HSBC BANK (RR) LLC

Financial Statements and Independent Auditor's Report

31 December 2020

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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 2020, 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 2020;
- 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- 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 2020:

- compliance of the Bank as at 1 January 2021 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 2021 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 2020, 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 2021 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 2021 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 2021 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 2020 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 2021 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 2020, 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.

30 April 2021

Moscow, Russian Federation

A. A. Eryukhina, certified auditor (licence No. 01-000387), 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

HSBC Bank (RR) LLC
Statement of Financial Position

In thousands of Russian Roubles	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	7	30 317 650	8 495 315
Mandatory cash balances with the Central Bank of Russian Federation		750 085	799 547
Due from the Central Bank of the Russian Federation	8	33 999 946	18 386 906
Due from other banks	9	7 033 919	30 745 051
Investments in debt securities	10	2 867 939	6 293 694
Loans and advances to customers	11	5 426 333	12 146 810
Current income tax prepayment		65 238	-
Other financial assets	12	186 781	198 228
Derivative financial instruments	27	1 350 868	2 167 643
Right-of-use assets	13	303 734	366 411
Other assets		119 846	196 442
Intangible assets	14	45 858	13 235
Premises and equipment	14	156 357	51 583
TOTAL ASSETS		**82 624 554**	**79 860 865**
LIABILITIES			
Due to other banks	15	5 018 492	1 174 885
Customer accounts	16	63 235 755	61 800 842
Trading liabilities (short position)	10	-	1 134 746
Other financial liabilities	17	452 546	363 582
Deferred income tax liability	22	23 777	116 558
Derivative financial instruments	27	1 449 807	2 002 154
Lease liabilities		280 367	362 456
Other liabilities	18	121 878	184 287
Current income tax liability		-	22 318
TOTAL LIABILITIES		**70 582 622**	**67 161 828**
EQUITY			
Charter capital		9 249 232	9 249 232
Additional paid-in capital		3 017 061	3 017 061
Retained earnings		(218 274)	424 635
Revaluation reserve for debt securities at fair value through other comprehensive income		(6 087)	8 109
TOTAL EQUITY		**12 041 932**	**12 699 037**
TOTAL LIABILITIES AND EQUITY		**82 624 554**	**79 860 865**

Approved for issue and signed on 30 April 2021.

Malachy McAllister
Chief Executive Officer

Elena Koneva
Chief Accountant

In thousands of Russian Roubles	Note	2020	2019
Interest income calculated using the effective interest method	19	2 192 662	3 692 113
Interest expense	19	(798 104)	(1 798 078)
Net margin on interest income		**1 394 558**	**1 894 035**
Credit loss allowance	7,8, 9,10,11	20 118	16 690
Net margin on interest income after credit loss allowance		**1 414 676**	**1 910 725**
Fee and commission income	20	767 984	791 982
Fee and commission expense	20	(200 699)	(203 643)
Gains less losses from debt securities at fair value through profit or loss		191 336	265 476
Gains less losses from foreign exchange and derivatives trading		1 317 257	1 236 468
Losses less gain from disposals of debt securities at fair value thought other comprehensive income		-	-
Provision for credit related commitments		37 503	(1 982)
Other operating income		34 061	151 497
Administrative and other operating expenses	21	(2 446 869)	(2 117 320)
Profit before tax		**1 115 249**	**2 033 203**
Income tax expense	22	(258 158)	(419 714)
PROFIT FOR THE YEAR		**857 091**	**1 613 489**
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive income:			
- Losses less gains /(gains less losses) arising during the year, net of tax	22	(14 196)	44 878
Other comprehensive loss for the year		**(14 196)**	**44 878**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**842 895**	**1 658 367**

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 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**
Balance at 1 January 2020		**9 249 232**	**3 017 061**	**8 109**	**424 635**	**12 699 037**
Profit for the year					857 091	857 091
Other comprehensive income	22			(14 196)		(14 196)
Total profit and other comprehensive income for 2020				**(14 196)**	**857 091**	**842 895**
Dividends paid to the Sole Participant					(1 500 000)	(1 500 000)
Total transactions with owner for 2020					**(1 500 000)**	**(1 500 000)**
Balance at 31 December 2020		**9 249 232**	**3 017 061**	**(6 087)**	**(218 274)**	**12 041 932**

In thousands of Russian Roubles	Note	2020	2019
Cash flows from operating activities			
Interest income		2 249 744	3 700 124
Interest paid		(833 736)	(1 933 367)
Fees and commissions received		764 920	792 485
Fees and commissions paid		(200 699)	(203 643)
Income received from trading in trading securities		252 252	220 563
Gains less losses derivative trading received		3 694 913	(877 514)
Other operating income received		70 974	178 074
Administrative and other operating expenses paid		(2 526 559)	(1 902 080)
Income tax paid		(434 971)	(346 747)
Cash flows (used in)/from operating activities before changes in operating assets and liabilities		**3 036 838**	**(372 105)**
Net (increase)/decrease in:			
- mandatory cash balances with the CBRF		49 374	(159 835)
- investments in debt securities at fair value through profit or loss		3 493 481	(1 643 339)
-repurchase receivables		-	125 923
- due from the CBRF		(15 613 050)	1 113 050
- due from other banks		23 699 866	1 070 825
- loans and advances to customers		7 181 947	(857 666)
- investments in debt securities at fair value through OCI		(167 491)	1 651 106
- other financial assets		(53 266)	70 800
- other assets		139 273	(423 051)
Net increase/(decrease) in:			
- due to other banks		3 050 267	(9 524 169)
- customer accounts		(1 956 340)	14 353 664
- trading securities		(1 114 460)	(3 068 498)
- other financial liabilities		(5 452)	166 184
- other liabilities		61 175	106 125
Net cash from operating activities		**21 802 162**	**2 609 014**
Cash flows from investing activities			
Acquisition of premises and equipment	134	(136 790)	(33 213)
Acquisition of intangible assets	134	(39 282)	(6 391)
Net cash used in investing activities		**(176 072)**	**(39 604)**
Cash flows from financing activities			
Dividends paid		(1 500 000)	(2 812 063)
Net cash used in financing activities		(1 500 000)	**(2 812 063)**
Effect of exchange rate changes on cash and cash equivalents		**1 696 245**	**(536 071)**
Net decrease in cash and cash equivalents		**21 822 335**	**(778 724)**
Cash and cash equivalents at the beginning of the year	7	8 495 315	9 274 039
Cash and cash equivalents at the end of the year	7	**30 317 650**	**8 495 315**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2020 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 2020 HSBC Holdings plc and HSBC Bank plc had accordingly A+ and AA- credit rating based on Fitch ratings scale (2019: accordingly A+ and 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 2 (2019: 2) branches within the Russian Federation. The Bank had 256 employees at 31 December 2020 (2019: 275 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 25). 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 2020. 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.

On 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Russian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. These measures have, among other things, severely restricted economic activity in Russia and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Group, as well as the Russian and global economy for an unknown period of time.

The future effects of the current economic situation and the above measures 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. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Financial instruments – key measurement terms. *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 Note 28.

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.

3 Significant Accounting Policies (Continued)

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.

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 entity 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.

3 Significant Accounting Policies (Continued)

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.

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 Note 23. 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.

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.

In February 2020 HSBC Group finalized review of the methodology started in 2019, which resulted in 65% ECL decrease compared to 2019 year-end ECL.

In response to the COVID-19 outbreak since March 2020 HSBC Group has started applying management overlays to reflect changed environment. Starting from June 2020 revised macroeconomic projections and scenario weights have been incorporated into the model, in particular, additional downside severe scenario was introduced, resulting in 80% ECL growth in June compared to February 2020 numbers.

By the 2020 year-end most of ECL created as a response to COVID-19 outbreak was released reflecting economic recovery projections for 2021.

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.

3 Significant Accounting Policies (Continued)

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.

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.

3 Significant Accounting Policies (Continued)

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.

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.

3 Significant Accounting Policies (Continued)

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 or other borrowed funds.

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.

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 other borrowed funds.

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

3 Significant Accounting Policies (Continued)

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.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.

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 decrease in recognised lease liabilities and right-of-use assets of RR 108 963 thousand (2019: 175 428 thousand).

3 Significant Accounting Policies (Continued)

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%. (2019: 4.4%.)

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.

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.

3 Significant Accounting Policies (Continued)

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.

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.

3 Significant Accounting Policies (Continued)

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 exchange rate derived using Reuters ric (source GFIR) snapped at 15.00 GMT of the respective reporting date. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end exchange rates 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.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 2020, the principal rate of exchange used for translating foreign currency balances was USD 1 = 73.863 RR EUR 1 = 90.534 RR (2019: USD 1 = RR 62.011 EUR 1 = RR 69.601).

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 543 095 thousand as of 31 December 2020 (1 January 2020: higher by RR 121 729 thousand).

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.

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

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.

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

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Bank:

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).

Definition of material – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including 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.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

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

- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous bank of underlying insurance contracts, or on addition of onerous underlying contracts to a bank, an entity should adjust the contractual service margin of a related bank of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of banks; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The Bank is currently assessing the impact of the amendments on its financial statements.

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 2019. 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

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Bank is currently assessing the impact of the amendments on its financial statements.

COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.

6 New Accounting Pronouncements (Continued)

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

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- *End date for Phase 1 relief for non-contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Bank has not early adopted.

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	**2020**	**2019**
Cash on hand	25 331	32 378
Cash balances with the CBRF (other than mandatory reserve deposits)	3 460 893	3 243 770
Correspondent accounts with other banks	26 839 792	5 223 171
Expected Credit Loss (ECL)	(8 366)	(4 004)
Total cash and cash equivalents	**30 317 650**	**8 495 315**

The table below discloses the credit quality of cash equivalents balances based on credit risk grades at 31 December 2020. 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	3 460 893	-	3 460 893
- Cash	25 331	-	25 331
- HSBC Group Banks	-	21 064 845	21 064 845
- CRR 2	-	6 164	6 164
- CRR 3	-	5 768 783	5 768 783
Total cash and cash equivalents	**3 486 224**	**26 839 792**	**30 326 016**
Less credit loss allowance	-	(8 366)	(8 366)
Total cash and cash equivalents (carrying amounts)	**3 486 224**	**26 831 426**	**30 317 650**

The credit quality of cash and cash equivalents balance at 31 December 2019 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	3 243 770	-	3 243 770
- Cash	32 378	-	32 378
- 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 and cash equivalents (gross carrying amount)	**3 276 148**	**5 223 171**	**8 499 319**
Less credit loss allowance	**(241)**	**(3 763)**	**(4 004)**
Total cash and cash equivalents (carrying amounts)	**3 275 907**	**5 219 408**	**8 495 315**

At 31 December 2020 the Bank had three counterparty banks (2019: two banks) with balance exceeding 10% of cash and cash equivalent. The total aggregate amount of these balances was RR 29 454 245 thousand (2019: RR 7 419 832 thousand) or 97.2% of the cash and cash equivalents (2019: 87.3%).

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

Balances during 2019 -2020 in Mandatory cash balances with the Central Bank of Russian Federation:

In thousands of Russian Roubles	Credit loss allowance Stage 1 (12-months ECL)	Gross amount Stage 1 (12-months ECL
Mandatory cash balances with the CBRF		
At 31 December 2019	**(100)**	**799 647**
At 31 December 2020	**(187)**	**750 272**

8 Due from Central Bank of the Russian Federation

In thousands of Russian Roubles	**2020**	**2019**
Placements with CBRF	34 000 000	18 386 950
Less credit loss allowance	(54)	(44)
Total due from the Central Bank of the Russian Federation	**33 999 946**	**18 386 906**

Movement during 2019- 2020 in due from the Central Bank of the Russian Federation:

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	**2020**	**2019**
Reverse sale and repurchase agreements with other banks	6 784 143	7 478 611
Placements with other banks	249 776	23 266 502
Less credit loss allowance	-	(62)
Total due from other banks	**7 033 919**	30 745 051

The following table contains an analysis of due from other banks balances by credit quality at 31 December 2020 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 2020 below also represents the Bank's maximum exposure to credit risk on these assets:

9 Due from Other Banks (Continued)

In thousands of Russian Roubles	**2020 Stage 1 (12-months ECL)**
Placements with other banks and REPO	
- HSBC Group Banks	
- CRR 2	7 033 919
Gross carrying amount	**7 033 919**
Credit loss allowance	-
Total due from other banks (carrying amount)	**7 033 919**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2019, is as follows:

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**

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**
At 1 January 2020	**(62)**	**30 745 113**
Movements with impact on credit loss allowance charge for the period:		
Repayments where stage has not changed and fully repaid, net	62	(23 711 194)
Change in loss parameters where stage has not changed		
Total movements with impact on credit loss allowance charge for the period	62	(23 711 194)
At 31 December 2020	**-**	**7 033 919**

At 31 December 2020 the Bank had balances with two counterparty banks (2019: two banks) whose balance exceeded 10% of due from other banks. The total aggregate amount of these balances was RR 7 033 918 thousand (2019: RR 28 236 621 thousand) or 100% of the total amount due from other banks (2019: 91,8%).

At 31 December 2020 the Bank has a right to sell or repledge securities with a fair value of RR 7 343 240 thousand received under reverse repo agreements (2019: RR 7 478 611 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	**2020**	**2019**
Debt securities mandatorily measured at FVTPL	122	3 554 519
Debt securities at FVOCI	2 867 817	2 739 175
Total investments in debt securities	**2 867 939**	**6 293 694**

10 Investments in Debt Securities (Continued)

The table below discloses investments in debt securities at 31 December 2020 by measurement categories and classes:

In thousands of Russian Roubles	**Debt securities mandatorily measured at FVTPL**	**Debt securities at FVOCI**	**Total**
Russian government bonds	122	2 867 817	2 867 939
Total investments in debt securities at 31 December 2020 (carrying value)	**122**	**2 867 817**	**2 867 939**

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**

(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 and 2020, 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) 2020**	**ECL Stage 1 (12-months ECL) 2019**
Russian government bonds		
CRR 3	(746)	(241)
Total investments in debt securities measured at FVOCI (fair value)	**(746)**	**(241)**

The debt securities at FVOCI are not collateralised.

10 Investments in Debt Securities (Continued)

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

In thousands of Russian Roubles	Credit loss allowance Stage 1 (12-months ECL)	Gross carrying amount 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**
At 1 January 2020	**(241)**	**2 739 175**
Movements with impact on credit loss allowance charge for the period:		
Derecognised during the period	-	-
Other movements	(505)	128 642
Total movements with impact on credit loss allowance charge for the period	**(505)**	**128 642**
At 31 December 2020	**(746)**	**2 867 817**

(c) Trading liabilities (short position)

In thousands of Russian Roubles	**2020**	**2019**
Russian government bonds	-	(1 134 746)
Total trading liabilities	**-**	**(1 134 746)**

11 Loans and Advances to Customers

In thousands of Russian Roubles	**2020**	**2019**
Gross carrying amount of loans and advances to customers at AC	5 430 951	12 172 918
Less credit loss allowance	(4 618)	(26 108)
Total loans and advances to customers	**5 426 333**	**12 146 810**

11 Loans and Advances to Customers (Continued)

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**
At 1 January 2020	**(20 336)**	**(5 772)**	**(26 108)**	**10 744 818**	**726 142**	**701 958**	**12 172 918**
Movements with impact on credit loss allowance charge for the period:							
Transfers from Stage 1 to Stage 2	209	(209)	-	(517 230)	517 230	-	-
Transfers from Stage 2 and Stage 3 to Stage 1	(14 500)	14 500	-	1 501 420	(1 501 420)	-	-
Net new and further lending/repayments	6 882	3 046	9 928	(7 149 542)	896 710	(701 958)	(6 954 790)
Change in risk parameters - credit quality	24 646	(12 259)	12 387	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**17 237**	**5 078**	**22 315**	**(6 165 352)**	**(87 480)**	**(701 958)**	**(6 954 790)**
FX impact	(825)	-	(825)	212 823	-	-	212 823
At 31 December 2020	**(3 924)**	**(694)**	**(4 618)**	**4 792 289**	**638 662**	**-**	**5 430 951**

11 Loans and Advances to Customers (Continued)

The credit quality of loans to corporate customers and individuals carried at amortised cost is as follows at 31 December 2020:

In thousands of Russian Roubles	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL)**	**Total**
- CRR 1	363 369	-	-	363 369
- CRR 2	572 607	-	-	572 607
- CRR 3	2 504 900	-	-	2 504 900
- CRR 4	617 688	638 662	-	1 256 350
- CRR 5	733 725	-	-	733 725
Gross carrying amount	**4 792 289**	**638 662**	**-**	**5 430 951**
Credit loss allowance	**(3 924)**	**(694)**	-	**(4 618)**
Carrying amount	**4 788 365**	**637 968**	**-**	**5 426 333**

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 2019 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	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**

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

	2020		**2019**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Manufacturing	1 582 347	29.1	3 633 178	29.9
Finance	1 341 063	24.7	2 012 799	16.5
Trade	1 282 691	23.6	2 983 324	24.5
Food and agricultural	1 148 920	21.2	2 955 972	24.3
Consulting	75 930	1.4	257 191	2.1
Construction	-	-	330 454	2.7
Total loans and advances to customers	**5 430 951**	**100**	**12 172 918**	**100**

11 Loans and Advances to Customers (Continued)

At 31 December 2020 the Bank had three borrowers (2019: two borrowers) with aggregated loan amounts above 10%. The total aggregate amount of these loans was RR 2 572 930 thousand (2019: RR 3 267 195 thousand) or 47.4% of the gross loan portfolio (2019: 26.8%).

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 2020:

In thousands of Russian Roubles	**Corporate loans**	**Total**
Unsecured loans	3 279 342	3 279 342
Loans guaranteed by HSBC Bank plc	1 554 902	1 554 902
Loans guaranteed by Russian and foreign companies	592 089	592 089
Total	**5 426 333**	**5 426 333**

Information about collateral for loans to corporate customers 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**

12 Other Financial Assets

In thousands of Russian Roubles	**2020**	**2019**
Accrued income	85 869	122 782
Receivable from HSBC Group entities	98 734	79 574
Other receivables	3 119	55
Less credit loss allowance	(941)	(4 183)
Total other financial assets at AC	**186 781**	**198 228**

During the year ended 31 December 2020 the Bank recognised income of RR 85 869 thousand (2019: RR 146 886 thousand) for services provided to HSBC Bank plc under various service agreements. Receivable from HSBC Bank plc under these agreements are disclosed above.

12 Other Financial Assets (Continued)

Movement during 2020 in Other financial Assets:

In thousands of Russian Roubles	Credit loss allowance 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)**
At 1 January 2020	**(4 183)**
Movements with impact on credit loss allowance charge for the period: Net new and further lending/repayments, net	3 535
Total movements with impact on credit loss allowance charge for the period	3 535
FX impact	(293)
At 31 December 2020	**(941)**

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.

13 Right of Use Assets and Lease Liabilities (Continued)

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**
Carrying amount at 1 January 2020	**366 411**	**366 411**
Depreciation charge	(100 971)	(100 971)
Other	38 294	38 294
Carrying amount at 31 December 2020	**303 734**	**303 734**

Interest expense on lease liabilities was RR 19 626 thousand (2019: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 bank with such variable lease contracts would increase total lease payments by approximately 25 744 RR thousand (2019: 36 641 RR thousand). Total cash outflow for leases in 2020 was RR 135 918 thousand (2019: 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	**2020**	**2019**
Expense relating to short-term leases	525	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 2019		245 818	140 085	385 903
Accumulated depreciation		(211 888)	(129 354)	(341 242)
Carrying amount at 1 January 2019		**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**
Additions		136 790	39 282	**176 072**
Depreciation charge	21	(32 016)	(6 659)	**(38 675)**
Carrying amount at 31 December 2020		**156 357**	**45 858**	**202 215**
Cost at 31 December 2019		415 821	185 758	**601 579**
Accumulated depreciation		(259 464)	(139 900)	**(399 364)**
Carrying amount at 31 December 2020		**156 357**	**45 858**	**202 215**

15 Due to Other Banks

In thousands of Russian Roubles	2020	2019
Correspondent accounts of other banks	5 003 492	1 174 885
Placements of other banks	15 000	-
Total due to other banks	**5 018 492**	**1 174 885**

At 31 December 2020 the Bank had one counterparty bank (2019: one bank) whose balance exceeded 10% of due to other banks. The total aggregate amount of these balances was RR thousand 3 769 752 (2019: RR 1 174 471 thousand) or 75.12% of the total amount due to other banks (2019: 99.96%).

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	2020	2019
Corporate customers		
- Current/settlement accounts	34 721 781	25 373 450
- Term deposits	28 513 974	36 427 392
Total customer accounts	**63 235 755**	**61 800 842**

Economic sector concentrations within customer accounts are as follows:

	2020		2019	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Trade	28 565 176	45.2	26 844 859	43.4
Manufacturing	20 043 221	31.7	23 238 767	37.6
Consulting and education	4 146 889	6.6	2 580 781	4.2
IT development	3 018 855	4.8	2 754 912	4.5
Other	3 004 973	4.7	2 079 251	3.4
Advertising and marketing	1 788 761	2.8	1 590 289	2.6
Construction	1 491 351	2.4	1 957 556	3.2
Transportation and telecommunication	914 140	1.4	316 649	0.4
Oil and gas	262 389	0.4	437 778	0.7
Total customer accounts	**63 235 755**	**100**	**61 800 842**	**100**

At 31 December 2020, the Bank had two customers (2019: one customer) with balance exceeding 5% of total customer accounts. The aggregate balance of these customers was RR thousand 7 398 298 (2019: RR 3 940 000 thousand) or 11.7% (2019: 6.4%) of total customer accounts.

At 31 December 2020, included in customer accounts are deposits of RR nil thousand (2019: 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	2020	2019
Payables to employees	286 185	252 348
Accrued expenses	127 266	65 063
Software accruals	39 095	22 588
Other financial liabilities	-	23 583
Total other financial liabilities	**452 546**	**363 582**

18 Other Liabilities

Other liabilities comprise the following:

In thousands of Russian Roubles	2020	2019
Deferred income	21 759	118 895
Provisions for credit related commitments	9 744	40 793
Taxes other than income tax	90 375	24 599
Total other liabilities	**121 878**	**184 287**

19 Interest Income and Expense

In thousands of Russian Roubles	**2020**	**2019**
Interest income calculated using the effective interest method		
Due from other banks	618 784	1 431 489
Due from the CBRF	964 192	966 675
Loans and advances to customers	475 999	1 014 170
Debt investment securities	133 687	279 779
Total interest income	**2 192 662**	**3 692 113**
Interest expense		
Customer accounts	715 189	1 619 300
Due to other banks	63 289	164 667
Lease liabilities	19 626	14 111
Total interest and other similar expense	**798 104**	**1 798 078**
Net interest income	**1 394 558**	**1 894 035**

In 2020 interest income on trading securities of RR 149 406 thousand (2019: RR 320 001 thousand) and interest expense on trading liabilities of RR 37 962 thousand (2019: RR 254 768 thousand) were recognised as part of the gains less losses from trading securities in the statement of profit or loss and other comprehensive income.

Fees for HSBC Plc guarantees are recognized in Interest income on loans and advances to customers as they are an integral part of the effective interest rate and guarantee and loan agreements are interrelated.

20 Fee and Commission Income and Expense

In thousands of Russian Roubles	**2020**	**2019**
Fee and commission income		
Account servicing and cash collection	457 553	342 018
Guarantee and letter of credit issuance	173 012	218 999
Deferred payment bills under Documentary credits	73 362	109 818
Brokerage services	2 551	4 736
Trust, custodian and other fiduciary services	2 165	2 246
Other	59 341	114 165
Total fee and commission income	**767 984**	**791 982**
Fee and commission expense		
Brokerage services	105 216	116 878
Account services	87 283	77 567
Guarantees received	2 108	6 423
Cash collection	370	712
Other	5 722	2 063
Total fee and commission expense	**200 699**	**203 643**
Net fee and commission income	**567 285**	**588 339**

21 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2020	2019
Employee compensation		1 192 607	1 066 147
IT systems development		376 052	239 748
Professional services		265 186	187 587
Social security		206 850	199 361
Information and telecommunication services		109 031	93 003
Depreciation of short leaseholds		91 780	108 723
Cash collection		42 635	52 394
Repair and maintenance		37 991	45 766
Office suppliers		36 012	25 669
Depreciation of premises and equipment	14	32 016	15 560
Travel		14 873	22 687
Charity and donations		9 315	9 194
Security		8 088	8 051
Amortisation of software and other intangible assets	14	6 659	3 887
Rent		1 729	991
Expenses of Short leaseholds		525	8 917
Provision for tax penalties		388	-
Marketing		203	7 978
Other		14 929	21 657
Total administrative and other operating expenses		**2 446 869**	**2 117 320**

Included in staff costs are statutory pension contributions of RR 143 714 thousand (2019: RR 143 171 thousand).

22 Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

In thousands of Russian Roubles	2020	2019
Current tax	347 527	415 409
Deferred tax	(89 369)	4 305
Income tax expense for the year	**258 158**	**419 714**

(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 2020 income is 20% (2019: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2020	2019
Profit before tax	**1 115 249**	2 033 203
Theoretical tax charge at statutory rate (2020: 20%; 2019: 20%)	223 050	406 641
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	54 368	31 606
- Income on government securities taxed at different rates	(14 337)	(18 533)
Current tax adjustment 2020	(4 923)	
Income tax expense for the year	**258 158**	**419 714**

22 Income Taxes (Continued)

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

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 2020, 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 2020**	**Credited/ (charged) to profit or loss**	**Credited to other compre-hensive income**	**31 December 2020**
Tax effect of deductible/(taxable) temporary differences				
Derivative financial instruments	(40 091)	60 032	-	19 941
Fair valuation of trading securities	(15 015)	5 270	-	(9 745)
Fair valuation of investment securities FVOCI	(2 076)	-	3 524	1 448
Loans and advances to customers	(122 361)	13 080	-	(109 281)
Premises, equipment and intangible assets	9 491	(16 228)	-	(6 737)
Other assets	(2 013)	28 350	-	26 337
Other liabilities	55 395	(1 135)		54 260
Net deferred tax asset/(liability)	**(116 670)**	**89 369**	**3 524**	**(23 777)**

The tax effect of the movements in temporary differences for 2019:

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	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 asset/(liability)	**(101 097)**	**(4 305)**	**(11 268)**	**(116 670)**

22 Income Taxes (Continued)

(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:

	2020			2019		
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	(17 720)	3 524	(14 196)	56 146	(11 268)	44 878
Other comprehensive income	**(17 720)**	**3 524**	**(14 196)**	**56 146**	**(11 268)**	**44 878**

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.

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.

23 Financial Risk Management (Continued)

Credit risk (Continued)

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.

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 bank of related borrowers (N6), which regulates (mitigates) the Bank's credit risk in respect of a borrower or a bank of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a bank of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 1 January 2021 and 1 January 2020, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank as at 1 January 2021 and 1 January 2020 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.

23 Financial Risk Management (Continued)

Credit risk (Continued)

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.

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.

23 Financial Risk Management (Continued)

Expected credit loss (ECL) measurement (Continued)

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.

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.

23 Financial Risk Management (Continued)

Expected credit loss (ECL) measurement (Continued)

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.

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.

23 Financial Risk Management (Continued)

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 2020				At 31 December 2019			
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	52 397 423	(48 331 251)	7 800 752	11 866 924	49 292 116	(44 857 300)	8 241 949	12 676 765
US Dollars	21 861 759	(12 008 925)	(9 937 515)	(84 681)	19 841 077	(12 371 111)	(7 415 222)	54 744
Euros	5 728 772	(5 755 390)	232 290	205 672	5 060 209	(5 285 701)	214 116	(11 376)
Other	659 937	(2 611 227)	1 805 534	(145 756)	2 872 149	(1 959 943)	(875 354)	36 852
Total	**80 647 891**	**(68 706 793)**	**(98 939)**	**11 842 159**	**77 065 551**	**(64 474 055)**	**165 489**	**12 756 985**

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 respective Bank entities, with all other variables held constant:

	At 31 December 2020		At 31 December 2019	
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%	(16 936)	(16 936)	10 949	10 949
US Dollar weakening by 20%	16 936	16 936	(10 949)	(10 949)
Euros strengthening by 20%	41 134	41 134	(2 275)	(3 413)
Euros weakening by 20%	(41 134)	(41 134)	2 275	3 413

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.

23 Financial Risk Management (Continued)

Interest rate risk (Continued)

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 2020						
Total financial assets	72 600 055	2 192 348	3 883 510	2 987 927	269 681	81 933 521
Total financial liabilities	66 637 644	2 364 134	535 179	84 197	535 446	70 156 600
Net interest sensitivity gap at 31 December 2020	**5 962 411**	**(171 786)**	**3 348 331**	**2 903 730**	**(265 765)**	**11 776 921**
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**

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 2020 and 31 December 2019 is as follows:

In thousands of Russian Roubles	**At 31 December 2020**	**At 31 December 2019**
100 bp parallel fall	80 717	144 212
100 bp parallel rise	(80 717)	(144 212)

An analysis of sensitivity of profit or loss and equity (net of taxes) as a result of changes in the fair value of securities at FVTPL and FVOCI due to changes in the interest rates based on positions existing as at 31 December 2020 and 31 December 2019 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	At 31 December 2020		**At 31 December 2019**	
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	2 435	79 997	113 789	26 892
100 bp parallel rise	(2 435)	(79 997)	(113 789)	(26 892)

23 Financial Risk Management (Continued)

Interest rate risk (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 2020			31 December 2019		
In % p.a.	RR	USD	Other	RR	USD	Other
Assets						
Investments in debt securities at FVTPL	6.5	-	-	6.3	-	-
Due from the CBRF	4.1	-	-	5.7	-	-
Due from other banks	4.4	-	-	6.3	1.4	1.4
Loans and advances to customers	7	3.2	3	7.4	2.6	3.7
Investments in debt securities at FVOCI	4.6	-	-	4.5	-	-
Liabilities						
Trading liability (short position)	-	-	-	6.1	-	-
Due to other banks	3.1	-	-	7.1	-	-
Customer accounts						
- current and settlement accounts	0.03	-	-	0.2	-	-
- term deposits	2.3	-	1.3	4.1	1.1	1.8

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)

Liquidity risk (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 2021 and 1 January 2020.

The table below shows liabilities at 31 December 2020, 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 2020 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	-	-	-	-	**-**
Due to other banks	5 018 506	-	-	-	5 018 506
Customer accounts	61 316 941	1 942 366	-	-	63 259 307
Other financial liabilities	97 527	355 019	-	-	452 546
Total non-derivative financial liabilities	**66 432 974**	**2 297 385**	**-**	**-**	**68 730 359**
Derivative financial instruments					
- inflows	43 293 985	10 521 218	15 706 882	5 505 783	75 027 868
- outflows	(43 175 866)	(10 632 765)	(15 805 152)	(5 488 373)	(75 102 156)
Credit related commitments and performance guarantees	21 126 506	-	-	-	21 126 506

23 Financial Risk Management (Continued)

Liquidity risk (Continued)

The 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**

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 2020					
Financial assets	75 663 195	2 259 365	2 346 631	1 664 330	81 933 521
Financial liabilities	66 769 071	2 760 691	543 765	83 073	70 156 600
Net liquidity gap based on expected maturities	8 894 124	(501 326)	1 802 866	1 581 257	11 776 921
Cumulative liquidity gap based on expected maturities	**8 894 124**	**8 392 798**	**10 195 664**	**11 776 921**	**-**
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**	**-**

23 Financial Risk Management (Continued)

Liquidity risk (Continued)

The entire portfolios of trading securities and investments in debt securities 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 2020 and 31 December 2019 is as follows:

In thousands of Russian Roubles	**31 December 2020**	**31 December 2019**
Tier 1 capital	10 077 310	10 206 284
Tier 2 capital	847 670	1 321 335
Total regulatory capital	**10 924 980**	**11 527 619**
Risk-weighted assets	**33 283 593**	**50 902 832**
Common equity adequacy ratio	**32.8%**	**22.6%**
Tier 1 capital adequacy ratio	**30.3%**	**20.1%**
Total capital adequacy ratio	**30.3%**	**20.1%**

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.

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.

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 2020**	**31 December 2019**
Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change	5 107 942	4 756 918
Financial guarantees issued	4 499 336	5 716 235
Letters of credit	5 334 103	8 777 843
Less: Provision	(7 392)	(27 833)
Total credit related commitments, net of provision and cash covered exposures	**14 933 989**	**19 233 163**

25 Contingencies and Commitments (Continued)

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 2020**	**31 December 2019**
Performance guarantees	6 194 869	5 680 593
Less: Provision	(2 352)	(6 480)
Total guaranteed amounts	**6 192 517**	**5 674 113**

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.

25 Contingencies and Commitments (Continued)

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			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)**	**Total**
At 1 January 2019	**(43 131)**	**(2 025)**	**(45 156)**	**32 486 689**	**587 030**	**33 073 719**
Movements with impact on credit loss allowance						
Transfers:						
- to lifetime (from Stage 1 to Stage 2)	18	(18)	-	(17 671)	17 671	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1 257)	1 257	-	778 483	(778 483)	-
Net new and further lending/repayments	(14 269)	(1 268)	(15 538)	(8 332 038)	189 908	**(8 142 130)**
Change in risk parameters - credit quality	16 817	200	17 017	-	-	-
Total movements	**1 309**	**170**	**1 479**	**(7 571 226)**	**(570 904)**	**(8 142 130)**
FX impact	2 884	-	2 884	-	-	-
At 31 December 2019	**(38 938)**	**(1 855)**	**(40 793)**	**24 915 463**	**16 126**	**24 931 589**
At 1 January 2020	**(38 938)**	**(1 855)**	**(40 793)**	**24 915 463**	**16 126**	**24 931 589**
Movements with impact on credit loss allowance						
Transfers:						
- to lifetime (from Stage 1 to Stage 2)	14 339	(14 339)	-	(8 782 500)	8 782 500	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1 417)	1 417	-	1 103 872	(1 103 872)	-
Net remeasurement of ECL arising from transfer of stage	-	(758)	(758)			
Net new and further lending/repayments	942	4 333	5 275	(915 948)	(2 879 391)	**(3 795 339)**
Change in risk parameters - credit quality	21 902	7 550	29 452			
Total movements	**35 766**	**(1 797)**	**33 969**	**(8 594 576)**	**4 799 237**	**(3 795 339)**
FX impact	(2 920)	-	(2 920)			
At 31 December 2020	**(6 092)**	**(3 652)**	**(9 744)**	**16 320 887**	**4 815 363**	**21 136 250**

26 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2020:

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	1 350 868	690 063	660 805
Reverse Repo	6 784 143	-	6 784 143
Total assets subject to offsetting, master netting and similar arrangement	**8 135 011**	690 063	**7 444 948**
Liabilities	**1 449 807**	**690 063**	**7597 44**
Derivative financial instruments	1 449 807	690 063	759 744
Total liabilities subject to offsetting, master netting and similar arrangement	**1 449 807**	**690 063**	**759 744**

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**
Derivative financial instruments	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**

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 2020**	**31 December 2019**
Derivative financial instruments – assets		
Forward exchange contracts	1 134 678	1 871 627
Cross-currency interest rate swaps	-	88 315
Interest rate swaps	133 290	187 628
Options	82 900	20 073
Total derivative financial instruments – assets	**1 350 868**	**2 167 643**
Derivative financial instruments – liabilities		
Foreign currency contracts	(1 093 493)	(1 703 931)
Cross-currency interest rate swaps	(158 516)	(75 515)
Interest rate swaps	(114 898)	(202 635)
Options	(82 900)	(20 073)
Total derivative financial instruments – liabilities	**(1 449 807)**	**(2 002 154)**

Forward exchange contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2020 and 31 December 2019 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.

27 Derivative Financial Instruments (Continued)

	Fair value		Notional amount	
In thousands of Russian Roubles	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
Buy RUB sell USD				
Spot contracts	167 015	(2 465)	14 302 742	52 565 357
Less than three months	(27 241)	(126 787)	4 622 151	10 446 919
Three months to one year	37 639	(159 107)	3 917 145	18 284 868
More than one year	10 409	18 319	1 218 221	2 049 929
Buy USD sell RUB				
Spot contracts	(61 834)	(8 662)	11 195 471	135 077
Less than three months	12 284	(80 893)	3 746 950	2 793 369
Three months to one year	(137 233)	(74 056)	5 125 516	6 515 861
More than one year	(10 727)	(16 355)	1 181 805	538 214
Buy RUB sell EUR				
Spot contracts	(41 458)	47 587	1 329 062	5 438 827
Less than three months	(101 556)	305 486	3 026 937	9 659 324
Three months to one year	(183 660)	266 693	3 476 819	12 315 757
More than one year	(1 652)	(2 764)	19 529	1331 162
Buy EUR sell RUB				
Spot contracts	24 477	7 870	807 248	2 694 358
Less than three months	8 588	(85 393)	465 410	1 687 514
Three months to one year	159 993	(75 932)	1 924 175	1 499 003
More than one year	13 786	8 776	254 148	226 339
Buy USD sell EUR				
Spot contracts	3 404	10 113	1 180 340	135 443
Three months to one year	-	-	-	-
More than one year	-	2 046	-	22 074
Buy EUR sell USD	-		-	
Spot contracts	(10 413)	(4 121)	4 445 200	276 387
Less than three months	-	20 446	-	418 928
Three months to one year	7 552	14 480	117 931	525 542
More than one year	-	(2 336)	-	71 570
Other currencies				
Spot contracts	16 163	(10 385)	3 460 762	1 251 847
Less than three months	94 777	31 620	4 011 918	7 000 578
Three months to one year	54 248	83 543	1 100 399	9 820 120
More than one year	6 624	(27)	172 960	30 416
Total	**41 185**	**167 696**	**71 102 839**	**147 734 783**

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 2020 and 31 December 2019 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 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
Pay floating in USD, receive fixed in RUB	-	48 275	-	1 258 000
Pay fixed in RUB, receive floating in USD	-	(75 515)	-	1 240 218
Pay fixed in RUB, receive fixed in EUR	-	-	-	-
Pay fixed in EUR, receive fixed in RUB	-	-	-	-
Pay floating in USD, receive floating in RUB	(158 516)	40 040	1 095 140	1 095 140
Total	**(158 516)**	**12 800**	**1 095 140**	**3 593 358**

27 Derivative Financial Instruments (Continued)

Initial contractual maturity of cross-currency interest rate swap contracts outstanding as at 31 December 2020 is two years (31 December 2019: two years); remaining maturity of cross-currency interest rate swap contracts outstanding as at 31 December 2020 is less than 1 year (31 |December 2019: up 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 2020 and 31 December 2019 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 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
Pay floating in RR, receive fixed in RR	133 290	186 851	1 245 000	3 025 000
Pay fixed in RR, receive floating in RR	(114 898)	(202 635)	1 200 000	3 200 000
Pay fixed in USD, receive floating in USD		777	-	329 898
Total	**18 392**	**(15 007)**	**2 445 000**	**6 554 898**

Initial contractual maturity of interest rate swap contracts outstanding as at 31 December 2020 varies from two years to five years (31 December 2019: from one year to five years); remaining maturity of interest rate swap contracts outstanding as at 31 December 2020 varies from less than one year to three years (31 December 2019: from less than one year to four years).

Options

During 2020 and 2019, 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.

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

In thousands of Russian Roubles	**31 December 2020**	**31 December 2019**
Banks		
Large OECD banks	587 434	723 427
Top 30 Russian banks	1 977	1 377
Other Russian banks		28 658
Total Banks	**589 411**	**753 462**
Corporate customers		
Large Russian corporate customers	761 457	1 414 181
Total Corporate customers	**761 457**	**1 414 181**
Total	**1 350 868**	**2 167 643**

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:

The level in the fair value hierarchy into which the recurring fair value measurements are categorised at 31 December 2020:

In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Financial assets				
Investments in debt securities at FVTPL	122	-	-	122
Repurchase receivable	-	-	-	-
Derivative financial instruments	-	1 347 063	3 805	1 350 868
Investments in debt securities at FVOCI	2 867 817	-	-	2 867 817
Total assets recurring fair value measurements	**2 867 939**	**1 347 063**	**3 805**	**4 218 807**
Liabilities carried at fair value				
Financial liabilities				
Derivative financial instruments	-	1 446 002	3 805	1 449 807
Total liabilities recurring fair value measurements	**-**	**1 446 002**	**3 805**	**1 449 807**

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			
Trading liabilities (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**

28 Fair Value Disclosures (Continued)

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 2020 and 31 December 2019. The inputs used for valuation by discounted cash flows technique are forex exchange rates and interest rate curves for each instrument (such as fx 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 2020.

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.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2020 is as follows:

In thousands of Russian Roubles	**Financial derivative assets**	**Financial derivative liabilities**
Fair value at 1 January 2020	**-**	**-**
Gains or losses recognised in profit or loss for the year	-	-
Transfers into level 3	3 805	(3 805)
Fair value at 31 December 2020	3 805	(3 805)
Unrealised revaluation gains less losses recognised in profit or loss for the year for assets held at 31 December 2020	3 805	(3 805)

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	**-**	**-**

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

At the periods ended 31 December 2020 and 31 December 2019 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.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2020:

In thousands of Russian Roubles	**AC**	**Debt instru-ments at FVOCI**	**FVTPL (mandatory)**	**Total**
ASSETS				
Cash and cash equivalents	30 317 650	-	-	30 317 650
Mandatory cash balances with the Central Bank of the Russian Federation	750 085	-	-	750 085
Investments in debt securities	-	2 867 817	122	2 867 939
Due from the CBRF	33 999 946	-	-	33 999 946
Due from other banks	7 033 919	-	-	7 033 919
Derivative financial instruments	-	-	1 350 868	1 350 868
Loans and advances to customers	5 426 333	-	-	5 426 333
Other financial assets	186 781	-	-	186 781
Total financial assets	**77 714 714**	**2 867 817**	**1 350 990**	**81 933 521**

The following table provides a reconciliation of financial assets with measurement categories at 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**

As of 31 December 2020 and 31 December 2019, 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.

30 Related Party Transactions (Continued)

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 Bank") are publicly available.

At 31 December 2020, 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	263 801	21 061 844
Derivative financial instruments – assets	27	447 635	-
Other financial assets	12	94 478	-
Derivative financial instruments – liabilities	27	854 670	-
Due to other banks	15	730 749	4 287 734
Other financial liabilities	17	-	62 530

The income and expense items with related parties for 2020 were as follows:

In thousands of Russian Roubles	Note	Parent	Companies under common control
Interest income	19	173 261	113 270
Interest expense	19	(27 967)	(65 318)
Gains less losses from foreign exchange and derivative trading		6 813 607	(57 361)
Fee and commission income	20	23 555	186 411
Fee and commission expense	20	(260 794)	(12 836)
Other operating income		69 696	1 822
Administrative and other operating expenses	21	(99 478)	(231 195)

Certain fees are subject to revision. They are booked in the current year.

At 31 December 2020, 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	2 228 490	1 411 137
Guarantees received by the Bank at the year end	44 913 574	4 575 000

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	-

30 Related Party Transactions (Continued)

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

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

In thousands of Russian Roubles	2020	2019
Short-term benefits:		
- Salaries	213 368	210 503
- Bonuses and other benefits	126 805	59 928
- Social security costs	39 120	12 789
Total remuneration	**379 293**	**283 220**

31 Share Based Payments

Deferred share awards – annual incentive award delivered in cash and shares

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 22 909 (2019: RR 37 323) 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
ADR	American Depository Receipt
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
GDR	Global Depository Receipt
HTM	Held To Maturity
IFRS	International Financial Reporting Standard
IRB system	Internal Risk-Based system
L&R	Loans and Receivables
LGD	Loss Given Default
LTV	Loan to Value
PD	Probability of Default
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
SDIA	State Deposit Insurance Agency
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