Lease liabilities | 190 984 |
| **Total liabilities** | **190 984** |
| **Impact on equity** | **-** |

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of RR 175 428 thousand.

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

| *In thousands of Russian Roubles* | **31 December 2019** | **1 January 2019** |
|---|---|---|
| Properties for own use | 366 411 | **190 984** |
| **Total right-of-use asset** | **366 411** | **190 984** |

In applying IFRS 16 for the first time, the Bank has used the following practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous in assessing whether the right-of-use asset is impaired);
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Bank has elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Bank relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

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

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendment to IAS 12, Income Taxes, included in the Annual Improvements to IFRSs 2015-2017 cycle.
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

There were no new standards or interpretations issued and not yet effective, information about which is not included in the last annual financial statements of the Bank for the year ended 31 December 2018. The Bank continues assessing the effects of new standards and interpretations that are not yet effective and will disclose their known or reasonably estimable effects as soon as they become available.

## 6 New Accounting Pronouncements

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

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

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

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

***Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).***The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Bank is currently assessing the impact of the amendments on its financial statements.

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

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

## 7 Cash and Cash Equivalents

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| Cash on hand | 32 378 | 39 445 |
| Cash balances with the CBRF (other than mandatory reserve deposits) | 3 243 770 | 2 855 668 |
| Correspondent accounts with other banks | 5 223 171 | 6 389 600 |
| Expected Credit Loss (ECL) | (4 004) | (10 674) |
| **Total cash and cash equivalents** | **8 495 315** | **9 274 039** |

The table below discloses the credit quality of cash equivalents balances based on credit risk grades at 31 December 2019. Refer to Note 23 for the description of the Bank's credit risk grading system.

| *In thousands of Russian Roubles* | **Correspondent accounts with the CBRF** | **Correspondent accounts with other banks** | **Total** |
|---|---|---|---|
| *Neither past due nor impaired* | | | |
| - Central Bank of the Russian Federation | 3 243 770 | - | 3 243 770 |
| - HSBC Group Banks | - | 460 487 | 460 487 |
| - CRR 1 | - | 1 352 | 1 352 |
| - CRR 2 | - | 1 488 | 1 488 |
| - CRR 3 | - | 4 759 844 | 4 759 844 |
| **Total cash equivalents** | **3 243 770** | **5 223 171** | **8 466 941** |

The credit quality of cash equivalents balance at 31 December 2018 was as follows:

| *In thousands of Russian Roubles* | **Correspondent accounts with the CBRF** | **Correspondent accounts with other banks** | **Total** |
|---|---|---|---|
| *Neither past due nor impaired* | | | |
| - Central Bank of the Russian Federation | 2 855 668 | - | 2 855 668 |
| - HSBC Group Banks | - | 1 087 241 | 1 087 241 |
| - CRR 2 | - | 2 775 | 2 775 |
| - CRR 3 | - | 5 299 584 | 5 299 584 |
| **Total cash equivalents** | **2 855 668** | **6 389 600** | **9 245 268** |

At 31 December 2019 the Bank had two counterparty banks (2018: two banks) with balance exceeding 10% of cash and cash equivalent. The total aggregate amount of these balances was RR 7 419 832 thousand (2018: RR 7 865 304 thousand) or 87.3% of the cash and cash equivalents (2018: 84,8%).

## 7 Cash and Cash Equivalents (Continued)

Movement during 2019 in Cash balances with the CBRF (other than mandatory reserve deposits):

| | Credit loss allowance | Gross amount |
|---|---|---|
| *In thousands of Russian Roubles* | **Stage 1 (12-months ECL)** | **Stage 1 (12-months ECL** |
| ***Cash balances with the CBRF (other than mandatory reserve deposits)*** | | |
| **At 1 January 2019** | **(387)** | **2 855 668** |
| *Movements with impact on credit loss allowance charge for the period:* | | |
| New origination or purchased and repayments | 146 | 388 102 |
| **Total movements with impact on credit loss allowance charge for the period** | **146** | **388 102** |
| **At 31 December 2019** | **(241)** | **3 243 770** |

Movement during 2019 in Correspondent accounts with other banks:

| | Credit loss allowance | Gross amount |
|---|---|---|
| *In thousands of Russian Roubles* | **Stage 1 (12-months ECL)** | **Stage 1 (12-months ECL** |
| ***Correspondent accounts with other banks*** | | |
| **At 1 January 2019** | (10 287) | 6 389 600 |
| *Movements with impact on credit loss allowance charge for the period:* | | |
| Repaid, net | 5 314 | (1 166 429) |
| **Total movements with impact on credit loss allowance charge for the period** | **5 314** | **(1 166 429)** |
| FX differences | 1 210 | |
| **At 31 December 2019** | **(3 763)** | **5 223 171** |

Interest rate analysis of cash and cash equivalents is disclosed in Note 23. Information on related party balances is disclosed in Note 30.

## 7 Cash and Cash Equivalents (Continued)

### Mandatory cash balances with the Central Bank of Russian Federation

Movement during 2019 in Mandatory cash balances with the Central Bank of Russian Federation:

| *In thousands of Russian Roubles* | Credit loss allowance<br>Stage 1<br>(12-months ECL) | Gross amount<br>Stage 1<br>(12-months ECL |
|---|---|---|
| ***Mandatory cash balances with the CBRF*** | | |
| **At 1 January 2019** | **(94)** | **639 812** |
| *Movements with impact on credit loss allowance charge for the period:* | | |
| New origination or purchased and repayments | 10 | 159 835 |
| Change in risk parameters (credit quality) | (16) | - |
| **Total movements with impact on credit loss allowance charge for the period** | **(6)** | **159 835** |
| **At 31 December 2019** | **(100)** | **799 647** |

## 8 Due from Central Bank of the Russian Federation

| *In thousands of Russian Roubles* | 2019 | 2018 |
|---|---|---|
| Placements with CBRF | 18 386 950 | 19 522 284 |
| Less credit loss allowance | (44) | (30) |
| **Total due from the Central Bank of the Russian Federation** | **18 386 906** | **19 522 254** |

Movement during 2019 in due from the Central Bank of the Russian Federation:

| *In thousands of Russian Roubles* | Credit loss allowance<br>Stage 1<br>(12-months ECL) | Gross amount<br>Stage 1<br>(12-months ECL |
|---|---|---|
| **At 1 January 2019** | **(30)** | **19 522 284** |
| *Movements with impact on credit loss allowance charge for the period:* | | |
| New origination or purchased and repayments | (13) | (1 135 334) |
| Change in risk parameters – credit quality | (1) | - |
| **Total movements with impact on credit loss allowance charge for the period** | (14) | (1 135 334) |
| **At 31 December 2019** | **(44)** | **18 386 950** |

Interest rate analysis of due from the Central Bank of the Russian Federation is disclosed in Note 23.

## 9 Due from Other Banks

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| Reverse sale and repurchase agreements with other banks | 7 478 611 | 21 036 654 |
| Placements with other banks | 23 266 502 | 10 833 811 |
| Less credit loss allowance | (62) | (959) |
| **Total due from other banks** | **30 745 051** | **31 869 506** |

The following table contains an analysis of due from other banks balances by credit quality at 31 December 2019 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurement. Refer to Note 23 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to due from other banks balances. The carrying amount of due from other banks balances at 31 December 2019 below also represents the Bank's maximum exposure to credit risk on these assets:

| *In thousands of Russian Roubles* | **2019 Stage 1 (12-months ECL)** |
|---|---|
| ***Placements with other banks and REPO*** | |
| - HSBC Group Banks | 23 685 035 |
| - CRR 2 | 1 006 279 |
| - CRR 3 | 6 053 799 |
| **Gross carrying amount** | **30 745 113** |
| Credit loss allowance | (62) |
| **Total due from other banks (carrying amount)** | **30 745 051** |

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2018, is as follows:

| *In thousands of Russian Roubles* | **2018** |
|---|---|
| *Neither past due nor impaired* | |
| - HSBC Group Banks | 7 392 888 |
| - CRR 2 | 1 002 282 |
| - CRR 3 | 23 475 295 |
| **Gross carrying amount** | **31 870 465** |
| Credit loss allowance | (959) |
| **Total due from other banks (carrying amount)** | **31 869 506** |

## 9 Due from Other Banks (Continued)

The following table explains the changes in the credit loss allowance and gross carrying amount due from other banks between the beginning and the end of the annual period due to these factors:

| | Credit loss allowance | Gross carrying amount |
|---|---|---|
| *In thousands of Russian Roubles* | Stage 1 (12-months ECL) | Stage 1 (12-months ECL |
| ***Placements with other banks and REPO*** | | |
| **At 1 January 2019** | **(959)** | **31 870 465** |
| *Movements with impact on credit loss allowance charge for the period:* | | |
| Repayments where stage has not changed and fully repaid, net | 217 | (1 125 352) |
| Change in loss parameters where stage has not changed | 680 | - |
| **Total movements with impact on credit loss allowance charge for the period** | **897** | **(1 125 352)** |
| **At 31 December 2019** | **(62)** | **30 745 113** |

Provision for impairment of due from other banks in 2018 year were not recognized.

At 31 December 2019 the Bank had balances with two counterparty banks (2018: two banks) whose balance exceeded 10% of due from other banks. The total aggregate amount of these balances was RR 28 236 621 thousand (2018: RR 28 429 543 thousand) or 91,8%% of the total amount due from other banks (2018: 89,2%).

At 31 December 2019 the Bank has a right to sell or repledge securities with a fair value of RR 7 478 611 thousand received under reverse repo agreements (2018: RR 21 036 654 thousand).

Refer to Note 28 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 23. Information on related party balances is disclosed in Note 30.

## 10 Investments in Debt Securities

| *In thousands of Russian Roubles* | 2019 | 2018 |
|---|---|---|
| Debt securities mandatorily measured at FVTPL | 3 554 519 | 1 866 268 |
| Debt securities at FVOCI | 2 739 175 | 4 354 858 |
| **Total investments in debt securities** | **6 293 694** | **6 221 126** |

The table below discloses investments in debt securities at 31 December 2019 by measurement categories and classes:

| *In thousands of Russian Roubles* | Debt securities mandatorily measured at FVTPL | Debt securities at FVOCI | Total |
|---|---|---|---|
| Russian government bonds | 3 554 519 | 2 739 175 | 6 293 694 |
| **Total investments in debt securities at 31 December 2019 (carrying value)** | **3 554 519** | **2 739 175** | **6 293 694** |

## 10 Investments in Debt Securities (Continued)

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

| *In thousands of Russian Roubles* | **Debt securities mandatorily measured at FVTPL** | **Debt securities at FVOCI** | **Total** |
|---|---|---|---|
| Russian government bonds | 1 866 268 | 4 354 858 | 6 221 126 |
| **Total investments in debt securities at 31 December 2019 (carrying value)** | **1 866 268** | **4 354 858** | **6 221 126** |

### (a) Investments in debt securities at FVTPL

Debt securities mandatorily classified as at FVTPL by the Bank represent securities held for trading and securities in a 'held to sell' business model.

Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Bank's maximum exposure to credit risk.

The debt securities at FVTPL are not collateralised.

### (b) Investments in debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2019, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 23 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI:

| *In thousands of Russian Roubles* | **ECL Stage 1 (12-months ECL)** |
|---|---|
| ***Russian government bonds*** | |
| CRR 3 | (241) |
| **Total investments in debt securities measured at FVOCI (fair value)** | **(241)** |

The debt securities at FVOCI are not collateralised.

Movements in the credit loss allowance and in the gross cost amount of Russian government bonds at FVOCI were as follows.

| | **Credit loss allowance** | **Gross carrying amount** |
|---|---|---|
| *In thousands of Russian Roubles* | **Stage 1 (12-months ECL)** | **Stage 1 (12-months ECL)** |
| ***Russian government bonds*** | | |
| **At 1 January 2019** | **(553)** | **4 354 858** |
| *Movements with impact on credit loss allowance charge for the period:* | | |
| Derecognised during the period | 258 | (2 035 154) |
| Other movements | 54 | 419 471 |
| **Total movements with impact on credit loss allowance charge for the period** | **312** | **(1 615 683)** |
| **At 31 December 2019** | **(241)** | **2 739 175** |

## 10 Investments in Debt Securities (Continued)

### (c) Trading liabilities (short position)

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| Russian government bonds | (1 134 746) | (4 231 414) |
| **Total trading liabilities** | **(1 134 746)** | **(4 231 414)** |

## 11 Loans and Advances to Customers

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| Gross carrying amount of loans and advances to customers at AC | 12 172 918 | 11 439 689 |
| Loans to individuals | - | 11 980 |
| Less credit loss allowance | (26 108) | (37 859) |
| **Total loans and advances to customers** | **12 146 810** | **11 413 810** |

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period:

| | **Credit loss allowance** | | | **Gross carrying amount** | | | |
|---|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL for SICR)** | **Total** | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL for SICR)** | **Stage 3 (lifetime ECL for credit im-paired)** | **Total** |
| **At 1 January 2019** | **(26 821)** | **(11 038)** | **(37 859)** | **9 923 318** | **725 190** | **803 161** | **11 451 669** |
| *Movements with impact on credit loss allowance charge for the period:* | | | | | | | |
| Transfers from Stage 1 to Stage 2 | 8 523 | (8 523) | - | (466 558) | 466 558 | - | - |
| Transfers from Stage 2 and Stage 3 to Stage 1 | (3 887) | 3 887 | - | 421 707 | (421 707) | - | - |
| Net remeasurement of ECL arising from transfer of stage | - | (1 195) | (1 195) | - | - | - | - |
| Net new and further lending/repayments | (5 496) | 4 778 | (718) | 866 351 | (43 899) | (101 203) | 721 249 |
| Change in risk parameters - credit quality | 5 635 | 6 319 | 11 954 | - | - | - | - |
| **Total movements with impact on credit loss allowance charge for the period** | **4 797** | **5 266** | **10 041** | **821 500** | **952** | **(101 203)** | **721 249** |
| FX impact | 1 710 | - | 1 710 | - | - | - | - |
| **At 31 December 2019** | **(20 336)** | **(5 772)** | **(26 108)** | **10 744 818** | **726 142** | **701 958** | **12 172 918** |

## 11 Loans and Advances to Customers (Continued)

As of 31 December 2019, one customer with CRR 9 was classified as Stage 3. Individual assessment of corresponding loans and advances revealed that carrying value is equal to discounted cash flows projections, so the Bank recognized zero ECL.

The credit quality of loans to corporate customers and individuals carried at amortised cost is as follows at 31 December 2019:

| *In thousands of Russian Roubles* | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL for SICR)** | **Stage 3 (lifetime ECL)** | **Total** |
|---|---|---|---|---|
| - CRR 1 | 824 989 | - | - | 824 989 |
| - CRR 2 | 2 890 644 | - | - | 2 890 644 |
| - CRR 3 | 3 294 863 | - | - | 3 294 863 |
| - CRR 4 | 3 177 058 | 395 688 | - | 3 572 745 |
| - CRR 5 | 557 264 | 330 454 | - | 887 718 |
| - CRR 9 | - | - | 701 958 | 701 958 |
| **Gross carrying amount** | **10 744 818** | **726 142** | **701 958** | **12 172 918** |
| Credit loss allowance | (20 314) | (5 794) | - | (26 108) |
| **Carrying amount** | **10 724 504** | **720 348** | **701 958** | **12 146 810** |

For description of the credit risk grading used in the tables above refer to Note 23.

Analysis of loans by credit quality at 31 December 2018 is disclosed as follows:

| *In thousands of Russian Roubles* | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL for SICR)** | **Stage 3 (lifetime ECL)** | **Total** |
|---|---|---|---|---|
| - CRR 1 | 346 433 | - | - | 346 433 |
| - CRR 2 | 676 993 | - | - | 676 993 |
| - CRR 3 | 7 474 579 | 1 174 | - | 7 475 753 |
| - CRR 4 | 724 455 | 712 036 | - | 1 436 491 |
| - CRR 5 | 700 858 | - | - | 700 858 |
| - CRR 6 | - | 11 980 | - | 11 980 |
| - CRR 9 | - | - | 803 161 | 803 161 |
| **Gross carrying amount** | **9 923 318** | **725 190** | **803 161** | **11 451 669** |
| Credit loss allowance | (26 821) | (11 038) | - | (37 859) |
| **Carrying amount** | **9 896 497** | **714 152** | **803 161** | **11 413 810** |

Economic sector risk concentrations within the customer loan portfolio are as follows:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Amount** | **%** | **Amount** | **%** |
| Manufacturing | 3 633 178 | 29.9 | 2 589 896 | 22.6 |
| Trade | 2 983 324 | 24.5 | 3 478 440 | 30.4 |
| Food and agricultural | 2 955 972 | 24.3 | 3 851 730 | 33.6 |
| Finance | 2 012 799 | 16.5 | 21 336 | 0.2 |
| Construction | 330 454 | 2.7 | 442 988 | 3.9 |
| Consulting | 257 191 | 2.1 | 1 055 299 | 9.2 |
| Loans to individuals | - | - | 11 980 | 0.1 |
| **Total loans and advances to customers** | **12 172 918** | **100** | **11 451 669** | **100.0** |

## 11 Loans and Advances to Customers (Continued)

At 31 December 2019 the Bank had 2 borrowers (2018: two borrowers) with aggregated loan amounts above 10%. The total aggregate amount of these loans was RR 3 267 195 thousand (2018: RR 3 904 314 thousand) or 26.8% of the gross loan portfolio (2018: 34.1%).

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral held for loans to corporate customers carried at amortised cost is as follows at 31 December 2019:

| *In thousands of Russian Roubles* | **Corporate loans** | **Total** |
|---|---|---|
| Unsecured loans | 2 540 084 | 2 540 084 |
| Loans guaranteed by HSBC Bank plc | 5 516 756 | 5 516 756 |
| Loans guaranteed by Russian and foreign companies | 4 089 970 | 4 089 970 |
| **Total** | **12 146 810** | **12 146 810** |

Information about collateral for loans to corporate customers is as follows at 31 December 2018:

| *In thousands of Russian Roubles* | **Corporate loans** | **Loans to individuals** | **Total** |
|---|---|---|---|
| Unsecured loans | 2 564 392 | - | 2 564 392 |
| Loans guaranteed by HSBC Bank plc | 5 314 583 | - | 5 314 583 |
| Loans guaranteed by Russian and foreign companies | 3 523 167 | - | 3 523 167 |
| Loans collateralised by: | | | |
| - residential real estate | - | 11 668 | 11 668 |
| **Total** | **11 402 142** | **11 668** | **11 413 810** |

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”). The effect of collateral on credit impaired assets at 31 December 2019 is as follows.

| | **Over-collateralised assets** | | **Under-collateralised assets** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Carrying value of the assets** | **Value of collateral** | **Carrying value of the assets** | **Value of collateral** |
| Corporate loans | 7 863 326 | 18 499 798 | 4 283 484 | 1 469 010 |

The effect of collateral at 31 December 2018 is presented for all loans, whether impaired or not, as follows:

| | **Over-collateralised assets** | | **Under-collateralised assets** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Carrying value of the assets** | **Value of collateral** | **Carrying value of the assets** | **Value of collateral** |
| Corporate loans | 7 241 592 | 35 217 789 | 4 160 550 | 797 559 |
| Loans to individuals | 11 668 | 267 993 | - | - |

Refer to Note 28 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 23. Information on related party balances is disclosed in Note 30.

## 12 Other Financial Assets

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| Accrued income | 122 782 | 26 366 |
| Receivable from HSBC Group entities | 79 574 | 106 151 |
| Other receivables | 55 | 558 |
| Less credit loss allowance | (4 183) | (836) |
| **Total other financial assets at AC** | **198 228** | **132 239** |

During the year ended 31 December 2019 the Bank recognised income of RR 146 886 thousand (2018: RR 204 210 thousand) for services provided to HSBC Bank plc under various service agreements. Receivable from HSBC Bank plc under these agreements are disclosed above.

Movement during 2019 in Other financial Assets:

| | **Credit loss allowance** |
|---|---|
| *In thousands of Russian Roubles* | **Stage 1 (12-months ECL)** |
| **At 1 January 2019** | **(836)** |
| *Movements with impact on credit loss allowance charge for the period:* | |
| New originated, net | (3 461) |
| **Total movements with impact on credit loss allowance charge for the period** | (3 461) |
| FX impact | 114 |
| **At 31 December 2019** | **(4 183)** |

Information on related party balances is disclosed in Note 30.

## 13 Right of Use Assets and Lease Liabilities

The Bank leases various offices. Rental contracts are typically made for fixed periods of 1 year to 5 years, but may have extension options.

Until 31 December 2018 leases of premises and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Bank.

The right of use assets by class of underlying items is analysed as follows:

| *In thousands of Russian Roubles* | **Buildings** | **Total** |
|---|---|---|
| **Carrying amount at 1 January 2019** | **190 834** | **190 834** |
| Additions | 290 613 | 290 613 |
| Depreciation charge | (108 723) | (108 723) |
| Other | (6 313) | (6 313) |
| **Carrying amount at 31 December 2019** | **366 411** | **366 411** |

## 13 Right of Use Assets and Lease Liabilities (Continued)

Interest expense on lease liabilities was RR 14 111 thousand.

Some office leases contain variable payment terms that are linked to The Building Owners and Managers Association standard (BOMA). Variable payment terms are used for a variety of reasons, including minimising the fixed costs base. Variable lease payments that depend on BOMA standard calculations are recognised in profit or loss in the period in which the condition that triggers those payments occurs. A 10% increase in parameters affecting BOMA standard calculation across all properties in the group with such variable lease contracts would increase total lease payments by approximately RR 36 641 thousand. Total cash outflow for leases in 2019 was RR 194 089 thousand.

Expenses relating to short-term leases included in general and administrative expenses and to leases of low-value assets that are not shown as short-term leases are included in general and administrative expenses:

| *In thousands of Russian Roubles* | **2019** |
|---|---|
| Expense relating to short-term leases | 10 565 |

## 14 Premises, Equipment and Intangible Assets

| *In thousands of Russian Roubles* | **Note** | **Premises and equipment** | **Computer Software licences** | **Total** |
|---|---|---|---|---|
| Cost at 1 January 2018 | | 237 570 | 137 545 | 375 115 |
| Accumulated depreciation | | (195 657) | (126 404) | (322 061) |
| **Carrying amount at 1 January 2018** | | **41 913** | **11 141** | **53 054** |
| Additions | | 8 248 | 2 540 | 10 788 |
| Depreciation charge | 21 | (16 231) | (2 950) | (19 181) |
| **Carrying amount at 31 December 2018** | | **33 930** | **10 731** | **44 661** |
| Cost at 31 December 2018 | | 245 818 | 140 085 | 385 903 |
| Accumulated depreciation | | (211 888) | (129 354) | (341 242) |
| **Carrying amount at 31 December 2018** | | **33 930** | **10 731** | **44 661** |
| Additions | | 33 213 | 6 391 | **39 604** |
| Depreciation charge | 21 | (15 560) | (3 887) | **(19 447)** |
| **Carrying amount at 31 December 2019** | | **51 583** | **13 235** | **64 818** |
| Cost at 31 December 2019 | | 279 031 | 146 476 | **425 507** |
| Accumulated depreciation | | (227 448) | (133 241) | **(360 689)** |
| **Carrying amount at 31 December 2019** | | **51 583** | **13 235** | **64 818** |

## 15 Due to Other Banks

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| Correspondent accounts of other banks | 1 174 885 | 1 107 594 |
| Repo of other banks | - | 9 151 253 |
| Placements of other banks | - | 526 369 |
| **Total due to other banks** | **1 174 885** | **10 785 216** |

At 31 December 2019 the Bank had 1 counterparty bank (2018: one banks) whose balance exceeded 10% of due to other banks. The total aggregate amount of these balances was RR 1 174 471 thousand (2018: RR 9 888 273 thousand) or 99.96% of the total amount due to other banks (2018: 91.7%).

Interest rate analysis of due to other banks is disclosed in Note 23. Information on related party balances is disclosed in Note 30.

## 16 Customer Account

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| **Corporate customers** | | |
| - Current/settlement accounts | 25 373 450 | 19 589 188 |
| - Term deposits | 36 427 392 | 30 381 986 |
| **Individuals** | | |
| - Current/demand accounts | - | 35 |
| **Total customer accounts** | **61 800 842** | **49 971 209** |

Economic sector concentrations within customer accounts are as follows:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Amount** | **%** | **Amount** | **%** |
| Trade | 26 844 859 | 43.4 | 21 166 671 | 42.4 |
| Manufacturing | 23 238 767 | 37.6 | 17 404 107 | 34.8 |
| IT development | 2 754 912 | 4.5 | 2 329 965 | 4.7 |
| Consulting and education | 2 580 781 | 4.2 | 3 107 655 | 6.2 |
| Other | 2 079 251 | 3.4 | 1 445 520 | 2.9 |
| Construction | 1 957 556 | 3.2 | 1 408 122 | 2.8 |
| Advertising and marketing | 1 590 289 | 2.6 | 1 713 972 | 3.4 |
| Oil and gas | 437 778 | 0.7 | 718 005 | 1.4 |
| Transportation and telecommunication | 316 649 | 0.4 | 677 192 | 1.4 |
| **Total customer accounts** | **61 800 842** | **100.0** | **49 971 209** | **100.0** |

At 31 December 2019, the Bank had 1 customer (2018: three customers) with balance exceeding 5% of total customer accounts. The aggregate balance of these customers was RR 3 940 000 thousand (2018: RR 11 530 338 thousand) or 6.4% (2018: 23,1%) of total customer accounts.

At 31 December 2019, included in customer accounts are deposits of RR nil (2018: RR nil thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 25. Interest rate analysis of customer accounts is disclosed in Note 23.

## 17 Other Financial Liabilities

Other financial liabilities comprise the following:

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| Payables to employees | 252 348 | 415 329 |
| Accrued expenses | 65 063 | 40 482 |
| Software accruals | 22 588 | 80 163 |
| Other financial liabilities | 23 583 | - |
| **Total other financial liabilities** | **363 582** | **535 974** |

## 18 Other Liabilities

Other liabilities comprise the following:

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| Deferred income | 118 895 | 12 770 |
| Provisions for credit related commitments | 40 793 | 45 156 |
| Taxes other than income tax | 24 599 | 19 967 |
| **Total other liabilities** | **184 287** | **77 893** |

## 19 Interest Income and Expense

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| **Interest income calculated using the effective interest method** | | |
| Due from other banks | 1 431 489 | 2 083 593 |
| Loans and advances to customers | 1 014 170 | 819 532 |
| Due from the CBRF | 966 675 | 516 413 |
| Debt investment securities available for sale | 279 779 | 430 153 |
| **Total interest income** | **3 692 113** | **3 849 691** |
| **Interest expense** | | |
| Customer accounts | 1 619 300 | 1 212 527 |
| Due to other banks | 164 667 | 679 800 |
| Lease liabilities | 14 111 | - |
| **Total interest and other similar expense** | **1 798 078** | **1 892 327** |
| **Net interest income** | **1 894 035** | **1 957 364** |

In 2019 interest income on trading securities of RR 320 001 thousand (2018: RR 155 687 thousand) and interest expense on trading liabilities of RR 254 768 thousand (2018: RR 143 477 thousand) were recognised as part of the gains less losses from trading securities in the statement of profit or loss and other comprehensive income.

## 20 Fee and Commission Income and Expense

| *In thousands of Russian Roubles* | 2019 | 2018 |
|---|---|---|
| **Fee and commission income** | | |
| Account servicing and cash collection | 342 018 | 438 439 |
| Guarantee and letter of credit issuance | 218 999 | 345 906 |
| Deferred payment bills under Documentary credits | 109 818 | 44 327 |
| Brokerage services | 4 736 | 812 |
| Trust, custodian and other fiduciary services | 2 246 | 2 091 |
| Other | 114 165 | 66 428 |
| **Total fee and commission income** | **791 982** | **898 003** |
| **Fee and commission expense** | | |
| Brokerage services | 116 878 | 136 797 |
| Account services | 77 567 | 76 050 |
| Guarantees received | 6 423 | 69 490 |
| Cash collection | 712 | 418 |
| Other | 2 063 | 530 |
| **Total fee and commission expense** | **203 643** | **283 285** |
| **Net fee and commission income** | **588 339** | **614 718** |

## 21 Administrative and Other Operating Expenses

| *In thousands of Russian Roubles* | Note | 2019 | 2018 |
|---|---|---|---|
| Employee compensation | | 1 066 147 | 1 220 006 |
| IT systems development | | 239 748 | 127 721 |
| Social security | | 199 361 | 182 273 |
| Professional services | | 187 587 | 200 495 |
| Depreciation of short leaseholds | | 108 723 | - |
| Information and telecommunication services | | 93 003 | 91 992 |
| Cash collection | | 52 394 | 51 509 |
| Repair and maintenance | | 45 766 | 42 980 |
| Office suppliers | | 25 669 | 24 850 |
| Travel | | 22 687 | 25 135 |
| Depreciation of premises and equipment | 14 | 15 560 | 16 231 |
| Charity and donations | | 9 194 | 13 513 |
| Expenses of Short leaseholds | | 8 917 | - |
| Security | | 8 051 | 8 111 |
| Marketing | | 7 978 | 5 697 |
| Amortisation of software and other intangible assets | 14 | 3 887 | 2 950 |
| Rent | | 991 | 149 811 |
| Provision for tax penalties | | - | 16 753 |
| Other | | 21 657 | 25 237 |
| **Total administrative and other operating expenses** | | **2 117 320** | **2 205 264** |

Included in staff costs are statutory pension contributions of RR 143 171 thousand (2018: RR 130 031 thousand).

## 22 Income Taxes

### *(a) Components of income tax expense*

Income tax expense comprises the following:

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| Current tax | 415 409 | 397 797 |
| Deferred tax | 4 305 | (1 310) |
| **Income tax expense for the year** | **419 714** | **396 487** |

### *(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate*

The income tax rate applicable to the majority of the Bank's 2019 income is 20% (2018: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

| *In thousands of Russian Roubles* | **2019** | **2018** |
|---|---|---|
| **Profit before tax** | **2 033 203** | **1 847 609** |
| Theoretical tax charge at statutory rate (2019: 20%; 2018: 20%) | 406 641 | 369 522 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Non-deductible expenses | 31 606 | 51 070 |
| - Income on government securities taxed at different rates | (18 533) | (24 105) |
| **Income tax expense for the year** | **419 714** | **396 487** |

Non-deductible expenses mainly consist of HSBC Group recharges, staff costs, VAT on non-deductible expenses, correction due to price deviation for securities.

### *(c) Uncertain income tax positions*

As of 31 December 2019, the Bank doesn't have uncertain income tax positions.

### *(d) Deferred taxes analysed by type of temporary difference*

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

| *In thousands of Russian Roubles* | **1 January 2019 (after application of IFRS9)** | **Credited/ (charged) to profit or loss** | **Credited to other compre-hensive income** | **31 December 2019** |
|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | | |
| Derivative financial instruments | (39 598) | (493) | - | (40 091) |
| Fair valuation of trading securities | (24 883) | 9 868 | - | (15 015) |
| Fair valuation of investment securities available for sale | 9 192 | - | (11 268) | (2 076) |
| Loans and advances to customers | (151 749) | 29 388 | - | (122 361) |
| Premises, equipment and intangible assets | 4 335 | 5 156 | - | 9 491 |
| Other assets | 4 661 | (6 674) | - | (2 013) |
| Other liabilities | 96 945 | (41 550) | - | 55 395 |
| **Net deferred tax liability** | **(101 097)** | **(4 305)** | **(11 268)** | **(116 670)** |

## 22 Income Taxes (Continued)

The tax effect of the movements in temporary differences for 2018:

| *In thousands of Russian Roubles* | 1 January 2018 before application of IFRS9 | Tax effect on application of IFRS 9 charged to OCI | 1 January 2018 (after application of IFRS9) | Credited/ (charged) to profit or loss | Credited to other comprehensive income | 31 December 2018 |
|---|---|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | | | | |
| Derivative financial instruments | (48 703) | - | (48 703) | 9 105 | - | (39 598) |
| Fair valuation of trading securities | (1 444) | - | (1 444) | (23 439) | - | (24 883) |
| Fair valuation of investment securities available for sale | (13 899) | (249) | (14 148) | - | 23 340 | 9 192 |
| Loans and advances to customers | (68 901) | 4 999 | (63 902) | (87 847) | - | (151 749) |
| Premises, equipment and intangible assets | (454) | - | (454) | 4 789 | - | 4 335 |
| Other assets | (21 899) | 12 069 | (9 830) | 14 491 | - | 4 661 |
| Other liabilities | 12 734 | - | 12 734 | 84 211 | - | 96 945 |
| **Net deferred tax asset/(liability)** | **(142 566)** | **16 819** | **(125 747)** | **1 310** | **23 340** | **(101 097)** |

### *(e) Current and deferred tax effects relating to each component of other comprehensive income*

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | Before-tax amount | Income tax (expense) / benefit | Net-of-tax amount | Before-tax amount | Income tax (expense) / benefit | Net-of-tax amount |
| **Debt securities at FVOCI:** | | | | | | |
| - Losses less gains arising during the year | 56 146 | (11 268) | **44 878** | (116 702) | 23 340 | **(93 362)** |
| **Other comprehensive income** | **56 146** | **(11 268)** | **44 878** | **(116 702)** | **23 340** | **(93 362)** |

## 23 Financial Risk Management

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

The Management Board of the HSBC Group formulates high level HSBC Group risk management policy under the authority delegated by the Board of Directors. A separately convened Risk Management Meeting of the HSBC Group Management Board monitors risk and receives reports which allow it to review the effectiveness of HSBC's risk management policies, which are delegated to the HSBC entities.

The Board of Directors has overall responsibility for the oversight of the risk management framework delegated from the HSBC Group, overseeing the management of key risks and reviewing its risk management policies and procedures in accordance with the HSBC Group's requirements.

## 23 Financial Risk Management (Continued)

The Management Committee of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Risk Department was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the CBR. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Head of the Risk Department reports to the CEO, the Board of Directors and to the Regional (European) Chief Risk Officer.

Market, credit and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of a Credit Committee, a Risk Management Meeting and an Asset and Liability Management Committee (the "ALCO").

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure.

***Credit risk***

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk.

The credit policy is reviewed and approved by the Head of the Credit and Risk Management and the CEO.

The credit policy establishes:

- procedures for review and approval of loan applications;
- methodology for the credit assessment of corporate borrowers;
- methodology for the credit assessment of counterparties and issuers;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

The Bank's credit risk rating systems are an integral part of a sound management of risk. The Bank assigns to customers risk ratings developed in accordance with HSBC Group standards which are continuously enhanced. The HSBC Group's 10-points (for small and medium size companies) or 23-points (for large corporate customers) Customer Risk Rating system is currently used by the Bank. Each debtor rating category is assigned a specific degree of creditworthiness:

- CRRs 1.0 (0.1) – 4.0 (4.3) reflect financial condition, risk factors and capacity to repay that are excellent/strong /very good;
- CRR 5.0 (5.1 – 5.3) represents satisfactory risk;
- CRR 6.0 (6.1 – 6.2) includes corporate facilities that require closer monitoring without being impaired;
- CRRs 7.0 (7.1) – 8.0 (8.3) include facilities that require varying degrees of special attention, remedial management and possibly impairment reserves creation;
- CRRs 9.0 (9.0) – 10.0 (10.0) relate to impaired (thus reserves are obligatory) and written-off loans.

Corporate loan applications are originated and prepared by the relevant client managers jointly with Credit Analysis Unit based on a structured analysis focusing on the customer's business and financial performance. The loan application is then independently reviewed by the Risk Department's Wholesale Credit Risk Division and an opinion is given accompanied by a check that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of submissions by the client manager, Credit Analysis Unit and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

## 23 Financial Risk Management (Continued)

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks. Concentrations of credit risk exist when a number of counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

In accordance with the requirements of the CBR, the Bank calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates (mitigates) the Bank's credit risk in respect of a borrower or a group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 1 January 2019 and 1 January 2018, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank as at 1 January 2019 and 1 January 2018 was in compliance with limits set by the CBR.

The Bank's maximum exposure to balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Bank holds collateral against loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

### *Expected credit loss (ECL) measurement*

The Bank uses HSBC Group methodologies and Impairment Engine for ECL measurement. HSBC Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit.

*ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. The Bank's management estimates that 12-month and lifetime CCFs are materially the same. PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

**23 Financial Risk Management (Continued)**

Expected credit losses are modelled over instrument's *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- Deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful;
- Known cash flow difficulties experienced by the borrower;
- Contractual payments of either principal or interest being past due for more than 90 days;
- The probability that the borrower will enter bankruptcy or other forms of creditor protection;
- A significant concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees.

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

Except for renegotiated loans, financial instruments are considered to no longer be in default (i.e. to have cured) when they no longer exhibit any evidence of credit-impairment. Renegotiated loans that are not POCI will continue to be default until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum 1 year period and there are no other indicators of impairment. This period of 1 year has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis by monitoring the triggers stated below. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the HSBC Group. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank decided not to use the low credit risk assessment exemption for investment grade financial assets. Hence, even assets of an investment grade are assessed whether there has been a SICR.

The Bank considers a financial instrument to have experienced an SICR when one or more of the following quantitative or qualitative criteria have been met:

- SICR based on internal ratings relative thresholds;
- 30 days past due;
- inclusion of loan into a watch or worry list according to the internal credit risk monitoring process.

## 23 Financial Risk Management (Continued)

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

The Bank measures ECL measurement: (i) assessment on an individual basis for Stage 3 and POCI financial instruments; (ii) assessment on a portfolio basis for Stage 1 and 2 : internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. Individual assessment is primarily based on the expert judgement of experienced Relationship Managers and Credit Risk Department officers. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

***The key principles of calculating the credit risk parameters***

The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans.

PDs (12-month and lifetime) and LGD are determined based on models developed by HSBC Group.

***ECL measurement for financial guarantees and loan commitments.*** The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment.

***Trading portfolios.*** The Bank's control of market risk is based on a policy of restricting individual operations to trading within a list of permissible instruments authorised by the HSBC Group's Traded Credit and Market Risk function, enforcing rigorous new product approval procedures, and allowing trading in complex derivative products only if appropriate level of product expertise and robust control systems exists.

In addition, at both portfolio and position levels, market risk in trading portfolios is monitored and controlled using a complementary set of techniques. These include VAR and, for interest rate risk, present value of a basis point ("PVBP") movement in interest rates analysis, together with stress testing and concentration limits. These techniques quantify the impact on capital of defined market movements.

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. This statistical method allows to compare market risk for different portfolios.

## 23 Financial Risk Management (Continued)

PVBP is one of the most widely used methods for quantifying outright interest rate risk. PVBP is used to calculate the sensitivity of trading positions to movements in the underlying interest rate curve across time buckets and expresses the impact on the present value of a position of a one basis point (1 bp) change in the interest rate used to calculate the present value. Management's interest rate sensitivity analysis is provided further in this note.

***Non-trading portfolios.*** Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. It is unusual for financial institutions to take actual or forecasted assets of a given maturity period which are completely matched with the actual or forecasted liabilities in that maturity period. An unmatched position potentially enhances profitability but can also increase the risk of losses. Market risk in non-trading portfolios is transferred to trading portfolio via internal transactions supervised by the ALCO.

***Currency risk***

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The Bank manages its market risk by setting open position limits in relation to financial instruments, and currency positions limits which are monitored on a regular basis and reviewed by the Finance Department and approved by the Market Risk Department of the HSBC Group.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

| | **At 31 December 2019** | | | | **At 31 December 2018** | | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Monetary financial assets** | **Monetary financial liabilities** | **Deri-vatives** | **Net position** | **Monetary financial assets** | **Monetary financial liabilities** | **Deri-vatives** | **Net position** |
| Russian Roubles | 49 292 116 | (44 857 300) | 8 241 949 | 12 676 765 | 62 145 956 | (45 969 465) | 6 956 170 | 23 132 661 |
| US Dollars | 19 841 077 | (12 371 111) | (7 415 222) | 54 744 | 9 884 845 | (6 560 588) | (3 337 192) | (12 935) |
| Euros | 5 060 209 | (5 285 701) | 214 116 | (11 376) | 6 064 658 | (2 824 980) | (3 221 271) | 18 407 |
| Other | 2 872 149 | (1 959 943) | (875 354) | 36 852 | 1 103 156 | (10 168 780) | (271 705) | (9 337 329) |
| **Total** | **77 065 551** | **(64 474 055)** | **165 489** | **12 756 985** | **79 198 615** | **(65 523 813)** | **126 002** | **13 800 804** |

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 27. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

| | **At 31 December 2019** | | **At 31 December 2018** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Impact on profit or loss** | **Impact on equity** | **Impact on profit or loss** | **Impact on equity** |
| US Dollar strengthening by 20% | 10 949 | 10 949 | (2 587) | (2 587) |
| US Dollar weakening by 20% | (10 949) | (10 949) | 2 587 | 2 587 |
| Euros strengthening by 20% | (2 275) | (3 413) | 3 681 | 3 681 |
| Euros weakening by 20% | 2 275 | 3 413 | (3 681) | (3 681) |

## 23 Financial Risk Management (Continued)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

***Interest rate risk.*** Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **More than 1 year** | **Non-interest bearing** | **Total** |
|---|---|---|---|---|---|---|
| **31 December 2019** | | | | | | |
| Total financial assets | 60 270 142 | 3 461 776 | 6 138 088 | 7 274 688 | 2 088 500 | 79 233 194 |
| Total financial liabilities | 61 660 345 | 661 515 | 885 755 | 1 181 008 | 2 087 586 | 66 476 209 |
| **Net interest sensitivity gap at 31 December 2019** | **(1 390 203)** | **2 800 261** | **5 252 333** | **6 093 680** | **914** | **12 756 985** |
| **31 December 2018** | | | | | | |
| Total financial assets | 62 625 094 | 7 744 770 | 6 599 374 | 3 191 051 | 2 274 719 | 82 435 008 |
| Total financial liabilities | 53 678 465 | 3 035 407 | 6 374 573 | 2 989 344 | 2 556 415 | 68 634 204 |
| **Net interest sensitivity gap at 31 December 2018** | **8 946 629** | **4 709 363** | **224 801** | **201 707** | **(281 696)** | **13 800 804** |

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 31 December 2018 is as follows:

| *In thousands of Russian Roubles* | **At 31 December 2019** | **At 31 December 2018** |
|---|---|---|
| 100 bp parallel fall | 144 212 | (36 552) |
| 100 bp parallel rise | (144 212) | 36 552 |

An analysis of sensitivity of profit or loss and equity (net of taxes) as a result of changes in the fair value of securities held for trading and available-for-sale assets due to changes in the interest rates based on positions existing as at 31 December 2019 and 31 December 2018 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

| | **At 31 December 2019** | | **At 31 December 2018** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Impact on profit or loss** | **Impact on equity** | **Impact on profit or loss** | **Impact on equity** |
| 100 bp parallel fall | 113 789 | 26 892 | (44 558) | 11 749 |
| 100 bp parallel rise | (113 789) | (26 892) | 44 558 | (11 749) |

## 23 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

| | 31 December 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| *In % p.a.* | **RR** | **USD** | **Other** | **RR** | **USD** | **Other** |
| **Assets** | | | | | | |
| Investments in debt securities at FVTPL | 6.3 | - | - | 9.1 | - | - |
| Repurchase receivables | - | - | - | 8.7 | - | - |
| Due from the CBRF | 5.7 | | | 7.5 | - | - |
| Due from other banks | 6.3 | 1.4 | 1.4 | 7.6 | 2.4 | 3.1 |
| Loans and advances to customers | 7.4 | 2.6 | 3.7 | 9.5 | 5.7 | 3.9 |
| Investments in debt securities at FVOCI | 4.5 | - | - | 7.5 | | |
| **Liabilities** | | | | | | |
| Trading liability (short position) | 6.1 | - | - | 8.1 | - | - |
| Due to other banks | 7.1 | - | - | 5.9 | - | - |
| Customer accounts | | | | | | |
| - current and settlement accounts | 0.2 | - | - | 0.2 | - | - |
| - term deposits | 4.1 | 1.1 | 1.8 | 6.0 | 1.9 | 2.2 |

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

***Liquidity risk.*** Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Committee of the Bank. It is the Bank's objective to maintain a diversified and stable funding base comprising core corporate customer deposits and long-term and short-term loans from banks and other financial institutions, including banks within the HSBC Group, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. Decisions on the Bank's liquidity management are made by the ALCO and implemented by the Treasury Department.

The Bank maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments with the objective of ensuring that cash flows are appropriately balanced and all obligations are met when due. The management of liquidity and funding is carried out in accordance with both practices and limits set by the HSBC Group Management Board and Russian legislation including control over compliance with prudential ratios set by the CBR.

The Bank's liquidity and funding management process includes:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate backup facilities;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;

**23 Financial Risk Management (Continued)**

- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimizing adverse long-term implications for the business.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

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

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand;
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to the equity and liabilities maturing after one year.

The Bank was in compliance with these ratios as at 1 January 2020 and 1 January 2019.

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

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

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

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **Over 1 year** | **Total** |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Trading liabilities | 20 072 | - | 54 400 | 1 776 001 | **1 850 473** |
| Due to other banks | 1 174 885 | - | - | - | **1 174 885** |
| Customer accounts | 60 516 726 | 543 076 | 795 589 | - | **61 855 391** |
| Other financial liabilities | 32 067 | 331 515 | - | - | **363 582** |
| **Total non-derivative financial liabilities** | **61 743 750** | **874 591** | **849 989** | **1 776 001** | **65 244 331** |
| **Derivative financial instruments** | | | | | |
| - inflows | 73 441 081 | 25 026 210 | 53 224 654 | 7 106 585 | **158 798 530** |
| - outflows | (73 380 680) | (24 889 107) | (53 221 998) | (7 127 463) | **(158 619 248)** |
| **Credit related commitments and performance guarantees** | **74 336 144** | **-** | **-** | **-** | **74 336 144** |

## 23 Financial Risk Management (Continued)

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

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **Over 1 year** | **Total** |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Trading liabilities | 742 | 49 926 | 1 556 352 | 4 831 067 | 6 438 087 |
| Due to other banks | 10 802 719 | - | - | - | 10 802 719 |
| Customer accounts | 42 920 001 | 3 045 726 | 4 207 629 | - | 50 173 356 |
| Other financial liabilities | 99 307 | 436 667 | - | - | 535 974 |
| **Total non-derivative financial liabilities** | **53 822 769** | **3 532 319** | **5 763 981** | **4 831 067** | **67 950 136** |
| **Derivative financial instruments** | | | | | |
| - inflows | 40 391 816 | 30 400 364 | 32 829 054 | 11 860 573 | 115 481 807 |
| - outflows | (40 545 311) | (30 239 095) | (32 605 600) | (11 941 208) | (115 331 214) |
| **Credit related commitments and performance guarantees** | **72 146 040** | **-** | **-** | **-** | **72 146 040** |

The gross nominal inflow (outflow) disclosed in the tables above represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap as follows:

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **Over 1 year** | **Total** |
|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | |
| Financial assets | 67 235 121 | 2 955 196 | 5 570 172 | 3 472 705 | **79 233 194** |
| Financial liabilities | 63 255 455 | 1 470 259 | 1 624 615 | 125 880 | **66 476 209** |
| **Net liquidity gap based on expected maturities** | **3 979 666** | **1 484 937** | **3 945 557** | **3 346 825** | **12 756 934** |
| **Cumulative liquidity gap based on expected maturities** | **3 979 666** | **5 464 603** | **9 410 160** | **12 756 985** | |
| **At 31 December 2018** | | | | | |
| Financial assets | 68 003 003 | 5 458 985 | 6 101 495 | 2 871 525 | **82 435 008** |
| Financial liabilities | 58 282 246 | 4 230 809 | 5 961 218 | 159 931 | **68 634 204** |
| **Net liquidity gap based on expected maturities** | **9 720 757** | **1 228 176** | **140 277** | **2 711 594** | **13 800 804** |
| **Cumulative liquidity gap based on expected maturities** | **9 720 757** | **10 948 933** | **11 089 210** | **13 800 804** | **-** |

## 23 Financial Risk Management (Continued)

The entire portfolios of securities mandatorily measured at FVTPL and securities measured at FVOCI are classified within demand and less than one month based on management's assessment of the portfolio's realisability.

***Operational risk.*** Operational risk is the risk of direct or indirect loss arising from a wide variety of reasons associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

## 24 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the CBRF, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%.

Under the current capital requirements set by the CBRF, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. The Bank determines regulatory capital based on requirements set by the CBRF regulation 395-P. The Bank provides the territorial CBRF that supervises the Bank with information on mandatory ratios in accordance with set form. The Financial Department of the Bank controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the CBRF and the Bank's internal policy this information is communicated to the Management Board and the Board of Directors.

The calculation of capital adequacy based on requirements set by the CBRF as at 31 December 2019 and 31 December 2018 is as follows:

| *In thousands of Russian Roubles* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Tier 1 capital | 10 206 284 | 11 482 594 |
| Tier 2 capital | 1 321 335 | 1 478 117 |
| **Total regulatory capital** | **11 527 619** | **12 960 711** |
| **Risk-weighted assets** | **50 902 832** | **56 432 802** |
| **Common equity adequacy ratio** | **22.6%** | **22.9%** |
| **Tier 1 capital adequacy ratio** | **20.1%** | **20.3%** |
| **Total capital adequacy ratio** | **20.1%** | **20.3%** |

## 25 Contingencies and Commitments

***Legal proceedings.*** From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

***Tax contingencies.*** Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

As Russian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. In general, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank (refer Note 22 (c)).

***Credit related commitments.*** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

## 25 Contingencies and Commitments (Continued)

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

| *In thousands of Russian Roubles* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change | 54 202 266 | 49 833 526 |
| Financial guarantees issued | 5 716 235 | 5 100 781 |
| Letters of credit | 8 777 843 | 11 787 448 |
| Less: Provision | (34 313) | (39 153) |
| **Total credit related commitments, net of provision and cash covered exposures** | **68 662 031** | **66 682 602** |

***Performance guarantees.*** Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Bank faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The exposure and concentration of performance guarantees expressed at the amounts guaranteed is as follows:

| *In thousands of Russian Roubles* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Performance guarantees | 5 680 593 | 5 469 441 |
| Less: Provision | (6 480) | (6 003) |
| **Total guaranteed amounts** | **5 674 113** | **5 463 438** |

Refer to Note 23 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to credit related commitments.

***Movement.*** The following table explains the changes in the credit loss allowance for commitments and guarantees between the beginning and the end of the annual period due to these factors:

| | **Credit loss allowance** | | |
|---|---|---|---|
| *In thousands of Russian Roubles* | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL for SICR)** | **Total** |
| **At 1 January 2019** | **(43 131)** | **(2 025)** | **(45 156)** |
| *Movements with impact on credit loss allowance* | | | |
| Transfers: | | | |
| - to lifetime (from Stage 1 to Stage 2) | 18 | (18) | - |
| - to 12-months ECL (from Stage 2 and Stage 3 to Stage 1) | (1 257) | 1 257 | - |
| Net new and further lending/repayments | (14 269) | (1 268) | (15 538) |
| Change in risk parameters - credit quality | 16 817 | 200 | 17 017 |
| **Total movements** | 1 309 | 170 | 1 479 |
| FX impact | 2 884 | - | 2 884 |
| **At 31 December 2019** | (38 938) | (1 855) | (40 793) |

## 26 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2019:

| *In thousands of Russian Roubles* | **Gross amounts before offsetting in the statement of financial position (a)** | **Amounts subject to master netting and similar arrangements not set off in the statement of financial position Financial instruments (b)** | **Net amount of exposure (a) - (b)** |
|---|---|---|---|
| **Assets** | | | |
| Derivative financial instruments | 2 167 643 | 214 295 | 1 953 348 |
| Reverse Repo | 7 478 611 | - | 7 478 611 |
| **Total assets subject to offsetting, master netting and similar arrangement** | **9 646 254** | **214 295** | **9 431 959** |
| **Liabilities** | **2 002 154** | **214 295** | **1 787 859** |
| **Total liabilities subject to offsetting, master netting and similar arrangement** | **2 002 154** | **214 295** | **1 787 859** |

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2018:

| *In thousands of Russian Roubles* | **Gross amounts before offsetting in the statement of financial position (a)** | **Amounts subject to master netting and similar arrangements not set off in the statement of financial position Financial instruments (b)** | **Net amount of exposure (a) - (b)** |
|---|---|---|---|
| **Assets** | | | |
| Derivative financial instruments | 3 236 393 | 214 295 | 3 022 098 |
| Reverse Repo | 21 036 654 | 9 257 573 | 11 779 081 |
| **Total assets subject to offsetting, master netting and similar arrangement** | **24 273 047** | **9 471 868** | **14 801 179** |
| **Liabilities** | | | |
| Derivative financial instruments | 3 110 391 | 214 295 | 2 896 096 |
| Repo | 9 151 253 | 9 016 682 | 134 571 |
| **Total liabilities subject to offsetting, master netting and similar arrangement** | **12 261 644** | **9 230 977** | **3 030 667** |

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

## 26 Offsetting Financial Assets and Financial Liabilities (Continued)

The Bank has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the statement of financial position.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are set off in the statement of financial position.

## 27 Derivative Financial Instruments

| *In thousands of Russian Roubles* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| **Derivative financial instruments – assets** | | |
| Forward exchange contracts | 1 871 627 | 1 828 461 |
| Cross-currency interest rate swaps | 88 315 | 937 941 |
| Interest rate swaps | 187 628 | 318 586 |
| Options | 20 073 | 151 405 |
| **Total derivative financial instruments – assets** | **2 167 643** | **3 236 393** |
| **Derivative financial instruments – liabilities** | | |
| Foreign currency contracts | (1 703 931) | (1 701 807) |
| Cross-currency interest rate swaps | (75 515) | (977 066) |
| Interest rate swaps | (202 635) | (318 633) |
| Options | (20 073) | (112 885) |
| **Total derivative financial instruments – liabilities** | **(2 002 154)** | **(3 110 391)** |

## 27 Derivative Financial Instruments (Continued)

### Forward exchange contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2019 and 31 December 2018 with details of remaining periods to maturity. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

| | Fair value | | Notional amount | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **31 December 2019** | **31 December 2018** | **31 December 2019** | **31 December 2018** |
| **Buy RUB sell USD** | | | | |
| Spot contracts | (2 465) | (3 917) | 52 565 357 | 27 230 557 |
| Less than three months | (126 787) | 135 077 | 10 446 919 | 16 016 049 |
| Three months to one year | (159 107) | 167 016 | 18 284 868 | 8 272 913 |
| More than one year | 18 319 | (2 305) | 2 049 929 | 527 266 |
| **Buy USD sell RUB** | | | | |
| Spot contracts | (8 662) | (1 844) | 135 077 | 56 165 |
| Less than three months | (80 893) | 54 819 | 2 793 369 | 3 609 201 |
| Three months to one year | (74 056) | 84 297 | 6515 861 | 5 471 545 |
| More than one year | (16 355) | 3 967 | 538 214 | 568 915 |
| **Buy RUB sell EUR** | | | | |
| Spot contracts | 47 587 | (62 141) | 5 438 827 | 1 657 001 |
| Less than three months | 305 486 | (10 439) | 9 659 324 | 3 581 694 |
| Three months to one year | 266 693 | (71 043) | 12 315 757 | 4 884 649 |
| More than one year | (2 764) | 1 959 | 1331 162 | 1 087 608 |
| **Buy EUR sell RUB** | | | | |
| Spot contracts | 7 870 | (4 367) | 2 694 358 | 248 197 |
| Less than three months | (85 393) | (85 522) | 1 687 514 | 4 561 414 |
| Three months to one year | (75 932) | 21 746 | 1 499 003 | 1 455 282 |
| More than one year | 8 776 | 79 | 226 339 | 6 236 |
| **Buy USD sell EUR** | | | | |
| Spot contracts | 10 113 | 1 222 | 135 443 | 719 025 |
| Three months to one year | - | (8 000) | - | 482 073 |
| More than one year | 2 046 | - | 22 074 | - |
| **Buy EUR sell USD** | | | | |
| Spot contracts | (4 121) | (27 300) | 276 387 | 3 898 326 |
| Less than three months | 20 446 | (34 140) | 418 928 | 1 548 687 |
| Three months to one year | 14 480 | (15 454) | 525 542 | 2 683 197 |
| More than one year | (2 336) | 4 983 | 71 570 | 138 204 |
| **Other currencies** | | | | |
| Spot contracts | (10 385) | 6 736 | 1 251 847 | 1 296 046 |
| Less than three months | 31 620 | 57 451 | 7 000 578 | 6 152 697 |
| Three months to one year | 83 543 | (92 946) | 9 820 120 | 1 993 428 |
| More than one year | (27) | 6 720 | 30 416 | 552 756 |
| **Total** | **167 696** | **126 654** | **147 734 783** | **98 699 131** |

## 27 Derivative Financial Instruments (Continued)

### Cross-currency interest rate swaps

The table below summarises the contractual amounts of the Bank's cross-currency interest rate swap contracts outstanding as at 31 December 2019 and 31 December 2018 with details of the fair values and notional amounts. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealised gains and losses on these unmatured contracts have been recognised in the profit or loss and in derivative financial instruments, as appropriate.

| | Fair value | | Notional amount | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **31 December 2019** | **31 December 2018** | **31 December 2019** | **31 December 2018** |
| Pay floating in USD, receive fixed in RUB | 48 275 | (212 211) | 1 258 000 | 1 310 299 |
| Pay fixed in RUB, receive floating in USD | (75 515) | 171 986 | 1 240 218 | 1 505 572 |
| Pay fixed in RUB, receive fixed in EUR | - | 765 955 | - | 1 830 760 |
| Pay fixed in EUR, receive fixed in RUB | - | (764 855) | - | 1 071 748 |
| Pay floating in USD, receive floating in RUB | 40 040 | - | 1 095 140 | - |
| **Total** | **12 800** | **(39 125)** | **3 593 358** | **5 718 379** |

Initial contractual maturity of cross-currency interest rate swap contracts outstanding as at 31 December 2019 varies from two to seven years (31 December 2018: from two to seven years); remaining maturity of cross-currency interest rate swap contracts outstanding as at 31 December 2019 varies from less than one year to two years (31 December 2018: from less than one year to two years).

### Interest rate swaps

The table below summarises the contractual amounts of the Bank's interest rate swap contracts outstanding as at 31 December 2019 and 31 December 2018 with details of the fair values and notional amounts. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealised gains and losses on these unmatured contracts have been recognised in the profit and loss and in derivative financial instruments, as appropriate.

| | Fair value | | Notional amount | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **31 December 2019** | **31 December 2018** | **31 December 2019** | **31 December 2018** |
| Pay floating in RR, receive fixed in RR | 186 851 | 78 723 | 3 025 000 | 5 325 000 |
| Pay fixed in RR, receive floating in RR | (202 635) | (48 761) | 3 200 000 | 3 700 000 |
| Pay fixed in USD, receive floating in USD | 777 | 8 558 | 329 898 | 442 914 |
| **Total** | **(15 007)** | **38 520** | **6 554 898** | **9 467 914** |

Initial contractual maturity of interest rate swap contracts outstanding as at 31 December 2019 varies from one year to five years (31 December 2018: from one year to five years); remaining maturity of interest rate swap contracts outstanding as at 31 December 2019 varies from less than one year to four years (31 December 2018: from less than one year to three years).

### Options

During 2019 and 2018, the Bank entered into currency exchange and interest rate options with third parties which were fully matched by back-to-back options with HSBC Bank plc.

## 27 Derivative Financial Instruments (Continued)

The following table provides information on the credit quality of derivative financial instruments, which are assets:

| *In thousands of Russian Roubles* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| **Banks** | | |
| Large OECD banks | 723 427 | 2 818 917 |
| Top 30 Russian banks | 1 377 | 1 377 |
| Other Russian banks | 28 658 | 117 |
| **Total Banks** | **753 462** | **2 820 411** |
| **Corporate customers** | | |
| Large Russian corporate customers | 1 414 181 | 415 982 |
| **Total Corporate customers** | **1 414 181** | **415 982** |
| **Total** | **2 167 643** | **3 236 393** |

Foreign exchange and other derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

## 28 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

### *(a) Recurring fair value measurements*

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

## 28 Fair Value Disclosures (Continued)

The level in the fair value hierarchy into which the recurring fair value measurements are categorised at 31 December 2019:

| *In thousands of Russian Roubles* | **Level 1** | **Level 2** | **Total** |
|---|---|---|---|
| **Assets at fair value** | | | |
| **Financial assets** | | | |
| Investments in debt securities at FVTPL | 3 554 519 | - | **3 554 519** |
| Repurchase receivable | - | - | - |
| Derivative financial instruments | - | 2 167 643 | **2 167 643** |
| Investments in debt securities at FVOCI | 2 739 175 | - | **2 739 175** |
| **Total assets recurring fair value measurements** | **6 293 694** | **2 167 643** | **8 461 337** |
| **Liabilities carried at fair value** | | | |
| **Financial liabilities** | | | |
| Debt securities in issue (short position) | 1 134 746 | - | **1 134 746** |
| Derivative financial instruments | - | 2 002 154 | **2 002 154** |
| **Total liabilities recurring fair value measurements** | **1 134 746** | **2 002 154** | **3 136 900** |

The level in the fair value hierarchy into which the recurring fair value measurements are categorised at 31 December 2018**:**

| *In thousands of Russian Roubles* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Assets at fair value** | | | | |
| **Financial assets** | | | | |
| Investments in debt securities at FVTPL | 1 866 268 | - | - | 1 866 268 |
| Repurchase receivable | 125 923 | - | - | 125 923 |
| Derivative financial instruments | - | 3 218 341 | 18 052 | 3 236 393 |
| Investments in debt securities at FVOCI | 4 354 858 | - | - | 4 354 858 |
| **Total assets recurring fair value measurements** | **6 347 049** | **3 218 341** | **18 052** | **9 583 442** |
| **Liabilities carried at fair value** | | | | |
| **Financial liabilities** | | | | |
| Trading liabilities | 4 231 414 | - | - | 4 231 414 |
| Derivative financial instruments | - | 3 092 339 | 18 052 | 3 110 391 |
| **Total liabilities recurring fair value measurements** | **4 231 414** | **3 092 339** | **18 052** | **7 341 805** |

The discounted cash flows valuation technique adjusted for counterparty's credit risk and entity's own credit risk was used in the fair value measurement for level 2 measurements at 31 December 2019 and 31 December 2018. The inputs used for valuation by discounted cash flows technique are forex exchange rates and interest rate curves for each instrument (such as foreign exchange forwards, interest rate swaps and cross-currency interest rate swaps).

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2019.

Level 3 derivatives arise in back-to-back options book. Valuation, and models verification and testing is performed by London Derivatives Valuation Team and London Valuation Committee. The only unobservable input is foreign exchange rates volatility in certain currency pairs, so no analysis of interrelations between unobservable inputs in performed. No uncertainty analysis is performed locally due to back-to-back nature of the book and zero potential effect on local financial result.

## 28 Fair Value Disclosures (Continued)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2019 is as follows:

| *In thousands of Russian Roubles* | **Financial derivative assets** | **Financial derivative liabilities** |
|---|---|---|
| **Fair value at 1 January 2019** | **18 052** | **(18 052)** |
| Gains or losses recognised in profit or loss for the year | (18 052) | 18 052 |
| **Fair value at 31 December 2019** | **-** | **-** |
| **Unrealised revaluation gains less losses recognised in profit or loss for the year for assets held at 31 December 2019** | **-** | **-** |

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2018 is as follows:

| *In thousands of Russian Roubles* | **Financial derivative assets** | **Financial derivative liabilities** |
|---|---|---|
| **Fair value at 1 January 2018** | **66 058** | **(66 058)** |
| Gains or losses recognised in profit or loss for the year | (66 058) | 66 058 |
| Transfers into level 3 | 18 052 | (18 052) |
| **Fair value at 31 December 2018** | **18 052** | **(18 052)** |
| **Unrealised revaluation gains less losses recognised in profit or loss for the year for assets held at 31 December 2018** | **18 052** | **(18 052)** |

### *(b) Assets and liabilities not measured at fair value but for which fair value is disclosed*

At the periods ended 31 December 2019 and 31 December 2018 management concluded that the fair values of its financial assets and financial liabilities not measured at fair value are not materially different from their carrying values due to their short-term nature or contractual right of re-pricing.

## 29 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 “Financial Instruments” classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

## 29 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2019:

| *In thousands of Russian Roubles* | AC | Debt instru-ments at FVOCI | FVTPL (mandatory) | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 8 495 315 | - | - | **8 495 315** |
| Mandatory cash balances with the Central Bank of the Russian Federation | 799 547 | - | - | **799 547** |
| Investments in debt securities | - | 2 739 175 | 3 554 519 | **6 293 694** |
| Repurchase Receivables | - | - | - | **-** |
| Due from the CBRF | 18 386 906 | - | - | **18 386 906** |
| Due from other banks | 30 745 051 | - | - | **30 745 051** |
| Derivative financial instruments | - | - | 2 167 643 | **2 167 643** |
| Loans and advances to customers | 12 146 810 | - | - | **12 146 810** |
| Other financial assets | 198 228 | - | - | **198 228** |
| **Total financial assets** | **70 771 857** | **2 739 175** | **5 722 162** | **79 233 194** |

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2018:

| *In thousands of Russian Roubles* | AC | Debt instru-ments at FVOCI | FVTPL (mandatory) | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 9 274 039 | - | - | **9 274 039** |
| Mandatory cash balances with the Central Bank of the Russian Federation | 639 718 | - | - | **639 718** |
| Investments in debt securities | - | 4 354 858 | 1 866 268 | **6 221 126** |
| Repurchase Receivables | - | - | 125 923 | **125 923** |
| Due from the CBRF | 19 522 254 | - | - | **19 522 254** |
| Due from other banks | 31 869 506 | - | - | **31 869 506** |
| Derivative financial instruments | - | - | 3 236 393 | **3 236 393** |
| Loans and advances to customers | 11 413 810 | - | - | **11 413 810** |
| Other financial assets | 132 239 | - | - | **132 239** |
| **Total financial assets** | **72 851 566** | **4 354 858** | **5 228 584** | **82 435 008** |

As of 31 December 2019 and 31 December 2018, all of the Bank's financial liabilities except for derivatives and debt securities in issue (short position) were carried at AC. Derivatives belong to the fair value through profit or loss measurement category.

## 30 Related Party Transactions

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

The parent company of the Bank is HSBC Europe BV, the Netherlands, which is 100% owned by HSBC Bank plc, the United Kingdom. The ultimate controlling party of the Bank is HSBC Holdings plc, the United Kingdom. Consolidated financial statements of HSBC Holdings plc ("HSBC Group") are publicly available.

## 30 Related Party Transactions (Continued)

At 31 December 2019, the outstanding balances with related parties were as follows:

| *In thousands of Russian Roubles* | Note | Parent | Companies under common control |
|---|---|---|---|
| Cash and cash equivalents | 7 | 344 811 | 111 593 |
| Due from other banks | 9 | 23 665 035 | 10 000 |
| Derivative financial instruments – assets | 27 | 727 452 | - |
| Other financial assets | 12 | 79 572 | 2 |
| Derivative financial instruments – liabilities | 27 | 1 738 936 | - |
| Due to other banks | 15 | 538 630 | 635 841 |
| Other financial liabilities | 17 | 30 058 | - |

The income and expense items with related parties for 2019 were as follows:

| *In thousands of Russian Roubles* | Note | Parent | Companies under common control |
|---|---|---|---|
| Interest income | 19 | 429 435 | 5 264 |
| Interest expense | 19 | (127 581) | (13 597) |
| Losses less gains from foreign exchange and derivative trading | 21 | (15 442 619) | 16 247 |
| Fee and commission income | 20 | 22 991 | 8 249 |
| Fee and commission expense | 20 | (534) | - |
| Commission expense on guarantees treated as direct costs on loans issuance | 21 | (141 312) | - |
| Other operating income | | 146 886 | 1 358 |
| Administrative and other operating expenses | 21 | (152 599) | (101 392) |

At 31 December 2019, other rights and obligations with related parties were as follows:

| *In thousands of Russian Roubles* | Parent | Companies under common control |
|---|---|---|
| Guarantees issued by the Bank at the year end | 558 504 | 1 007 381 |
| Guarantees received by the Bank at the year end | 33 040 804 | 938 361 |
| Overdraft limit on correspondent accounts of other banks | 2 504 | 3 300 |

At 31 December 2018, the outstanding balances with related parties were as follows:

| *In thousands of Russian Roubles* | Note | Parent | Companies under common control |
|---|---|---|---|
| Cash and cash equivalents | 7 | 491 282 | 439 803 |
| Due from other banks | 9 | 7 392 888 | 155 693 |
| Derivative financial instruments – assets | 27 | 2 829 625 | - |
| Other financial assets | 12 | 106 151 | - |
| Derivative financial instruments – liabilities | 27 | 568 330 | - |
| Due to other banks | 15 | 9 888 273 | 630 380 |
| Other financial liabilities | 17 | 860 | 99 308 |

## 30 Related Party Transactions (Continued)

The income and expense items with related parties for 2018 were as follows:

| *In thousands of Russian Roubles* | Note | Parent | Companies under common control |
|---|---|---|---|
| Interest income | 19 | 152 313 | 3 216 |
| Interest expense | 19 | (572 518) | (15 050) |
| Gains less losses from foreign exchange and derivative trading | 21 | 1 854 258 | (53 655) |
| Fee and commission income | 20 | 14 517 | 15 626 |
| Fee and commission expense | 20 | (7) | (33 378) |
| Commission expense on guarantees treated as direct costs on loans issuance | 21 | (150 251) | - |
| Other operating income | | 204 210 | 2 639 |
| Administrative and other operating expenses | 21 | (66 520) | (123 913) |

At 31 December 2018, other rights and obligations with related parties were as follows:

| *In thousands of Russian Roubles* | Parent | Companies under common control |
|---|---|---|
| Guarantees issued by the Bank at the year end | 566 081 | 908 424 |
| Guarantees received by the Bank at the year end | 43 023 124 | 960 194 |
| Overdraft limit on correspondent accounts of other banks | 2 500 000 | 3 128 308 |

Remuneration of the members of the Board of Directors and the Management Committee is presented below:

| *In thousands of Russian Roubles* | 2019 | 2018 |
|---|---|---|
| *Short-term benefits:* | | |
| - Salaries | 210 503 | 162 215 |
| - Bonuses and other benefits | 59 928 | 104 676 |
| - Social security costs | 12 789 | 28 201 |
| **Total remuneration** | **283 220** | **295 092** |

## 31 Share Based Payments

### Deferred share awards – annual incentive award delivered in cash

An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred share awards generally vest over a period of three years. Awards granted to Material Risk Takers are subject to clawback post-vesting. The fair value of a share award is revaluated each month. The share-based payment income statement charge of RR 37 323 (2018: RR 36 614) is recognised in employee compensation.

## 32 Abbreviations

The list of the abbreviations used in these financial statements is provided below:

| | Full name |
|---|---|
| **AC** | Amortised Cost |
| **CCF** | Credit Conversion Factor |
| **EAD** | Exposure at Default |
| **ECL** | Expected Credit Loss |
| **EIR** | Effective interest rate |
| **FVOCI** | Fair Value through Other Comprehensive Income |
| **FVTPL** | Fair Value Through Profit or Loss |
| **FX, Forex** | Foreign Currency Exchange |
| **HTM** | Held To Maturity |
| **IFRS** | International Financial Reporting Standard |
| **LGD** | Loss Given Default |
| **PD** | Probability of Default |
| **POCI financial assets** | Purchased or Originated Credit-Impaired financial assets |
| **SICR** | Significant Increase in Credit Risk |
| **SME** | Small and Medium-sized Enterprises |
| **SPPI** | Solely Payments of Principal and Interest |
| **SPPI test** | Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest |

## 33 Subsequent events

At the end of 2019, news emerged from China about the outbreak of COVID-19 (Coronavirus). As at 31 December 2019, only a limited number of cases of this virus were reported to the World Health Organisation. In the first few months of 2020, the virus spread globally, and its negative impact has gained momentum.

Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation, Management does not consider it is practicable at present to determine a quantitative estimate of the potential impact of this outbreak on the Bank.

At the time of these financial statements, there was a significant vacillation of exchange rates, a drop in financial markets quotations and a decline in oil and gas prices. Following these negative market developments, Management of the Bank assessed the effect of vacillations in market quotations and exchange rates and concluded that the Bank would continue to comply with regulatory requirements, including capital adequacy requirements.

Management cannot rule out that in case of further deterioration of the situation and a negative effect on the economic situation both globally and in the Russian Federation, these events may have an impact on the Bank's operations in the future.