“BNP PARIBAS BANK” JSC

International Financial Reporting Standards
Financial Statements and
Independent Auditor’s Report

31 December 2019

CONTENTS

Independent Auditor's Report

To the Shareholder and the Supervisory Board of "BNP PARIBAS Bank" Join Stock 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 "BNP PARIBAS Bank" Joint Stock Company (the "Bank") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Bank's financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

We have identified the following based on our examination:

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

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

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

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

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

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

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

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

   e) as at 1 January 2020 the authority of the Supervisory Board of the Bank and its executive bodies included control over compliance of the Bank with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2019, the Supervisory Board 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.

AO PricewaterhouseCoopers Audit

27 March 2020

Moscow, Russian Federation

A.V. Boyko, certified auditor (licence No. 01-001510), AO PricewaterhouseCoopers Audit

Audited entity: BNP PARIBAS Bank" Joint Stock Company

Record made in the Unified State Register of Legal Entities on 22 July 2002 under State Registration Number 1027700045780

Taxpayer Identification Number: 7744002405

Lesnaya 5, Moscow, Russia, 125047

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

"BNP PARIBAS BANK" JSC
Statement of Financial Position

In thousands of Russian Roubles	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	7	31 882 041	37 874 014
Mandatory cash balances with the Central Bank of Russian Federation		374 813	385 164
Derivatives and financial assets at fair value through profit or loss	8	2 191 094	704 516
Due from other banks and financial institutions		20 000	20 000
Investments in debt securities	9	2 938 778	3 660 445
Loans and advances to customers	10	5 289 213	6 035 980
Right of use assets	11	504 221	-
Intangible assets	12	41 896	31 896
Premises and equipment	12	38 577	54 141
Other financial assets	13	295 399	176 053
Other non-financial assets	13	59 596	104 105
TOTAL ASSETS		**43 635 628**	**49 046 314**
LIABILITIES			
Derivatives and financial liabilities at fair value through profit or loss	8	2 286 425	1 778 547
Due to other banks	14	8 894 783	8 522 118
Customer accounts	15	20 274 944	24 465 497
Current income tax liability	24	7 820	138 122
Lease liabilities	25	448 370	-
Subordinated debt	16, 25	2 724 405	5 474 983
Other financial liabilities	17	72 017	63 179
Other non-financial liabilities	17	124 872	149 181
TOTAL LIABILITIES		**34 833 636**	**40 591 627**
EQUITY			
Share capital	18	5 798 193	5 798 193
Share premium	18	392 546	392 546
Retained earnings		2 611 253	2 263 948
TOTAL EQUITY		**8 801 992**	**8 454 687**
TOTAL LIABILITIES AND EQUITY		**43 635 628**	**49 046 314**

Approved for issue and signed on behalf of Management Board on 27 March 2020.

Pierre Bonin
Chief Executive Officer

Konstantin Ruchkin
Acting Chief Accountant

The notes set out on pages 5 to 65 form an integral part of these financial statements.

In thousands of Russian Roubles	Note	2019	2018
Interest income calculated using effective interest rate method and similar revenues	19	2 821 718	2 821 707
Interest expense and similar charges	19	(2 134 738)	(1 975 102)
Net margin on interest and similar income		**686 980**	**846 605**
Recovery of Credit loss allowance	20	5 460	115 858
Net margin on interest and similar income after credit loss allowance		**692 440**	**962 463**
Fee and commission income	21	379 056	415 896
Fee and commission expense	21	(60 845)	(57 155)
Gains less losses from Trading in Foreign Currencies, Financial Instruments at FVTPL and Remeasurement of currency position	22	304 117	131 826
Recovery of / (provision for) credit related commitments	17	43 865	(11 263)
Other income		6 981	-
Administrative and other operating expenses	23	(985 039)	(974 506)
Profit before tax		**380 575**	**467 261**
Income tax expense	24	(33 270)	(325 495)
PROFIT FOR THE YEAR		**347 305**	**141 766**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**347 305**	**141 766**

The notes set out on pages 5 to 65 form an integral part of these financial statements.

In thousands of Russian Roubles	**Share capital**	**Share premium**	**Retained earnings**	**Total equity**
Balance at 1 January 2018	**5 798 193**	**392 546**	**2 122 182**	**8 312 921**
Total comprehensive income for 2018	-	-	141 766	141 766
Balance at 31 December 2018	**5 798 193**	**392 546**	**2 263 948**	**8 454 687**
Total comprehensive income for 2019	-	-	347 305	347 305
Balance at 31 December 2019	**5 798 193**	**392 546**	**2 611 253**	**8 801 992**

The notes set out on pages 5 to 65 form an integral part of these financial statements.

In thousands of Russian Roubles	Note	2019	2018
Cash flows from operating activities			
Interest received		2 835 057	2 936 828
Interest paid		(2 284 482)	(2 171 883)
Fees and commissions received		292 959	373 236
Fees and commissions paid		(60 845)	(57 155)
Gains net of losses from financial instruments at fair value through profit or loss		(37 748)	720 433
Staff costs paid		(505 166)	(507 481)
Administrative and other operating expenses paid		(326 563)	(507 082)
Proceeds from disposal of loans	20	-	60 075
Income tax paid		(163 602)	(48 295)
Other income received		6 981	-
Cash flows from operating activities before changes in operating assets and liabilities		**(243 409)**	**798 676**
Net decrease / (increase) in mandatory cash balances		10 351	(12 298)
Net (increase) / decrease in due from other banks		-	4 022 793
Net decrease in loans and advances to customers		583 793	1 680 881
Net (increase) / decrease in other financial assets		(287)	441
Net decrease / (increase) in other non-financial assets		44 008	(17 556)
Net increase in due to other banks		799 630	649 698
Net (decrease) / increase in customer accounts		(3 411 879)	4 558 614
Net increase in other financial liabilities		(650)	-
Net increase in other non-financial liabilities		1 666	3 690
Net cash (used in) / received from operating activities		**(2 216 777)**	**11 684 939**
Cash flows from investing activities			
Acquisition of investments in debt securities		(299 727)	(3 066 952)
Proceeds from redemption of investments in debt securities		1 000 000	1 600 000
Acquisition of premises and equipment	12	(12 875)	(13 413)
Proceeds from sale of premises and equipment		-	90
Acquisition of intangible assets	12	(46 507)	(17 777)
Net cash received from / (used in) investing activities		**640 891**	**(1 498 052)**
Cash flows from financing activities			
Repayment of subordinated debt	16, 25	(2 286 814)	(1 036 803)
Repayment of lease liabilities	25	(103 734)	-
Net cash used in financing activities		**(2 390 548)**	**(1 036 803)**
Effect of exchange rate changes on cash and cash equivalents		**(2 025 547)**	**1 998 238**
Net (decrease)/increase in cash and cash equivalents		**(5 991 981)**	**11 148 322**
Cash and cash equivalents at the beginning of the year	7	37 874 091	26 725 769
Cash and cash equivalents at the end of the year	7	**31 882 110**	**37 874 091**

The notes set out on pages 5 to 65 form an integral part of these financial statements.

1 Principal activities

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company and was set up in accordance with Russian regulations.

The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank accepts deposits from the legal entities and provides loans, transfers payments in Russia and abroad, exchanges currencies, trades derivative financial instruments and provides other banking services to its commercial customers. The Bank has operated under the banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 10 July 2002.

The Bank participates in the state deposit insurance program, which was introduced by Federal Law No. 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 is directly and ultimately controlled by BNP Paribas S. A., incorporated in France (the “Parent Bank”), which owns 100% of the ordinary shares. Being a subsidiary of BNP Paribas S.A., the Bank is a part of the international banking network of BNP Paribas Group (the “Group”).

Since 23 January 2018 (and renewed on 16 January 2020) the Bank is rated AAA (RU) with Stable outlook by the Russian Analytical Credit Rating Agency (ACRA) (2018: AAA (RU) with Stable outlook).

Registered address and place of business. The Bank’s registered address is: 5 Lesnaya St., White Square Business Center, Bld. B., Moscow, 125047, Russian Federation.

The average number of the Bank’s employees during 2019 financial year was 126 (2018: 128).

Presentation currency. This financial information is presented in thousand 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 28). The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Stable oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019. The operating environment has a significant impact on the Bank’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Bank’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

The Bank acts in accordance with Russian regulations and BNP Paribas Group requirements. It has set up and constantly updates its systems and measures on anti-money laundering, on combatting the financing of terrorism, and on ensuring its compliance with UN Sanctions.

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 26 provides more information of how the Bank incorporated forward-looking information in the ECL models.

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 basis except that derivatives and other financial instruments are stated at fair value. Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Going concern. Management prepared these financial statements on a going concern basis. The management and shareholder have an intention to further develop the business of the Bank in Russian Federation in a corporate segment.

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). Refer to Note 29.

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 Amortised Cost 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.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and Amortised Cost. 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.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets’ performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Bank in determining the business models for its financial assets.

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. Refer to Note 4 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

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

3 Significant accounting policies (continued)

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

Debt instruments measured at Amortised Cost 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.

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 (“Lifetime ECL”). Refer to Note 26 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 26. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL. Note 26 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

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

Financial assets – derecognition. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

3 Significant accounting policies (continued)

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), 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 expired).

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, is 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 all interbank placements with original maturities of less than three months. 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 Amortised Cost 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.

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

Due from other banks and financial institutions. Amounts due from other banks and financial institutions are recorded when the Bank advances money to counterparty banks. Amounts due from other banks and financial institutions are carried at Amortised Cost 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 Amortised Cost, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

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.

3 Significant accounting policies (continued)

Investments in debt securities are carried at FVTPL if they do not meet the criteria for Amortised Cost or 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) Amortised Cost: 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 Amortised Cost or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 26 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 fully revocable. 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.

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.

Equipment and leasehold improvements. Equipment and leasehold improvements are stated at cost less accumulated depreciation and provision for impairment, where required.

At the end of each reporting period management assesses whether there is any indication of impairment of equipment and leasehold improvements. 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.

3 Significant accounting policies (continued)

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).

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

Depreciation. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful life:

	Useful life in years
Equipment	5
Computers	3
Vehicles	5
Computer software licences	3-5
Right of use assets	over the term of the underlying lease
Leasehold improvements	over the term of the underlying lease
Other	5

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 life 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 and licenses.Acquired computer software licenses 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. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is usually amortised on a straight line basis over expected useful life of 5 years or term of licence.

Accounting for leases by the Bank as a lessee from 1 January 2019. The Bank leases premises and cars. Leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

3 Significant accounting policies (continued)

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;
- restoration costs.

As an exception to the above, the Bank accounts for short-term leases and leases of low value assets by recognising the lease payments as an expense on a straight line basis.

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 this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right of use assets of RR 142 269 thousand. Refer to Note 11.

Accounting for operating leases by the Bank as a lessee prior to 1 January 2019. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

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 Amortised Cost. 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 early retirement of debt.

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

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at Amortised Cost.

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 from derivatives).

3 Significant accounting policies (continued)

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

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

Share capital and share premium. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

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 financial statements are authorised for issue, are disclosed in the subsequent events note.

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.

3 Significant accounting policies (continued)

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 Amortised Cost, 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 Amortised Cost.

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 other asset management advisory and service fees, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements and others. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Foreign currency translation. For the purposes of financial information preparation monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the CBRF at the last working day of reporting period. 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 are recognised in profit or loss for the period (as foreign exchange translation gains less losses).

As at 31 December 2019 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 61.9057 (31 December 2018: USD 1 = RR 69.4706), EUR 1 = RR 69.3406 (31 December 2018: EUR 1 = RR 79.4605).

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.

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.

Share-based compensation. Certain employees of the Bank are entitled to cash settled share-based compensation. Share-based payment transactions are payments based on shares issued by the BNP Paribas S.A., which are settled in the form of cash of which the amount is based on trends in the value of BNP Paribas S.A. shares. The Bank does not provide any compensation plans for its own shares.

3 Significant accounting policies (continued)

IFRS 2 requires share-based payments to be recognised as an expense. The amount recognised is the value of the share-based payment granted to the employee. The expense related to these plans is recognised in the year during which the employee rendered the corresponding services. The expense is recognised under salaries and employee benefits' account with a corresponding liability in the statement of financial position. It is revised each reporting date until settlement to take into account any performance conditions and the change in the BNP Paribas S.A. share price.

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.

The following tables provide information for each line item in the statement of financial position which combines amounts expected to be recovered or settled before and after twelve months after the reporting period for items that are not analysed in Note 26:

		31 December 2019			**31 December 2018**		
		Amounts expected to be recovered or settled			**Amounts expected to be recovered or settled**		
In thousands of Russian Roubles	**Note**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
ASSETS							
Other non-financial assets	13	59 371	-	59 371	103 910	-	103 910
Current income tax prepayment	24	225	-	225	195	-	195
Intangible assets	12	-	41 896	41 896	-	31 896	31 896
Premises and equipment	12	-	38 577	38 577	-	54 141	54 141
Right of use assets	11	-	504 221	504 221	-	-	-
LIABILITIES							
Current income tax liability	24	7 820	-	7 820	138 122	-	138 122
Other non-financial liabilities	17	104 265	20 607	124 872	127 645	21 536	149 181

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 26. 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.

4 Critical accounting estimates and judgements in applying accounting policies (continued)

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. Refer to Note 26.

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-month ECL), the expected credit loss allowance would be higher by RR 10 469 thousand as of 31 December 2019 (1 January 2019: higher by RR 43 632 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.

On transition to IFRS 9, the Bank classified its portfolio of Available-for-sale investment securities as held to collect based on the assumption that these securities would only be sold in a stress case scenario.

Assessment whether cash flows are solely payments of principal and interest (“SPPI”). Determining whether a financial asset’s cash flows are solely payments of principal and interest required judgement.

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

4 Critical accounting estimates and judgements in applying accounting policies (continued)

The Bank’s loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI. Bank has no instruments that failed the SPPI test as at 31 December 2019 and 31 December 2018.

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Write-off policy. 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. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement.

Deferred income tax asset recognition. The deferred tax asset is recorded to the extent that realisation of the related tax benefit is probable.

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.

Tax legislation. Russian tax currency and customs legislation is subject to varying interpretations.

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 31.

5 Adoption of new or revised standards and interpretations

***Adoption of IFRS 16, Leases*.** The Bank has adopted IFRS 16 retrospectively from 1 January 2019 with certain simplifications and exemptions, and has not restated comparatives for the 2018 reporting period, as permitted under the transitional provisions of IFRS 16. The reclassifications and the adjustments arising from the new leasing requirements are therefore recognized as of 1 January 2019.

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the rates incorporated to a particular lease contract.

5 Adoption of new or revised standards and interpretations (continued)

The following table presents reconciliation of the operating lease commitments reported as of 31 December 2018 and lease liability recognised at 1 January 2019:

In thousands of Russian Roubles (unaudited)	**1 January 2019**
Lease commitments as at 31 December 2018	**488 303**
Adjustments to lease commitments:	
- Less non-cancellable operating lease agreements concluded after 1 January 2019	(15 857)
- Effect of discounting to present value	(55 959)
Lease liability recognised as at 1 January 2019	**416 487**
Advances paid to lessors	23 360
Right of use assets recognised as at 1 January 2019	**439 847**

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

Amendment to IAS 12, Income Taxes, included in the Annual Improvements to IFRSs 2015-2017 cycle. The Bank adopted the changes to IAS 12, *Income Taxes*, with effect from 1 January 2019. As a result of these amendments, the tax benefits of distributions on perpetual instruments that are classified as equity under IFRS but are considered liabilities for tax purposes are no longer recognised directly in equity but in profit or loss because these tax benefits are linked more directly to past transactions or events that generated distributable profits than to the distributions to owners. The above amendments have no material impact to the Bank`s financial statements.

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

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

6 New accounting pronouncements

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

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

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

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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank is currently assessing the impact of the amendments on its financial statements.

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

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. Cash flow hedge accounting under both IFRS

6 New accounting pronouncements (continued)

9 and IAS 39 requires the future hedged cash flows to be ‘highly probable’. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. 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	**31 December 2019**	**31 December 2018**
Cash balances and placements with the CBRF (other than mandatory)	11 244 199	19 832 088
Correspondent accounts with other banks:		
- Russian Federation	4 328 641	5 000 013
- other countries	530 513	846 649
Placements with other banks with original maturities of less than three months	15 778 757	12 195 341
Total Cash and cash equivalents (gross carrying amount)	**31 882 110**	**37 874 091**
Less credit loss allowance	(69)	(77)
Total Cash and cash equivalents (carrying amount)	**31 882 041**	**37 874 014**

The following table contains an analysis of cash and cash equivalents balances by credit quality at 31 December 2019 based on credit risk ratings for the purpose of ECL measurement.

Refer to Note 26 for the description of the Bank’s credit risk rating methodology. For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1.

7 Cash and cash equivalents (continued)

The carrying amount of cash and cash equivalents balances at 31 December 2019 below also represents the Bank's maximum exposure to credit risk on these assets:

In thousands of Russian Roubles	**Cash balances and placements with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts with other banks**	**Placements with other banks with original maturities of less than three months**	**Total**
Neither past due nor impaired				
Externally rated				
- Aa2	-	-	10 003	10 003
- Aa3	-	530 513	11 161 483	11 691 996
- Aaa	-	-	4 607 271	4 607 271
- Baa3	-	4 246 139	-	4 246 139
- Ba1	11 244 199	-	-	11 244 199
- Ba3	-	82 502	-	82 502
Total Cash and cash equivalents (gross carrying amount)	**11 244 199**	**4 859 154**	**15 778 757**	**31 882 110**
Less credit loss allowance	-	(15)	(54)	(69)
Total Cash and cash equivalents (carrying amount)	**11 244 199**	**4 859 139**	**15 778 703**	**31 882 041**

7 Cash and cash equivalents (continued)

The credit quality of cash equivalents balances based on the same credit rating methodology as at 31 December 2018 may be summarised as follows:

In thousands of Russian Roubles	**Cash balances and placements with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts with other banks**	**Placements with other banks with original maturities of less than three months**	**Total**
Neither past due nor impaired				
Externally rated				
- Aa3	-	846 649	12 119 279	12 965 928
- A3	-	-	76 062	76 062
- Baa3	-	4 867 889	-	4 867 889
- Ba1	19 832 088	60	-	19 832 148
- Ba3	-	132 064	-	132 064
Total Cash and cash equivalents (gross carrying amount)	**19 832 088**	**5 846 662**	**12 195 341**	**37 874 091**
Less credit loss allowance	-	(17)	(60)	(77)
Total Cash and cash equivalents (carrying amount)	**19 832 088**	**5 846 645**	**12 195 281**	**37 874 014**

As at 31 December 2019 cash and cash equivalents were not collateralised (31 December 2018: not collateralised).

As at 31 December 2019 the Bank had 4 counterparty banks (2018: 3 banks) with aggregated cash and cash equivalent balances of RR 31 319 927 thousand (2018: RR 36 779 725 thousand) or 98% of the cash and cash equivalents (2018: 97%).

At 31 December 2019 the estimated fair value of cash and cash equivalents was RR 31 882 041 thousand (2018: RR 37 874 014 thousand). Refer to Note 29. Maturity and interest rate analysis of cash and cash equivalents are disclosed in Note 26. Information on related party balances is disclosed in Note 31.

8 Derivatives, financial assets, financial liabilities at fair value through profit or loss

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under derivative contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

	31 December 2019		31 December 2018	
In thousands of Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the end of reporting period, of				
- USD receivable on settlement (+)	-	1 176 746	1 225 857	-
- USD payable on settlement (-)	(3 534 184)	(481 704)	(139 324)	(3 350 656)
- EUR receivable on settlement (+)	-	360 777	238 401	-
- EUR payable on settlement (-)	(27 735 362)	(12 403)	(1 134 892)	(13 934 364)
- RR receivable on settlement (+)	38 717 398	1 044 908	1 145 946	17 739 244
- RR payable on settlement (-)	-	(1 599 773)	(1 421 729)	-
- CNY receivable on settlement (+)	107 682	-	140 645	-
- CNY payable on settlement (-)	(107 682)	-	-	(140 645)
- GBP receivable on settlement (+)	-	1 913	-	-
- GBP payable on settlement (-)	(5 389 832)	(558 815)	-	(1 071 627)
- CHF payable on settlement (-)	(85 438)	-	-	-
Net fair value of foreign exchange forwards	**1 972 582**	**(68 351)**	**54 904**	**(758 048)**
Foreign exchange swaps: fair values, at the end of reporting period, of				
- USD receivable on settlement (+)	1 361 296	12 399 390	23 056 651	1 388 501
- USD payable on settlement (-)	(7 882 877)	(4 924 728)	(14 597 045)	(11 797 293)
- EUR receivable on settlement (+)	2 116 020	29 097 704	9 165 220	11 127 314
- EUR payable on settlement (-)	(3 713 972)	-	-	(5 618 953)
- RR receivable on settlement (+)	7 412 187	-	5 904 688	5 360 427
- RR payable on settlement (-)	(1 602 194)	(41 823 307)	(23 452 356)	(1 389 038)
- GBP receivable on settlement (+)	2 471 537	3 189 338	-	525 845
Net fair value of foreign exchange swaps	**161 997**	**(2 061 603)**	**77 158**	**(403 197)**
Cross currency interest rate swaps: fair values, at the end of reporting period, of				
- EUR receivable on settlement (+)	-	-	4 053 607	-
- EUR payable on settlement (-)	-	-	-	(4 053 609)
- RR receivable on settlement (+)	-	-	-	3 497 170
- RR payable on settlement (-)	-	-	(3 491 017)	-
Net fair value of cross currency interest rate swaps	**-**	**-**	**562 590**	**(556 439)**
Interest rate swaps: fair values, at the end of reporting period	**-**	**(100 989)**	**126**	**(49 841)**
Foreign exchange options: fair values, at the end of reporting period	**53 548**	**(53 548)**	**8 009**	**(8 009)**
Net fair value of derivative financial instruments	**2 188 127**	**(2 284 491)**	**702 787**	**(1 775 534)**

8 Derivatives, financial assets, financial liabilities at fair value through profit or loss (continued)

In thousands of Russian Roubles	31 December 2019 Contracts with positive fair value	31 December 2019 Contracts with negative fair value	31 December 2018 Contracts with positive fair value	31 December 2018 Contracts with negative fair value
Foreign exchange spots: fair values, at the end of reporting period, of				
- USD receivable on settlement (+)	1 136 817	27 858	844 208	472 610
- USD payable on settlement (-)	-	(720 274)	(8 059)	(1 407 405)
- EUR payable on settlement (-)	-	-	(556 224)	-
- RR receivable on settlement (+)	8 184	961 944	565 260	1 405 569
- RR payable on settlement (-)	(1 363 283)	(27 877)	(843 456)	(473 109)
- GBP receivable on settlement (+)	229 364	-	-	-
- GBP payable on settlement (-)	(8 115)	(243 438)	-	-
Net fair value of other assets and liabilities at Fair Value through Profit or Loss	**2 967**	**(1 787)**	**1 729**	**(2 335)**
Market risk provision	-	(147)	-	(678)
Net fair value of derivatives and other assets, liabilities at fair value through profit or loss	**2 191 094**	**(2 286 425)**	**704 516**	**(1 778 547)**

Market risk provision represents bid-offer adjustment to net derivatives portfolio of the Bank.

Foreign exchange and other derivative financial instruments entered into by the Bank are generally not quoted in active market and their fair value is determined by the Bank using valuation techniques with input observable in markets. 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. Refer to Note 29.

9 Investment in debt securities

In thousands of Russian Roubles	31 December 2019	31 December 2018
Debt securities at Amortised Cost	2 938 778	3 660 445
Total investments in debt securities at Amortised Cost	**2 938 778**	**3 660 445**

At 31 December 2019 all debt securities at Amortised Cost are Russian Government bonds externally rated with Ba1 (2018: Ba1) and designated on Stage 1 (12-months ECL) for the purpose of ECL measurement. Refer to Note 26 for the description of the Bank’s credit risk grading system.

OFZ (Russian Government bonds) are Russian Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from May 2020 to August 2023 and coupon rate from 6.40% to 7.60% depending on the type of bond issue.

The debt securities at amortised cost are not collateralised.

Maturity and interest rate analyses of debt securities at Amortised Cost are disclosed in Note 26. Information on related party balances is disclosed in Note 31.

10 Loans and advances to customers

In thousands of Russian Roubles	31 December 2019	31 December 2018
Gross carrying amount of loans and advances to customers	5 294 968	6 047 407
Less credit loss allowance	(5 755)	(11 427)
Total loans and advances to customers	**5 289 213**	**6 035 980**

Gross carrying amount and credit loss allowance amount for loans and advances to customers by classes at 31 December 2019 and 31 December 2018 are disclosed in the table below:

	31 December 2019			31 December 2018		
In thousands of Russian Roubles	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Loans to leasing companies	4 829 570	(1 071)	4 828 499	4 201 046	(926)	4 200 120
Loans to corporate customers	465 398	(4 684)	460 714	1 846 361	(10 501)	1 835 860
Total loans and advances to customers at Amortised Cost	**5 294 968**	**(5 755)**	**5 289 213**	**6 047 407**	**(11 427)**	**6 035 980**

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:

10 Loans and advances to customers (continued)

In thousands of Russian Roubles	**Credit loss allowance** Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	**Gross carrying amount** Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Loans to leasing companies								
At 31 December 2018	**(926)**	**-**	**-**	**(926)**	**4 201 046**	**-**	**-**	**4 201 046**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(412)	-	-	(412)	1 704 000	-	-	1 704 000
Repaid during the period	267	-	-	267	(1 075 000)	-	-	(1 075 000)
Changes in accrued interest	-	-	-	-	(476)	-	-	(476)
Total movements with impact on credit loss allowance charge for the period	**(145)**	**-**	**-**	**(145)**	**628 524**	**-**	**-**	**628 524**
At 31 December 2019	**(1 071)**	**-**	**-**	**(1 071)**	**4 829 570**	**-**	**-**	**4 829 570**

10 Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Russian Roubles	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Loans to leasing companies								
At 1 January 2018	**(817)**	**-**	**-**	**(817)**	**3 687 361**	**-**	**-**	**3 687 361**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(748)	-	-	(748)	1 386 000	-	-	1 386 000
Repaid during the period	645	-	-	645	(899 100)	-	-	(899 100)
Changes in accrued interest	(6)	-	-	(6)	26 785	-	-	26 785
Total movements with impact on credit loss allowance charge for the period	**(109)**	**-**	**-**	**(109)**	**513 685**	**-**	**-**	**513 685**
At 31 December 2018	**(926)**	**-**	**-**	**(926)**	**4 201 046**	**-**	**-**	**4 201 046**

10 Loans and advances to customers (continued)

In thousands of Russian Roubles	**Credit loss allowance** Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	**Gross carrying amount** Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Loans to corporate customers								
At 31 December 2018	**(10 501)**	**-**	**-**	**(10 501)**	**1 846 361**	**-**	**-**	**1 846 361**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(3 224)	-	-	(3 224)	110 802	-	-	110 802
Repaid during the period	8 817	-	-	8 817	(1 442 112)	-	-	(1 442 112)
Changes in accrued interest	(8)	-	-	(8)	(2 555)	-	-	(2 555)
Total movements with impact on credit loss allowance charge for the period	**5 585**	**-**	**-**	**5 585**	**(1 333 865)**	**-**	**-**	**(1 333 865)**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	232	-	-	232	(47 098)	-	-	(47 098)
At 31 December 2019	**(4 684)**	**-**	**-**	**(4 684)**	**465 398**	**-**	**-**	**465 398**

10 Loans and advances to customers (continued)

In thousands of Russian Roubles	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Loans to corporate customers								
At 1 January 2018	**(66 440)**	**-**	**(397 571)**	**(464 011)**	**3 565 708**	**-**	**397 571**	**3 963 279**
Movements with impact on credit loss allowance charge for the period:								
Net remeasurement of credit loss allowance	-	-	60 000	60 000	-	-	-	-
New originated or purchased	(420)	-	-	(420)	181 245	-	-	181 245
Repaid during the period	56 399	-	-	56 399	(2 180 336)	-		(2 180 336)
Derecognized during the period	-	-	337 571	337 571	-	-	(397 571)	(397 571)
Changes in accrued interest	(40)	-	-	(40)	(3 222)	-	-	(3 222)
Total movements with impact on credit loss allowance charge for the period	**55 939**	**-**	**397 571**	**453 510**	**(2 002 313)**	**-**	**(397 571)**	**(2 399 884)**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	-	-	-	-	282 966	-	-	282 966
At 31 December 2018	**(10 501)**	**-**	**-**	**(10 501)**	**1 846 361**	**-**	**-**	**1 846 361**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 26. Main movements in the table are described below:

- Write-offs of allowances related to assets that were sold during the period.
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period.
- Foreign exchange translations of assets denominated in foreign currencies and other movements.

10 Loans and advances to customers (continued)

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at Amortised Cost as at 31 December 2019. The carrying amount of loans and advances to customers below also represents the Bank’s maximum exposure to credit risk on these loans:

In thousands of Russian Roubles	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for credit impaired)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Neither past due nor impaired				
Loans to leasing companies				
Externally rated				
- A2	4 829 570	-	-	4 829 570
Gross carrying amount	**4 829 570**	-	-	**4 829 570**
Credit loss allowance	(1 071)	-	-	(1 071)
Carrying amount	**4 828 499**	-	-	**4 828 499**
Loans to corporate customers				
Externally rated				
- Ba2	354 500	-	-	354 500
Internally rated				
- 3	60 852	-	-	60 852
- 5	50 046	-	-	50 046
Gross carrying amount	**465 398**	**-**	**-**	**465 398**
Credit loss allowance	(4 684)	-	-	(4 684)
Carrying amount	**460 714**	**-**	**-**	**460 714**
Total loans and advances to customers at Amortised Cost (carrying amount)	**5 289 213**	**-**	**-**	**5 289 213**

10 Loans and advances to customers (continued)

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at Amortised Cost as at 31 December 2018. The carrying amount of loans and advances to customers below also represents the Bank’s maximum exposure to credit risk on these loans:

In thousands of Russian Roubles	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL for credit impaired)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Neither past due nor impaired				
Loans to leasing companies				
Externally rated				
- A2	4 201 046	-	-	4 201 046
Gross carrying amount	**4 201 046**	-	-	**4 201 046**
Credit loss allowance	(926)	-	-	(926)
Carrying amount	**4 200 120**	-	-	**4 200 120**
Loans to corporate customers				
Externally rated				
- Ba2	1 560 200	-	-	1 560 200
Internally rated				
- 3	181 799	-	-	181 799
- 5	104 362	-	-	104 362
Gross carrying amount	**1 846 361**	**-**	**-**	**1 846 361**
Credit loss allowance	(10 501)	-	-	(10 501)
Carrying amount	**1 835 860**	**-**	**-**	**1 835 860**
Total loans and advances to customers at Amortised Cost (carrying amount)	**6 035 980**	**-**	**-**	**6 035 980**

Refer to Note 26 for the description of the Bank’s credit risk rating methodology.

At 31 December 2019 the Bank had 2 borrowers (2018: 2 borrowers) with aggregated loan amounts of RR 5 184 070 thousand (2018: RR 5 761 246 thousand) or 98% of the gross loan portfolio (2018: 95%).

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

	31 December 2019		**31 December 2018**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Rental of vehicle	4 829 570	91.2%	4 201 046	69.5%
Materials and mining	394 517	7.5%	1 734 620	28.7%
Media and cultural services	50 025	0.9%	-	0.0%
Trade	20 856	0.4%	111 741	1.8%
Total loans and advances to customers (gross amount)	**5 294 968**	**100%**	**6 047 407**	**100%**

10 Loans and advances to customers (continued)

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 as at 31 December 2019 and 31 December 2018:

In thousands of Russian Roubles	31 December 2019	31 December 2018
Loans guaranteed by the BNP Paribas Group Banks	4 829 570	1 805 715
Loans guaranteed by third parties	465 398	1 742 017
Unsecured loans	-	2 499 675
Total loans and advances to customers (gross amount)	**5 294 968**	**6 047 407**

The disclosure above represents the lower of the carrying value of the loan or collateral taken, the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

At 31 December 2019 the estimated fair value of loans and advances to customers is RR 5 147 830 thousands (31 December 2018: approximates its carrying value). Maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. Information on related party balances is disclosed in Note 31.

11 Right of use assets and lease liabilities

The Bank leases premises and vehicles. Rental contracts are typically made for fixed periods of 11 months to 6 years, but may have extension options.

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

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

In thousands of Russian Roubles	Buildings	Vehicles	Total
Carrying amount at 1 January 2019	**436 305**	**3 542**	**439 847**
Additions	18 143	-	18 143
Remeasurement	142 269	-	142 269
Disposals	(2 249)	-	(2 249)
Depreciation charge	(92 774)	(1 015)	(93 789)
Carrying amount at 31 December 2019	**501 694**	**2 527**	**504 221**

Interest expense on lease liabilities was RR 11 254 thousand.

At 31 December 2019, potential future cash outflows of RR 20 604 thousand (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current reporting year, the financial effect of revising lease term to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right of use assets of RR 142 269 thousand.

11 Right of use assets and lease liabilities (continued)

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

In thousands of Russian Roubles	**2019**
Expense relating to short-term leases	881
Expense relating to leases of low-value assets that are not shown above as short-term leases	466

Total cash outflow for operational leases in 2019 was RR 1 347 thousand.

12 Premises, equipment and intangible assets

In thousands of Russian Roubles	**Note**	**Premises and Leasehold improve-ments**	**Equipment and computers**	**Other**	**Total equipment and leasehold improve-ments**	**Intangible assets**
Cost as at 1 January 2018		26 520	164 229	42 241	232 990	90 476
Accumulated depreciation		(17 112)	(110 392)	(38 621)	(166 125)	(66 053)
Carrying amount at 1 January 2018		**9 408**	**53 837**	**3 620**	**66 865**	**24 423**
Additions		-	12 870	543	13 413	17 777
Disposals		-	(18 983)	(233)	(19 216)	-
Accumulated depreciation of disposals		-	18 898	209	19 107	-
Depreciation charge	23	(2 782)	(21 783)	(1 463)	(26 028)	(10 304)
Carrying amount at 31 December 2018		**6 626**	**44 839**	**2 676**	**54 141**	**31 896**
Cost at 31 December 2018		26 520	158 115	42 551	227 186	108 253
Accumulated depreciation		(19 894)	(113 276)	(39 875)	(173 045)	(76 357)
Carrying amount at 31 December 2018		**6 626**	**44 839**	**2 676**	**54 141**	**31 896**
Additions		-	12 721	154	12 875	46 507
Disposals		-	(3 164)	(50)	(3 214)	(1 066)
Accumulated depreciation of disposals		-	3 164	37	3 201	1 066
Depreciation charge	23	(2 782)	(20 046)	(1 247)	(24 075)	(13 861)
Impairment charge to profit or loss	23	-	(4 351)	-	(4 351)	(22 646)
Carrying amount at 31 December 2019		**3 844**	**33 163**	**1 570**	**38 577**	**41 896**
Cost at 31 December 2019		26 520	163 321	42 655	232 496	131 048
Accumulated depreciation		(22 676)	(130 158)	(41 085)	(193 919)	(89 152)
Carrying amount at 31 December 2019		**3 844**	**33 163**	**1 570**	**38 577**	**41 896**

13 Other financial and non-financial assets

In thousands of Russian Roubles	31 December 2019	31 December 2018
Other financial assets at Amortised Cost		
Fees receivable and accrued commissions	295 249	174 654
Commission settlements	407	1 349
Other	126	213
Gross other financial assets	**295 782**	**176 216**
Credit loss allowance	(383)	(163)
Total other financial assets at Amortised Cost	**295 399**	**176 053**
Other non-financial assets		
Rent prepayments	30 072	53 659
Prepayments for services	27 755	46 818
Other	1 769	3 628
Total other non-financial assets	**59 596**	**104 105**

Fees receivable represent fees to be received from the Parent Bank for provision of services by the Bank and other accrued commissions from customers.

At 31 December 2019 the carrying amount of other financial assets at Amortised Cost RR 295 399 thousand (2018: 176 053 thousand) represents the Bank’s maximum exposure to credit risk. For the purpose of ECL measurement other financial assets are included in Stage 1 (12-months ECL) (2018: Stage 1).

A 31 December 2019 other financial assets are not collateralised (2018: not collateralised).

At 31 December 2019 the estimated fair value of other financial assets was RR 295 399 thousand (2018: RR 176 053 thousand). Refer to Note 29.

Information on related party balances is disclosed in Note 31. Maturity analysis of other financial assets is disclosed in Note 26.

14 Due to other banks

In thousands of Russian Roubles	31 December 2019	31 December 2018
Term placements of other banks	6 376 550	6 873 008
Correspondent accounts of other banks	2 518 233	1 649 110
Total due to other banks	**8 894 783**	**8 522 118**

Term placements are mainly provided by the Parent bank and its subsidiaries. Further information on related party balances is disclosed in Note 31.

At 31 December 2019 the Bank had balances with 3 counterparty bank (31 December 2018: 3 banks) with aggregated amounts of RR 6 610 165 thousand (31 December 2018: RR 5 990 444 thousand) or 74% of the total amount due to other banks (31 December 2018: 70%).

At 31 December 2019 the estimated fair value of due to other banks was RR 8 894 783 thousand (31 December 2018: RR 8 522 118 thousand). Refer to Note 29. Maturity and interest rate analyses of due to other banks are disclosed in Note 26.

15 Customer accounts

In thousands of Russian Roubles	**31 December 2019**	**31 December 2018**
Legal entities		
- Term deposits	16 185 456	19 742 041
- Current/settlement accounts	4 089 208	4 722 928
Individuals		
- Current/demand accounts	280	528
Total customer accounts	**20 274 944**	**24 465 497**

Economic sector concentrations within customer accounts are as follows:

	31 December 2019		**31 December 2018**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Agriculture, food, tobacco	5 726 843	28.2%	4 015 313	16.4%
Household goods	4 248 986	21.0%	7 530 589	30.8%
Materials and mining	2 820 349	13.9%	4 520 603	18.5%
Retail trade	1 524 921	7.5%	4 525 840	18.5%
Utilities	1 229 670	6.1%	183 905	0.8%
Wholesale trade	806 326	4.0%	654 031	2.7%
Business services	761 830	3.8%	148 667	0.6%
Finance	757 436	3.7%	78 653	0.3%
Insurance	727 012	3.6%	845 382	3.5%
Information technologies	705 796	3.5%	549 985	2.2%
Rental of vehicle	309 890	1.5%	391 931	1.6%
Chemicals	182 108	0.9%	392 907	1.6%
Other	473 777	2.3%	627 691	2.5%
Total customer accounts	**20 274 944**	**100.0%**	**24 465 497**	**100.0%**

At 31 December 2019 no deposits were held as collateral for irrevocable commitments under letters of credit (2018: RR nil thousand). Refer to Note 28.

At 31 December 2019 the Bank had 4 customers (31 December 2018: 3 customers) with aggregated amount of RR 10 893 146 thousand (31 December 2018: RR 13 407 524 thousand) or 54% of the total customer accounts amount (31 December 2018: 55%).

At 31 December 2019 the estimated fair value of customer accounts approximates its carrying value RR 20 274 944 thousand (2018: approximates its carrying value RR 24 465 497 thousand). Refer to Note 29.

Maturity and interest rate analyses of customer accounts are disclosed in Note 26. Information on related party balances is disclosed in Note 31.

16 Subordinated debt

In thousands of Russian Roubles	Nominal, thousands of USD	Start date	Contract Maturity	Interest rate as at 31 December 2019	Carrying value as at 31 December 2019	Carrying value as at 31 December 2018
Subordinated loan № 1	44 000	30.12.2010	30.12.2022	1.75% + 3M USD LIBOR	2 724 405	3 058 234
Subordinated loan № 2	34 500	07.08.2011	04.08.2023	2.85% + 3M USD LIBOR	-	2 416 749
Total carrying value of subordinated debt	**-**	**-**	**-**	**-**	**2 724 405**	**5 474 983**

Subordinated loan is received from the Parent bank. In accordance with the terms of subordinated loan contracts these loans rank last upon the Bank’s liquidation and may be settled only after the claims of all other lenders are met.

Subordinated loans meet the criteria for “subordinated loans” stated by the CBRF and are included in the calculation of the Bank’s capital under the Russian legislation.

At 31 December 2019 the subordinated loan carried interest is 3.71% p.a. (2018: interest from 4.56% p.a. to 5.44% p.a.).

At 31 December 2019 the estimated fair value of subordinated debt was RR 2 724 405 thousand (2018: RR 5 474 983 thousand). Refer to Note 29. Maturity and interest rate analyses of subordinated debt are disclosed in Note 26. Information on related party balances is disclosed in Note 31.

17 Other financial and non-financial liabilities

In thousands of Russian Roubles	Note	31 December 2019	31 December 2018
Other financial liabilities			
Deferrals on guarantees		23 778	-
Accrued IT expenses		20 955	39 016
Payable to the Parent bank		13 957	10 617
Other financial liabilities		13 327	13 546
Total other financial liabilities		**72 017**	**63 179**
Other non-financial liabilities			
Accrued employee benefit costs		109 703	91 991
Taxes other than on income payable		10 855	9 011
Provision for legal claims		3 303	3 302
Loss allowance for guarantees issued	28	1 011	11 327
Loss allowance for revocable undrawn credit lines	28	-	33 550
Total other non-financial liabilities		**124 872**	**149 181**

Accrued IT expenses represent accruals for services provided by BNP Paribas Group as well as third parties in respect of maintenance of the Bank’s IT infrastructure. The estimated amounts are based on invoices received for the services provided.

Payable to the Parent bank represents amounts to be paid for provision of services by the Parent Bank.

Refer to Note 28 for analysis of exposure from issued guarantees and loan commitments by credit risk ratings.

As at 31 December 2019 the estimated fair value of other financial liabilities was RR 72 017 thousand (2018: RR 63 179 thousand). Refer to Note 29. Maturity and currency analyses of other financial liabilities are disclosed in Note 26. Information on related party balances is disclosed in Note 31.

18 Share capital and share premium

In thousands of Russian Roubles except for number of shares	**Number of outstanding shares in thousands**	**Ordinary shares**	**Share premium**	**Total**
As at 31 December 2018	**4 876**	**5 798 193**	**392 546**	**6 190 739**
As at 31 December 2019	**4 876**	**5 798 193**	**392 546**	**6 190 739**

As at 31 December 2019 the total authorised number of ordinary shares is 4 876 thousand shares (2018: 4 876 thousand shares). All issued ordinary shares are fully paid. Each ordinary share carries one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules. In 2019 no dividends were declared and paid (2018: no dividends were declared and paid).

19 Interest income and expense

In thousands of Russian Roubles	**2019**	**2018**
Interest income calculated using the effective interest method		
Cash equivalents	1 873 621	1 670 954
Loans and advances to customers:		
- Loans to leasing companies	*463 347*	*480 440*
- Other corporate loans	*154 802*	*226 419*
Due from other banks and financial institutions	118 674	229 922
Investments in debt securities	211 274	213 972
Total interest income calculated using the effective interest method	**2 821 718**	**2 821 707**
Interest and other similar expense		
Customer accounts	1 779 749	1 494 971
Due to other banks	212 111	206 559
Subordinated debt	131 624	273 572
Lease liabilities	11 254	-
Total interest and other similar expense	**2 134 738**	**1 975 102**
Net interest income	**686 980**	**846 605**

20 Credit loss allowance

For year ended 31 December 2019 and 31 December 2018 the amount of credit loss allowance movement comprises:

In thousands of Russian Roubles	Note	2019	2018
Recovery of / (creation of) Credit loss allowance			
Cash equivalents	7	8	(24)
Due from other banks and financial institutions		-	133
Loans and advances to customers:	10	5 672	55 830
- Loans to leasing companies		*(145)*	*(109)*
- Loans to corporate customers		*5 817*	*55 939*
Other financial assets	13	(220)	(156)
Proceeds from disposal of loans		-	60 075
Recovery of Credit loss allowance		**5 460**	**115 858**

21 Fee and commission income and expense

In thousands of Russian Roubles	2019	2018
Fee and commission income		
Fee on operations with Parent bank	224 431	275 073
Settlement operations	87 755	75 277
Currency control	44 503	45 221
Guarantees and letters of credit issued	20 126	17 666
Other	2 241	2 659
Total fee and commission income	**379 056**	**415 896**
Fee and commission expense		
Foreign exchange operations	43 402	36 959
Settlement operations	12 196	11 226
Guarantees and letters of credit received	964	5 868
Other	4 283	3 102
Total fee and commission expense	**60 845**	**57 155**

22 Gains less losses from trading in foreign currencies, financial instruments at FVTPL and remeasurement of currency position

Gains less losses from Trading with Foreign Currencies and Financial Instruments at Fair Value through Profit or Loss include all profit and loss items relating to financial instruments managed in the trading book and financial instruments that the Bank has designated as at fair value through profit or loss under the fair value option, other than interest income and expense which are recognised in Net interest income in Note 19.

In thousands of Russian Roubles	2019	2018
Trading in foreign currencies and financial instruments at fair value through profit or loss	761 229	(297 529)
Remeasurement of currency position	(457 112)	429 355
Total net gain from trading in foreign currencies, financial instruments at FVTPL and remeasurement of currency position	**304 117**	**131 826**

23 Administrative and other operating expenses

In thousands of Russian Roubles	Note	2019	2018
Staff costs		521 957	484 194
IT maintenance and data processing		131 587	165 256
Depreciation of right of use assets	11	93 789	-
Professional services		82 902	48 840
Other costs related to equipment		37 017	41 587
Provision for impairment of assets	12	26 997	-
Depreciation of equipment	12	24 075	26 028
Amortisation of intangibles	12	13 861	10 304
Rent expense		13 325	109 827
Communication and transportation		10 072	55 853
Business travel and related expenses		7 703	12 311
Recruitment		1 455	3 102
Other		20 299	17 204
Total administrative and other operating expenses		**985 039**	**974 506**

Included in staff costs are statutory tax and charges paid of RR 63 370 thousand (2018: RR 78 739 thousand).

Included in staff costs for 2019 is the accrual of deferred share-based compensation in amount of RR 4 437 thousand (2018: accrual of RR 3 054 thousand).

24 Income taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Russian Roubles	2019	2018
Current income tax	33 270	330 411
Deferred income tax	-	(4 916)
Income tax expense for the year	**33 270**	**325 495**

24 Income taxes (continued)

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

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

In thousands of Russian Roubles	2019	2018
Profit before tax	**380 575**	**467 261**
Theoretical tax charge at statutory rate, 20% (2018: 20%)	76 115	93 452
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible items	5 694	(16 409)
- Income on government securities taxed at different rates	(11 090)	(10 802)
Adjustment for previous year income tax	6 749	24 508
Effect of deferred tax asset unrecognition	(44 198)	234 746
Income tax expense for the year	**33 270**	**325 495**

(c) 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 and is recorded at the rate of 20% (2018: 20%), except for income on state securities, which is taxed at 15% (2018: 15%).

In thousands of Russian Roubles	1 January 2019	(Charged)/credited to profit or loss	31 December 2019
Tax effect of (taxable)/deductible temporary differences			
Premises and equipment	(6 422)	1 004	(5 418)
Right of Use Assets and Lease Liabilities	-	(11 170)	(11 170)
Credit loss allowance of loans	(12 676)	19 128	6 452
Fair valuation of derivatives	214 806	(195 504)	19 302
Fair valuation of securities at FVTPL	(1 246)	6 094	4 848
Deferral of fees	-	636	636
Accruals	41 219	(12 344)	28 875
Other	(935)	1 608	673
Tax losses carried forward	-	140 539	140 539
Effect of deferred tax asset unrecognition	(234 746)	50 009	(184 737)
Net deferred income tax asset/(liability)	**-**	**-**	**-**

In thousands of Russian Roubles	1 January 2018	Effect of transition to IFRS 9	(Charged)/ credited to profit or loss	31 December 2018
Tax effect of (taxable)/deductible temporary differences				
Premises and equipment	(7 042)	-	620	(6 422)
Credit loss allowance of loans	(5 693)	20 214	(27 197)	(12 676)
Fair valuation of derivatives	(36 200)	-	251 006	214 806
Fair valuation of securities at FVTPL	(11 508)	3 563	6 699	(1 246)
Deferral of fees	1 118	-	(1 118)	-
Accruals	30 569	-	10 650	41 219
Other	63		(998)	(935)
Unrecognised other potential deferred tax assets	-	-	(234 746)	(234 746)
Net deferred income tax liability	**(28 693)**	**23 777**	**4 916**	**-**

24 Income taxes (continued)

(d) Tax loss carry forwards

The Bank has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RR 140 539 thousand (2018: RR nil thousand).

(e) Net current income tax prepayment / (liability)

Net current income tax prepayment / (liability) comprise the following:

In thousands of Russian Roubles	2019	2018
Current income tax prepayment	225	195
Current income tax liability	(7 820)	(138 122)
Net current income tax liability	**(7 595)**	**(137 927)**

No tax litigation provision is created as of December 2019 (2018: no litigation provision). Refer to Note 28.

25 Reconciliation of liabilities arising from financing activities

The table below sets out an analysis of Bank's debt and the movements in Bank's debt for each of the periods presented. The liabilities are those that are reported as financing in the statement of cash flows.

In thousands or Russian Roubles	Subordinated debt	Lease liabilities	Total
Liabilities from financing activities at 1 January 2018	**5 580 326**	**-**	**-**
Cash flows	(1 036 803)	-	-
Foreign exchange adjustments	931 826	-	-
Other non-cash movements	(366)	-	-
Liabilities from financing activities at 31 December 2018	**5 474 983**	**-**	**5 474 983**
Adoption of IFRS 16, *Leases*	-	416 487	416 487
Liabilities from financing activities at 1 January 2019	**5 474 983**	**416 487**	**5 891 470**
Cash flows	(2 286 814)	(103 734)	(2 390 548)
Foreign exchange adjustments	(464 318)	(6 751)	(471 069)
Other non-cash movements	554	142 368	142 922
Liabilities from financing activities at 31 December 2019	**2 724 405**	**448 370**	**3 172 775**

26 Financial risk management

Integrated risk management. The Bank’s risk and capital management system is aimed at ensuring the Bank’s sustainable growth as part of its strategy implementation and is consistent with the nature and scope of the Bank’s operations and with the level and combination of its accepted risks. The Bank’s risk management policies aim to identify, analyse, measure and manage the risks taken by the Bank, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits.

The fundamental principles underlying the Bank’s risk and capital management system are defined in the Regulations on Banking Risks Capital Management.

Risks management system in the Bank is organized in compliance with Russian legislation as well as risk management requirements and policies of BNP Paribas Group. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions and to emerge best practice in risk management.

Main objectives of the banking risks management:

- Reveal the risks inherent to the Bank’s activity, as well as new types of risks to which the Bank may be exposed in the process of implementation of its strategy (potential risks);
- Highlight, assess and aggregate the risks material for the Bank;
- Identify, monitor and manage Risk Appetite of the Bank;
- Control over the amounts of material risks;
- Control over the total (aggregated) amount of all risks accepted by the Bank;
- Ensure compliance with statutory ratios set by the Central Bank of Russia and the amount of an open foreign exchange position of the Bank;
- Develop banking risks management system in correspondence with the character and volume of operations carried out by the Bank, the level and the combination of risks (the proportionality principle);
- Improve existing and develop new approaches to banking risks management;
- Take risk assessment into account when making management decisions related to business development and pricing.

Key authority of decision-making bodies with regard to banking risks and capital management:

The ***Supervisory Board*** is responsible for proper operation of the risk management control system, including key risk management. It approves the Regulations on Banking Risks Capital Management, the Risk Appetite Statement and the first level limits of the Bank and monitors their compliance with the Bank’s Strategy, Financial and Capital Plan and takes into account the impact of strategic decision-making on the Risk Profile of the Bank.

The ***Management Board*** of the Bank approves the procedure for management of all significant risks, has overall responsibility for monitoring and implementation of risk mitigation measures and makes sure that the Bank operates within the established risk limits. It ensures the availability of processes and procedures for the effective identification, assessment, monitoring and reporting relevant to the Bank’s risk profile and makes decisions on establishing, operating and improving the banking risks management system.

The following committees are responsible for the Bank’s risk management:

- Credit Committee;
- Assets and Liabilities Committee;
- Internal Control Committee;
- New Activity/Transactions Committee.

26 Financial risk management (continued)

Regulations on Banking Risks Capital Management defines significant risks as risks associated with the Bank’s key areas of operations realisation of which may result in significant direct and indirect losses, impact assessment of capital adequacy and the opportunities available to achieve budget targets and objectives.

Depending on the activity, scale, specifics of the Bank’s operations, the Bank’s significant risks in 2019 included credit risk, market risk, liquidity risk, operational risk, interest rate risk in the banking portfolio and concentration risks.

For each significant risk, the Bank defines the methodology to assess such risk and identify the capital needs, including stress-testing procedures and methods used by the Bank to reduce and manage the risk.

In order to control volumes of significant risks the transparent and clear system of decision-making and setting limits by Management and Supervisory Board of the Bank is implemented.

Risk Appetite and Limits are based on phase of the business activity cycle, maximum aggregate volume of risk that the Bank is predisposed to take on the basis of Bank’s strategic objectives, target business development indicators, ongoing and planned risks structure. Risk appetite and Limits are defined as a set of quantitative and qualitative indicators that are cascaded through a hierarchical system of limits on activities, the types of significant risks, divisions and other sections.

As part of controlling its limits, the Bank sets a system of signal and ultimate level of limits. The Bank controls significant risks by comparing the amounts of risks assumed with the established limits.

The Bank’s objectives when ***managing capital*** are:

- Maintain a sufficient capital base in accordance with its risk profile and risk appetite;
- Maintain capital at the level adequate to comply with regulatory requirements;
- Capital planning should include assessment of significant risks, results of stress testing and Bank’s strategy;
- Maintain the balance between capital adequacy and profitability of capital.

In line with these objectives, the capital generated and invested by the Bank is the key management focus.

The internal capital management and planning process is performed in line with the Bank’s Strategy and is based on the methods mentioned in Instruction of the Bank of Russia No. 180-I of 28 June 2017 “On Bank’s obligatory Ratios” and 646-P of July 4, 2018 “On the methods of determining the amount of own funds (capital) of credit institutions (“Basel III”).

In managing of its capital the Bank seeks to:

- maintain sufficient, but not excessive level of capital to provide financial strength in accordance with the Bank’s Strategy, its risk appetite and risk profile in order to support business growth and satisfy the requirements of the regulator and stakeholders;
- keep optimised overall debt to equity structure to enhance the returns to shareholders, subject to capital risk profile and balancing the requirements of stakeholders;
- rigorously allocate capital to risk, to drive value adding growth through optimising risk and return;
- declare dividends with reference to factors including financial sustainability, growth in cash flows and earnings, maintenance of regulatory ratios.

The amount of capital that the Bank managed as of 31 December 2019 was RR 10 330 082 thousand (2018: RR 12 984 649 thousand).

During the reporting period the Bank complied with the requirements to regulatory capital adequacy ratios in accordance with Instruction of the Bank of Russia No. 180-I of 28 June 2017.

26 Financial risk management (continued)

Credit risk. The Bank takes on exposure to credit risk, which is the risk of Bank’s losses resulting from non-performance, improper or incomplete performance of financial obligations by the borrower / counterparty to the Bank in accordance with the agreement terms. Exposure to credit risk arises as a result of the Bank’s lending and other transactions with counterparties giving rise to financial assets.

The Bank’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 28. The credit risk for corporate loans is mitigated by guarantees and other collateral.

Counterparty credit risk is the risk of loss associated with the failure of a counterparty to fulfil its contractual obligations at the financial markets such as derivatives. The amount of this risk varies over time in line with market parameters that impact the value of the transaction.

Credit risk management

General credit policy and credit control and provisioning procedures. The Bank’s lending activities are governed by the Credit Policy, internal procedures on credit risk management which are based on the regulations and rules of BNP Paribas Group and local regulatory requirements.

The main Bank’s regulations in the frame of credit risk management are Credit Policy, Regulation on Concentration Risk Management, Stress-Testing Methodology, Limit Policy and other internal operational procedures of the Bank.

Credit Policy defines the basic principles and standards of the credit process, credit risk management stages, decision-making process, credit portfolio monitoring and credit risk assessment process.

Decision-making process. A system of discretionary lending limits has been established in the Bank, under which all lending decisions must be approved by the Credit Committee. The Credit Committee consists of the Delegation Holder, authorised representative of Credit risk Department (who has advisory vote and veto right) and the invitees from Corporate Coverage Department. The Credit Committee decision is taken based on the credit proposal prepared by the commercial representatives and the opinion of Credit Risk Department. Depending on the credit amount, tenor and type of transaction, the additional approval of higher-level authorized body of BNP Paribas Group may be required.

All existing credit limits are subject to annual review by the Credit Committee.

Expected credit losses calculation. For the purposes of compliance with local regulatory requirements and IFRS 9 prescriptions, the Bank has developed an internal set of approaches for calculation of expected credit losses (ECL).

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 probabilities of default occurring in a given time period used as weights).

ECL measurement is based on the following components used by the Bank: Probability of Default (“PD”), Exposure at Default (“EAD”), Loss Given Default (“LGD”) and the Credit Conversion Factor (“CCF”):

$$ECL = EAD \times PD \times LGD \times CCF$$

Probability of default (PD) is a relative assessment of the probability of improper fulfilment by a borrower/counterparty of its obligations, either partially or fully, within certain period of time.

Loss given default (“LGD”) is a relative assessment of the amount of loss that the Bank would face in the event of the counterparty’s/borrower’s default.

Exposure at default (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. The EAD on credit related commitments is estimated using Credit Conversion Factor (“CCF”).

26 Financial risk management (continued)

CCF is a coefficient that reflects the probability of conversion of the committed amounts to an on-balance sheet exposure. CCF estimates the portion of off-balance sheet exposure at risk depending on the type of commitment type and assessed on the basis of common market benchmarks.

The level of expected credit losses (ECL) that is recognised in these financial statements depends on whether the credit risk has increased significantly since initial recognition. Depending on factors indicative of a significant increase in credit risk and/or impairment (default) as at the reporting date, all financial instruments are designated to one of the following Stages of impairment.

- Stage 1 – a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition, ECLs are estimated for 12 months starting from the reporting date.
- Stage 2 – if since initial recognition a significant increase in credit risk (“SICR”) is identified, the financial instrument is moved to Stage 2; the expected credit losses are measured based on the lifetime of the financial instrument.
- Stage 3 – if a financial instrument is credit-impaired or defaulted, it is moved to Stage 3. 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.

Significant increase in credit risk (SICR) factors and default factors, their thresholds, their level of application (to the financial instrument or the counterparty overall) as well as grounds for improving of credit quality are specified within Internal Methodology for Credit Loss Assessment. Basic factors are: past-due information on the counterparty’s financial instruments, expected significant change in the financial instrument’s quality, an actual or expected internal/external credit rating downgrade, an actual or expected significant change in the operating results of the counterparty, other relevant information available to the Bank.

The factors can be applied at the counterparty level as well as at the financial instrument level. If a factor is applied at the level of borrower/counterparty, when such factor arises for one financial instrument, it is considered that all financial instruments of such borrower/counterparty have experienced a SICR. In case the factor is applied at the level of a financial instrument, the occurrence of this factor for one financial instrument does not result in a significant increase in credit risk for other financial instruments of that counterparty.

If there is an evidence that SICR criteria are no longer met, a credit should be transferred back to Stage 1.

For purposes of measuring PD, the Bank defines default as the presence of signs of impairment (events of default), indicating the counterparty’s inability to meet its obligations on time and/or in full amount. The default event is equivalent to the impairment event.

Purchased or originated credit impaired asset (“POCI”) is a facility for which impairment factors are observed at the recognition date.

The expected credit losses calculation for Stage 1 facilities is based on 12-month horizon for which the annual probability of default is adjusted to factual tenor of an instrument. The ECL for Stage 2 facilities is calculated based on lifetime PD of the counterparty.

Counterparties or financial instruments assessed as defaulted are classified in Stage 3. Credit loss allowance for the assets classified in Stage 3 should be calculated on an individual basis. Individual assessment of expected credit losses takes into account the time value of money, as well as reasonable information about past, current and forecast future economic conditions. For the purpose of assessing the provision on a case-by-case basis for each financial instrument, possible scenarios for debt recovery are identified.

ECL for Stage 3 financial instruments is calculated as the difference between the current carrying amount and the present value of cash flows expected for each scenario of debt recovery, weighted by the probability of occurrence of that scenario.

26 Financial risk management (continued)

Internal probability of default scale. Based on historical data for annual financial statements and bankruptcy/readjustments notifications for the latest six-year period as well as macro-economic parameters forecasts (3-year horizon), statistical models calculating counterparty’s probability of default (as a key parameter for ECL assessment) were created for the following segments:

- Small and middle entities (“SME”) with revenues ≤ RR2 billion (based on Russian statutory financial statements);
- Corporates, large entities (“LE”) with revenues ≥ RR 2 billion (based on Russian statutory financial statements);
- Large corporates (based on IFRS financial statements).

The counterparty’s probability of default is expressed via rating. The internal rating Master-scale (see below) consists of 7 ratings. Ratings from 1 to 6 cover performing clients and rating 7 relates to clients classified as defaulted.

Master-scale of probability of default on internal ratings

Rating	LE	SME
1	0.30%	0.30%
2	0.75%	0.98%
3	1.85%	3.18%
4	4.49%	9.79%
5	10.51%	26.39%
6	22.70%	54.23%
7 – Default	100.00%	100.00%

For the counterparties having an external credit rating (assigned by Moody’s, Fitch or S&P) or belonging to a group that benefits from an external credit rating, such credit rating is considered by the Bank when defining probability of default of such counterparty. The Moody’s rating scale is considered as basic.

External ratings compliance table

Moody’s	S&P	Fitch	Average expected PD
Aaa	AAA	AAA	
Aa1	AA+	AA+	0.01%
Aa2	AA	AA	0.01%
Aa3	AA-	AA-	0.01%
A1	A+	A+	0.02%
A2	A	A	0.03%
A3	A-	A-	0.04%
Baa1	BBB+	BBB+	0.06% – 0.10%
Baa2	BBB	BBB	0.13% – 0.21%
Baa3	BBB-	BBB-	0.26% – 0.48%
Ba1	BB+	BB+	0.69%
Ba2	BB	BB	1.00% – 1.46%
Ba3	BB-	BB-	2.11% – 3.07%
B1	B+	B+	4.01%
B2	B	B	5.23% – 8.06%
B3	B-	B-	9.53% – 13.32%
Caa1	CCC+	CCC+	15.75%
Caa2	CCC	CCC	18.62%
Caa3	CCC-	CCC-	21.81%
Ca-C	CC-C	CC-C	100.00%

Monitoring procedures. A comprehensive risk monitoring and reporting system has been established in the Bank in accordance with the Group standards and requirements of the Bank of Russia. The main aim of the system is to identify early the deterioration of financial standing of the borrowers / counterparties and to take measures to decrease the probability of counterparties default and minimize credit risk.

26 Financial risk management (continued)

Credit risk monitoring is performed on the level of the counterparties and transactions as well as on the level of the overall credit portfolio. The various monitoring levels are carried out. The first level of control is performed by Business and Operational units, Corporate Credit Control unit is responsible for the second level of control. There are special committees at the Bank and the Group levels for monitoring files on the watch list and non-performing exposures.

The Bank sets the systems of limits for monitoring credit risk of the whole credit portfolio, such as monitoring of different types of concentration (exposure on one borrower/group of borrowers, industry), non-performing loans ratio and others. Monitoring of such credit risk limits/metrics is done on a regular basis by the relevant departments of the Bank.

To mitigate credit risk of the Borrowers the Bank uses different instruments, mainly the guarantees (sureties) issued by the borrower’s parent company, a third party bank, guarantees/stand-by letters of credit issued by BNP Paribas S.A. or other banks of BNP Paribas Group.

Impairment procedures. All corporate loans in default are reviewed on a monthly basis by the Credit Committee to determine the amount of any impairment loss to be recognised, either by reducing the carrying amount or by recording a provision for impairment. The amount of the impairment loss is based on the present value of probable net recoveries, including the realisation of collateral.

An advanced automatic system for impairment decisions, movements and reporting is installed in the Bank and is used by the entitled representatives of the Business lines, Finance and Credit Risk Department.

Market risk is the risk of financial losses as a result of unfavourable changes in the current (fair) value of financial instruments and in foreign exchange rates. Market risk includes currency, interest rate and price risks.

The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate, all of which are exposed to general and specific market movements. The Bank sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant than the expected market movements.

Market risks arise mainly on the trading activities carried out by the Global Markets department within Corporate and Institutional Banking.

The Bank has developed the Regulation on Market Risk Management regulating the procedure of assessing and controlling such risk which is approved by the Bank's Management Board.

At 31 December 2019 and 31 December 2018, the Bank’s trading portfolio was composed by financial assets at fair value through profit or loss, and included only derivative financial instruments.

At 31 December 2019, market risk used to calculate capital adequacy ratios in accordance with Instruction of the Bank of Russia No. 180-I and Regulation of the Bank of Russia No. 511-P “On the Procedure for Market Risk Calculation by Credit Institutions” of 3 December 2015 was RR 1 106 813 thousand (2018: RR 1 675 731 thousand).

Interest rate risk *as a part of market risk* is the risk of fluctuation of the value of a financial instrument as a result of market interest rate changes.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Bank sets limits on the acceptable level of interest rate risk and regularly monitors the set limits.

26 Financial risk management (continued)

The table below presents the Trading Book exposure to interest rate risks based on Present Value per 1 basis point (PV’01).

	As at 31 December 2019		As at 31 December 2018	
In thousands of Russian Roubles	**Potential Impact on Income**	**Potential Impact on Equity**	**Potential Impact on Income**	**Potential Impact on Equity**
RUB	28	22	428	342
EUR	(44)	(35)	(200)	(160)
USD	30	24	(244)	(195)

Currency risk *as a part of market risk* is the risk that the value of an instrument or of future cash flows from that instrument will fluctuate due to changes in foreign exchange rates.

Calculation of risk-weighted assets. The Bank calculates its net position in each currency. Amounts (limits) of open foreign exchange positions are calculated as ratios of open foreign exchange positions in a single foreign currency and precious metal, a balancing position in Russian roubles, the overall amount of all open foreign exchange positions in a single foreign currency and precious metal to own funds (capital) of the Bank.

In respect of currency risk, the Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily, taking into account requirements of Instruction of the Bank of Russia No. 178-I.

The table below summarises the Bank’s exposure to foreign currency exchange rate risk at the balance sheet date:

	As at 31 December 2019				As at 31 December 2018			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Deriva-tives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deriva-tives**	**Net position**
Russian Roubles	31 202 327	24 022 605	1 627 050	8 806 772	29 881 274	25 992 978	4 497 204	8 385 500
US Dollars	5 026 172	4 054 588	(1 441 660)	(470 076)	12 629 439	8 287 156	(4 311 957)	30 326
Euros	4 107 856	4 267 364	112 765	(46 743)	4 854 850	4 190 490	(713 497)	(49 137)
British Pound	355 903	69 904	(308 048)	(22 049)	739 453	53 093	(545 782)	140 578
Other	107 986	58	(85 438)	22 490	46 640	2 060	1	44 581
Total	**40 800 244**	**32 414 519**	**(95 331)**	**8 290 394**	**48 151 656**	**38 525 777**	**(1 074 031)**	**8 551 848**

The above analysis includes only monetary assets and liabilities. 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 periods, with all other variables held constant:

	At 31 December 2019	**At 31 December 2018**
In thousands of Russian Roubles	**Impact before tax**	
US Dollar strengthening by 30% (2018: strengthening by 20%)	(141 023)	6 065
US Dollar weakening by 30% (2018: weakening by 20%)	141 023	(6 065)
Euro strengthening by 30% (2018: strengthening by 20%)	(14 023)	(9 827)
Euro weakening by 30% (2018: weakening by 20%)	14 023	9 827
British Pound Sterling strengthening by 30% (2018: strengthening by 20%)	(6 615)	28 116
British Pound Sterling weakening by 30% (2018: weakening by 20%)	6 615	(28 116)

26 Financial risk management (continued)

Operational risk is the risk of losses resulting from inadequate or failed internal processes and systems, from violations by employees or external events.

At 31 December 2019, the amount of operational risk used to calculate capital adequacy ratios in accordance with Instruction of the Bank of Russia No. 180-I and Regulation No. 652-P “On the Procedure for Calculating Operational Risk” was RR 232 348 thousand (2018: RR 306 618 thousand).

In order to minimise its operational risk, the Bank adopts a set of measures aimed to reduce the probability of events or circumstances resulting in operational losses and/or to decrease (limit) the amount of potential operational losses. The following operational risk mitigation methods are applied:

- Developing systems for automation of banking technologies and information security:
  - the maximum possible automation of the Bank’s internal procedures;
  - automation of routine and repetitive activities;
  - reconciliation of accounting systems data;
  - audit (recording and monitoring) of users’ activities;
  - access control;
  - developing protection from unauthorised access to information systems;
  - developing protection from unauthorised transactions with the use of information systems;
  - applying “four eyes” principle for data input and processing;
  - developing a plan to eliminate the identified deficiencies
- Analysing the reasons of operational risks, followed by development and implementation of action plans to prevent such operational risks in the future;
- Analysing innovations on a preliminary basis (e.g. introduction of new technologies, banking products or individual deals) to identify potential risk factors and implement controls;
- In its internal documents, the Bank focuses on compliance with principles of segregation of duties, accountability for banking and other transactions performed;
- The Bank’s procedure applied to approval of internal documents excludes the opportunity of approval of documents without taking into account the operational risk factors;
- Using the standard functionality and software documentation supplied by providers of the banking software. Development and implementation of non-standard functionality is followed by preparation of a detailed technical and user’s documentation;
- The Bank’s staff rotation programme allows it to identify positions which are critical for business processes continuity either due to a high level of importance, or because of specific knowledge and skills required for such position;
- Passing risks to third parties (outsourcing);
- Insurance of the Bank’s assets from damage or loss resulting from accidents or actions by third parties. Insurance of staff from accidents and personal injuries. Professional indemnity insurance of the Bank’s management. Comprehensive insurance of the Bank’s losses resulting from various types of fraud, cybercrime insurance.
- Adoption by the Bank of measures to ensure its business continuity and/or recovery.

Interest rate risk of the banking portfolio represents the risk of deterioration of the Bank’s financial position due to decrease in equity, revenue level and value of assets as a result of market interest rate changes as applied to the banking portfolio instruments.

The list of financial instruments exposed to interest rate risk in the bank portfolio is defined based on criteria applied for inclusion in Reporting Form 0409127 “Disclosure of Interest Rate Risk” in accordance with Regulation of the Bank of Russia No. 4927-U.

26 Financial risk management (continued)

To assess interest rate risk of the bank portfolio, the Bank uses gap analysis assuming changes in interest rate levels by 400 basis points according to Procedure for completing Reporting Form 0409127, except for sensitivity to shift in interest rate curve.

In accordance with the method of interest rate risk assessment in the bank portfolio applied by the Bank, based on the scenario of changes in interest rate levels by 400 basis points in case of one-time increase (decrease) of interest rates, the Bank's net interest income at 31 December 2019 would have changed by RR 137 million.

The Bank limits its interest rate risk in the bank portfolio by setting limits. Limits are set to ensure compliance with the Bank's risk appetite and regulatory requirements.

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**	**Over 12 months**	**Non-interest-bearing**	**Total**
As at 31 December 2019						
Financial assets	26 863 997	986 558	3 918 825	2 495 423	8 726 535	42 991 338
Financial liabilities	16 063 266	6 785 189	2 538 943	-	9 313 546	34 700 944
Net interest sensitivity gap as at 31 December 2019	**10 800 731**	**(5 798 631)**	**1 379 882**	**2 495 423**	**(587 011)**	**8 290 394**
Cumulative interest sensitivity gap as at 31 December 2019	**10 800 731**	**5 002 100**	**6 381 982**	**8 877 405**	**8 290 394**	**-**
As at 31 December 2018						
Financial assets	32 436 820	915 399	1 915 638	5 708 969	7 879 346	48 856 172
Financial liabilities	18 617 795	10 158 559	3 919 956	-	7 608 014	40 304 324
Net interest sensitivity gap as at 31 December 2018	**13 819 025**	**(9 243 160)**	**(2 004 318)**	**5 708 969**	**271 332**	**8 551 848**
Cumulative interest sensitivity gap as at 31 December 2018	**13 819 025**	**4 575 865**	**2 571 547**	**8 280 516**	**8 551 848**	**-**

26 Financial risk management (continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date:

	2019				2018			
In % p.a.	**RR**	**USD**	**EUR**	**Other**	**RR**	**USD**	**EUR**	**Other**
Financial assets								
Placements with other banks with original maturities of less than 3 months	6.0	1.6	-	-	7.6	2.4	-	-
Loans and advances to customers	10.2	3.8	1.4	-	11.4	2.9	4.7	-
Investment in debt securities	7.3	-	-	-	7.2	-	-	-
Derivative financial instruments at fair value through profit or loss	-	-	-	-	9.2	-	1.5	-
Financial liabilities								
Due to other banks	5.4	-	(0.5)	-	6.5	3.2	(0.3)	-
Customer accounts								
- Term deposits	6.0	0.9	-	-	6.9	1.8	-	-
Subordinated debt	-	3.7	-	-	-	4.9	-	-
Derivative financial instruments at fair value through profit or loss	9.1	-	-	-	9.5	-	1.5	-

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

The table below presents the exposure of other financial instruments to interest rate risks based on Present Value per 1 basis point (PV’01).

	As at 31 December 2019		As at 31 December 2018	
In thousands of Russian Roubles	**Potential Impact on Income**	**Potential Impact on Equity**	**Potential Impact on Income**	**Potential Impact on Equity**
RUB	581	465	336	269
EUR	(2)	(1)	(1)	(1)
USD	(59)	(47)	(88)	(71)

Liquidity risk. Liquidity risk means the risk of financial losses resulting from the Bank's inability to meet its obligations timely and in full. Such risk results from mismatch of maturities of the Bank's assets and liabilities or unforeseen necessity to meet its financial liabilities immediately or all at once.

The Bank manages its liquidity risk based on its internal documents, specifically, the Liquidity Management Policy. The following principles are underlying the Bank’s liquidity management strategy:

- maintaining a well-balanced level of the Bank’s intraday, short-, mid- and long-term liquidity;
- diversification of assets and liabilities;
- liquidity risk mitigation;
- optimisation of liquidity ratios.

The Bank’s liquidity management system includes two elements:

- short-term liquidity management system;
- the Bank’s balance-sheet liquidity management system.

26 Financial risk management (continued)

The acceptable liquidity risk level is defined by the Bank’s Supervisory Board in its Risk Appetite Statement which includes target liquidity risk indicators. The Policy for Liquidity Management and Monitoring is approved by the Supervisory Board. The Bank's Management Board is responsible for the current implementation of the above-mentioned Policy and for current liquidity management, delegating operational functions to the Assets and Liabilities Committee (ALCO). ALCO is responsible for ensuring efficient liquidity management, organisation of liquidity monitoring and implementation of the related decisions.

Monitoring of the state of liquidity and implementation of related decisions remains with the Treasury. The Treasury is responsible for developing liquidity calculation methodologies, performing analysis of real liquidity of assets and liabilities, defining liquidity deficit/surplus values and their maximum acceptable values, calculating cap on investments in various types of assets by maturities. The Treasury is also responsible for concluding transactions in order to regulate the Bank’s liquidity and for the Bank’s compliance with mandatory liquidity ratios.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2, Statutory requirement: >=15), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 85.0% as at 31 December 2019 (2018: 83,7%).
- Current liquidity ratio (N3, Statutory requirement: >=50), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 150.0% as at 31 December 2019 (2018: 182,8%).
- Long-term liquidity ratio (N4, Statutory requirement: <=120), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 31.2% as at 31 December 2019 (2018: 28.5%). The liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Risk Management Department.

In order to determine the Bank’s current requirement for liquidity, including surplus/deficit of liquidity, it introduces limits (restrictions) on financial operations in Russian roubles and foreign currencies. Based on payment schedules, the difference between the remitted and accrued amounts is calculated which represents the Bank’s requirement in rouble and foreign currency liquidity separately in each currency.

Liquidity projection is prepared by the Treasury based on the tables which takes into account the real maturities of assets and liabilities separately in each currency and based on the planned placement and attraction of funds and opportunities of their placement and attraction, as well as taking into account the general national economic situation.

Analysis of financial assets and liabilities by the remaining maturity (based on contractual undiscounted cash flows)

The tables below show financial assets and financial liabilities as at 31 December 2019 and 2018 by their remaining contractual maturity. The amounts disclosed represent 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. Net settled derivatives are included at the net amounts expected to be paid. 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 forward exchange rate at the end of the reporting period.

26 Financial risk management (continued)

The maturity analysis of financial instruments as 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 12 months**	**Total**
Assets					
Cash and cash equivalents	31 908 698	-	-	-	31 908 698
Mandatory cash balances with CBRF	264 312	74 114	36 387	-	374 813
Derivatives and financial assets at fair value through profit or loss	709 363	773 909	853 316	10 779	2 347 367
- Cash inflow	*18 987 069*	*16 358 627*	*19 613 363*	*1 971 836*	*56 930 895*
- Cash outflow	*(18 277 706)*	*(15 584 718)*	*(18 760 047)*	*(1 961 057)*	*(54 583 528)*
Due from other banks and financial institutions	-	-	-	20 000	20 000
Investment in debt securities	36 500	14 875	595 207	2 693 250	3 339 832
Loans and advances to customers	141 045	355 397	1 421 907	4 323 631	6 241 980
Other financial assets	-	24 968	270 431	-	295 399
Total financial assets	33 059 918	1 243 263	3 177 248	7 047 660	44 528 089
Liabilities					
Derivative financial liabilities	246 881	1 404 959	782 459	56 773	2 491 072
- Cash inflow	*(9 554 053)*	*(23 758 970)*	*(16 684 831)*	*(1 488 955)*	*(51 486 809)*
- Cash outflow	*9 800 934*	*25 163 929*	*17 467 290*	*1 545 728*	*53 977 881*
Due to other banks	8 092 882	483 939	102 135	246 348	8 925 304
Customer accounts	20 429 501	4 042 487	2 016 282	-	26 488 270
Lease liability	937	1 990	88 530	442 970	534 427
Other financial liabilities	34 124	21 863	16 030	-	72 017
Subordinated debt	-	25 355	36 739	3 054 987	3 117 081
Total potential future payments for financial obligations	28 804 325	5 980 593	3 042 175	3 801 078	41 628 171
Liquidity gap arising from financial instruments	4 255 593	(4 737 330)	135 073	3 246 582	2 899 918
Cumulative liquidity gap arising from financial instruments	4 255 593	(481 737)	(346 664)	2 899 918	**-**

26 Financial risk management (continued)

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

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 12 months**	**Total**
Assets					
Cash and cash equivalents	37 891 413	-	-	-	37 891 413
Mandatory cash balances with CBRF	261 067	71 308	52 789	-	385 164
Derivatives and financial assets at fair value through profit or loss	(177 245)	(199 845)	598 059	(2 549)	218 420
- Cash inflow	*37 354 477*	*1 591 164*	*7 796 323*	*17 236*	*46 759 200*
- Cash outflow	*(37 531 722)*	*(1 791 009)*	*(7 198264)*	*(19 785)*	*(46 540 780)*
Due from other banks and financial institutions	-	-	-	20 000	20 000
Investment in debt securities	31 100	530 000	659 200	2 966 900	4 187 200
Loans and advances to customers	112 428	508 070	1 447 861	5 221 510	7 289 869
Other financial assets	-	1 399	174 654	-	176 053
Total financial assets	**38 118 763**	**910 932**	**2 932 563**	**8 205 861**	**50 168 119**
Liabilities					
Derivative financial liabilities	(2 533 260)	627 009	899 361	38 943	(967 947)
- Cash inflow	*(10 926 456)*	*(18 074 719)*	*(13 557 981)*	*(54 377)*	*(42 613 533)*
- Cash outflow	*8 393 196*	*18 701 728*	*14 457 342*	*93 320*	*41 645 586*
Due to other banks	6 849 345	111 622	186 182	1 607 796	8 754 945
Customer accounts	16 606 014	4 578 055	3 533 500	-	24 717 569
Other financial liabilities	540	15 338	47 301	-	63 179
Subordinated debt	-	2 473 773	41 977	3 929 350	6 445 100
Total potential future payments for financial obligations	**20 922 639**	**7 805 797**	**4 708 321**	**5 576 089**	**39 012 846**
Liquidity gap arising from financial instruments	**17 196 124**	**(6 894 865)**	**(1 775 758)**	**2 629 772**	**11 155 273**
Cumulative liquidity gap arising from financial instruments	**17 196 124**	**10 301 259**	**8 525 501**	**11 155 273**	**-**

26 Financial risk management (continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors contractual maturities, which may be summarised as follows as at 31 December 2019 and 31 December 2018:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 12 months**	**Total**
As at 31 December 2019					
Financial assets	32 981 521	1 051 875	2 556 350	6 401 592	42 991 338
Financial liabilities	22 574 655	5 384 799	3 224 184	3 517 306	34 700 944
Net liquidity gap based on expected maturities as at 31 December 2019	**10 406 866**	**(4 332 924)**	**(667 834)**	**2 884 286**	**8 290 394**
As at 31 December 2018					
Financial assets	38 409 192	965 567	2 201 152	7 280 261	48 856 172
Financial liabilities	23 663 708	7 653 955	4 306 308	4 680 353	40 304 324
Net liquidity gap based on expected maturities as at 31 December 2018	**14 745 484**	**(6 688 388)**	**(2 105 156)**	**2 599 908**	**8 551 848**

As part of the day-to-day management of liquidity, in the event of a temporary liquidity crisis, the Bank’s most liquid assets constitute a financing reserve enabling the Bank to adjust its treasury position by selling them on the repo market or discounting them with the Central Bank. If there is a prolonged liquidity crisis, the Bank may have to gradually reduce its total balance sheet position by selling assets outright.

Some of the Bank’s less liquid assets (customer loans) may be collateralised within Central Bank refinancing facility. Liquidity risk is also reduced by the diversification of financing sources in terms of structure, investors, and secured/unsecured financing.

27 Management of capital

The Bank’s objectives when managing capital are (i) to comply with the minimum capital requirements set by the Central Bank of the Russian Federation; (ii) to safeguard the Bank’s ability to continue as a going concern; (iii) to maintain the balance between return and risk; (iv) to support the dividend policy while protecting shareholders and other stakeholder interests.

In line with these objectives, the capital generated and invested by the Bank is the key management focus.

Management of capital is the ongoing process of determining and maintaining the quantity and quality of capital appropriate for the Bank, which the Bank performs in compliance with the requirements and policies of BNP Paribas Group applicable to capital managing.

The internal capital management and planning process is performed in line with the Bank’s strategy and is based on the methods mentioned in Instruction of the Bank of Russia No. 180-I of 28 June 2017 “On Bank’s obligatory Ratios” and 646-P of 4 July 2018 “On the methods of determining the amount of own funds (capital) of credit institutions (“Basel III”).

27 Management of capital (continued)

In managing of its capital the Bank seeks to:

- maintain sufficient, but not excessive level of capital to provide financial strength in accordance with the Bank’s strategy, its risk appetite and risk profile in order to support business growth and satisfy the requirements of the regulator and stakeholders;
- keep optimised overall debt to equity structure to enhance the returns to shareholders, subject to capital risk profile and balancing the requirements of stakeholders;
- rigorously allocate capital to risk, to drive value adding growth through optimising risk and return;
- declare dividends with reference to factors including financial sustainability, growth in cash flows and earnings, maintenance of regulatory ratios.

The amount of capital for statutory requirements that the Bank managed as at 31 December 2019 was RR 10 330 082 thousand (2018: RR 12 984 649 thousand). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank’s Chief Executive Officer and Chief Accountant.

Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital ratio”) above a prescribed minimum level. Regulatory capital is based on the Bank’s reports prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	**31 December 2019**	**31 December 2018**
Tier 1 Capital under Russian GAAP	**8 695 772**	**8 262 385**
Subordinated debt and adjustments	1 634 310	4 722 264
Tier 2 Capital	**1 634 310**	**4 722 264**
Total Regulatory Capital	**10 330 082**	**12 984 649**

The Bank calculates capital adequacy ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- N1.0 Capital adequacy ratio based on Total Capital (Statutory requirement: >=8) was 50.3% as at 31 December 2019 (2018: 66.7%).
- N1.1 Capital adequacy ratio based on Tier 1 Capital (Statutory requirement: >=4.5) was 42.4% as at 31 December 2019 (2018: 42.4%).

28 Contingencies and commitments

Tax contingencies. Russian tax 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 successfully challenged by relevant 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.

28 Contingencies and commitments (continued)

Management believes that the procedure for taxation of transactions employed by the Bank fully complies with Russian tax legislation. Nevertheless, there is a risk that the positions taken by the Bank may be challenged by tax authorities. The impact of such controversial situations cannot be estimated with sufficient reliability.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) although has specific characteristics. 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. The management has implemented an internal control system to meet the requirements of the current transfer pricing legislation. In respect of some types of transactions (including transactions with securities and derivative contracts) there are special rules for determination of the market prices.

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.

Capital expenditure commitments. Set out below are capital expenditure commitments in respect of which the Bank has already allocated the necessary resources. The Bank believes that future net income and funding will be sufficient to cover this and any similar commitments.

In thousands of Russian Roubles	**31 December 2019**	**31 December 2018**
IT upgrades and development	58 055	30 971
Other capital expenditure commitments	1 728	2 018
Total capital expenditure commitments	**59 783**	**32 989**

Compliance with covenants. The Bank is not subject to any covenants related primarily to its borrowings as at 31 December 2019 and 31 December 2018.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and stand-by 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.

28 Contingencies and commitments (continued)

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**31 December 2019**	**31 December 2018**
Revocable undrawn credit lines	10 355 070	11 238 132
Financial guarantees issued	2 582 266	2 227 834
Performance guarantees issued	3 819 621	3 506 987
Total credit related commitments and performance guarantees	**16 756 957**	**16 972 953**
Less: Credit loss allowance for revocable undrawn credit lines	-	(33 550)
Less: Credit loss allowance for guarantees issued	(1 011)	(11 327)
Total credit related commitments, net of provision	**16 755 946**	**16 928 076**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantee contracts represent 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 Bank uses historical data and statistical techniques to predict levels of such payments.

As at 31 December 2019 and 31 December 2018 the guarantees were measured at the higher of (i) the amount of the premium initially recognised and amortised on a straight-line basis and (ii) the amount representing the best estimate of the payment required when a payment becomes probable. As at 31 December 2019 the estimated fair value of credit related commitments was not material (2018: not material).

As at 31 December 2019 the Bank’s revocable undrawn credit lines are uncommitted and not bearing credit risk.

28 Contingencies and commitments (continued)

An analysis of credit related commitments by credit quality based on credit risk rating at 31 December 2019 is as follows:

In thousands of Russian Roubles	**31 December 2019 Stage 1 (12-month ECL)**	**31 December 2018 Stage 1 (12-month ECL)**
Financial guarantees		
Externally rated		
- Aa3	9 477	561 295
- Ba3	250 000	455 000
- Baa1	77 278	-
- Baa3	283 498	384 820
Internally rated		
- 2	1 680 157	-
- 4	241 856	826 719
- 5	40 000	-
Unrecognised gross amount	**2 582 266**	**2 227 834**
Credit loss allowance for financial guarantees	**(1 011)**	**(9 713)**
Performance guarantees		
Externally rated		
- A3	1 526 758	801 238
- Aa3	423 712	636 152
- Ba1	317 700	354 170
- Baa1	30 466	64 503
- Baa2	1 507 870	1 650 924
Internally rated		
- 2	13 115	-
Unrecognised gross amount	**3 819 621**	**3 506 987**
Credit loss allowance for performance guarantees	**-**	**(1 614)**
Revocable undrawn credit lines		
Externally rated		
- A1	1 386 815	-
- A2	2 443 596	2 207 100
- A3	3 173 242	3 898 764
- Baa3	1 000 000	1 915 180
Internally rated		
- 3	501 417	1 617 088
- 5	450 000	200 000
- 6	1 400 000	1 400 000
Unrecognised gross amount	**10 355 070**	**11 238 132**
Credit loss allowance for revocable undrawn credit lines	**-**	**(33 550)**

28 Contingencies and commitments (continued)

Refer to Note 26 for the description of credit rating methodology used by the Bank and the approach to ECL measurement.

Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	31 December 2019	31 December 2018
RR	13 312 740	12 697 888
USD	5 623	1 389 412
EUR	3 438 594	2 885 653
Total credit related commitments and performance guarantees	**16 756 957**	**16 972 953**

Assets pledged and restricted. Mandatory cash balances with the CBRF of RR 374 813 thousand (2018: RR 385 164 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day-to-day operations.

Guarantee deposit with Clearing Institution of RR 20 000 is restricted cash, i.e. not available for the purposes of funding Bank's activities.

29 Fair value of financial assets

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.

(a) Financial instruments carried at fair value

All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair values of derivatives are based on observable market prices or valuation models.

29 Fair value of financial assets (continued)

For financial instruments carried at fair value, the levels in the fair value hierarchy into which the fair values are categorized in the table below (Level 1 reflects the quoted price in an active market; Level 2 reflects valuation technique with inputs observable in markets):

	31 December 2019		31 December 2018	
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 1**	**Level 2**
FINANCIAL ASSETS				
Derivatives and other financial assets carried at fair value				
- Cross currency interest rate swaps	-	-	-	562 590
- Foreign exchange swaps	-	161 997	-	77 158
- Foreign exchange forwards	-	1 972 582	-	54 904
- Foreign exchange options	-	53 548	-	8 009
- Foreign exchange spots	-	2 967	-	1 729
- Interest rate swaps	-	-	-	126
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**-**	**2 191 094**	**-**	**704 516**
FINANCIAL LIABILITIES				
Derivatives and other financial liabilities carried at fair value				
- Cross currency interest rate swaps	-	-	-	(556 439)
- Foreign exchange forwards	-	(68 351)	-	(758 048)
- Foreign exchange swaps	-	(2 061 603)	-	(403 197)
- Interest rate swaps	-	(100 989)	-	(49 841)
- Foreign exchange options	-	(53 548)	-	(8 009)
- Foreign exchange spots	-	(1 787)	-	(2 335)
- Market risk provision	-	(147)	-	(678)
TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**-**	**(2 286 425)**	**-**	**(1 778 547)**

The Bank uses discounted cash flow valuation techniques to determine the fair value of derivative financial instruments that are not traded in an active market. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. These models use observable market inputs, therefore, derivative financial instruments are reported as level 2.

Exposure to credit risk associated with derivative financial instruments is primarily managed by entering into contracts with the Parent bank, which substantially mitigates the exposure on the Bank's level.

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

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

29 Fair value of financial assets (continued)

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

In thousands of Russian Roubles	Note	31 December 2019 Level 3 fair value	31 December 2018 Level 3 fair value
FINANCIAL ASSETS			
Cash and cash equivalents	7	31 882 041	37 874 014
Mandatory cash balances		374 813	385 164
Due from other banks and financial institutions		20 000	20 000
Loans and advances to customers	10	5 289 213	6 035 980
Investment in debt securities	9	2 938 778	3 660 445
Other financial assets	13	295 399	176 053
TOTAL		**40 800 244**	**48 151 656**

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

In thousands of Russian Roubles	Note	31 December 2019 Level 3 fair value	31 December 2018 Level 3 fair value
FINANCIAL LIABILITIES			
Due to other banks	14	8 894 783	8 522 118
Customer accounts	15	20 274 944	24 465 497
Other financial liabilities	17	72 017	63 179
Lease liabilities	25	448 370	-
Subordinated debt	16	2 724 405	5 474 983
TOTAL		**32 414 519**	**38 525 777**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

30 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) equity instruments at FVOCI and (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.

All of the Bank's financial assets fell in the financial assets carried at AC measurement category except for financial derivatives. All of the Bank's financial liabilities except for derivatives were carried at AC. Derivatives belonged to the FVTPL measurement category.

30 Presentation of financial instruments by measurement category (continued)

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

In thousands of Russian Roubles	**FVTPL (designated)**	**AC**	**Total**
ASSETS			
Cash and cash equivalents	-	31 882 041	31 882 041
Mandatory cash balances	-	374 813	374 813
Derivative financial instruments	2 191 094	-	2 191 094
Due from other banks and financial institutions	-	20 000	20 000
Investments in debt securities	-	2 938 778	2 938 778
Loans and advances to customers	-	5 289 213	5 289 213
Other financial assets	-	295 399	295 399
TOTAL FINANCIAL ASSETS	**2 191 094**	**40 800 244**	**42 991 338**

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

In thousands of Russian Roubles	**FVTPL (designated)**	**AC**	**Total**
ASSETS			
Cash and cash equivalents	-	37 874 014	37 874 014
Mandatory cash balances	-	385 164	385 164
Derivative financial instruments	704 516	-	704 516
Due from other banks and financial institutions	-	20 000	20 000
Investments in debt securities	-	3 660 445	3 660 445
Loans and advances to customers	-	6 035 980	6 035 980
Other financial assets	-	176 053	176 053
TOTAL FINANCIAL ASSETS	**704 516**	**48 151 656**	**48 856 172**

At 31 December 2019 and 2018 all of the Bank’s financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

Financial instruments designated at fair value through profit or loss represents all profit and loss items relating to financial instruments managed in the trading book and financial instruments that the Bank has designated as at fair value through profit or loss under the fair value option, excluding foreign exchange gains and losses from the translation into the reporting currency which are recognised in “Remeasurement of currency positions”.

31 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. Entities of BNP Paribas Group are presented by the branches and subsidiaries of BNP Paribas S.A. (Parent Bank).

31 Related party transactions (continued)

At 31 December 2019 and 2018, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	31 December 2019 Parent Bank	31 December 2019 Entities of BNP Paribas Group	31 December 2018 Parent bank	31 December 2018 Entities of BNP Paribas Group
Cash and cash equivalents (contractual interest rate: 2019: 0% - 6.15%, 2018: 0% - 7.5%)	11 604 651	97 294	12 858 337	183 593
Net of derivatives at fair value thought profit and loss	(2 036 447)	-	431 540	-
Loans and advances to customers (contractual interest rate: 2019: 8.66% - 19.29%; 2018: 8.66% - 20.63%)	-	4 828 503	-	4 200 119
Other financial assets	270 942	38	175 047	3
Other non-financial assets	-	-	137	-
Due to other banks (contractual interest rate: 2019: -0.438% - 7.25%; 2018: -0,38% - 6,5%	7 239 280	1 305 453	5 857 089	1 822 859
Customer accounts (contractual interest rate: 2019: 0% - 6.5%; 2018: 0% - 7.15%)	-	639 927	-	978 205
Other financial liabilities	14 376	16 133	41 582	4 807
Subordinated debt (contractual interest rate: 2019: 3.71% - 3.71%; 2018: 4.56% - 5.44%)	2 724 405	-	5 474 983	-

The income and expense items with related parties for 2019 and 2018 were, as follows:

In thousands of Russian Roubles	2019 Parent Bank	2019 Entities of BNP Paribas Group	2018 Parent Bank	2018 Entities of BNP Paribas Group
Interest income	636 616	469 673	390 999	493 040
Interest expense	(245 105)	(77 680)	(388 332)	(71 782)
Credit loss allowance	7	(143)	72	(110)
Net result from trading in foreign currencies and financial derivatives	(6 579 092)	619	1 049 051	(81)
Fee and commission income	261 344	9 428	297 073	9 817
Fee and commission expense	(167)	(11)	(635)	(5 233)
Provision for credit related commitments	68	273	(68)	(49)
Administrative and other operating expenses	(73 032)	(8 718)	(53 753)	(29 466)

At 31 December 2019 and 2018, other rights and obligations with related parties were, as follows:

In thousands of Russian Roubles	2019 Parent Bank	2019 Entities of BNP Paribas Bank	2018 Parent Bank	2018 Entities of BNP Paribas Bank
Guarantees issued by the Bank at the year end	433 189	107 745	1 197 448	64 503
Guarantees received by the Bank in course of lending operations at the year end	433 189	6 625 761	6 714 299	173 761

The remuneration paid to key management for 2019 and 2018 were, as follows:

In thousands of Russian Roubles	2019	2018
Short-term benefits	81 491	58 463
Long-term benefits	4 350	4 328
Share-based compensation	3 267	2 593

31 Related party transactions (continued)

Key management personnel are members of Management Board of the Bank.

Non-monetary benefits to key management in 2019 was RR 17 302 thousand (2018: RR 12 034 thousand)

Social taxes paid under remuneration to key management for 2019 was RR 4 629 thousand (2018: RR 3 358 thousand)

At 31 December 2019 and 2018 the Bank's immediate and ultimate parent company was BNP Paribas S.A.

32 Subsequent events

Late in 2019 information first emerged from China about the spread of the COVID-19 virus (Coronavirus). As at 31 December 2019, a limited number of cases of virus infection was reported to the World Health Organization. In the first few months of 2020, the virus has spread globally and its negative impact has increased. Management considers this outbreak to be a non-adjusting event after the reporting date. While this is still an evolving situation, Management considers it almost impracticable to give quantitative assessment of the potential impact on the Bank.

At the time of issuing these financial statements, there was a considerable change of currency rates, falling quotes in financial markets and also reduction of prices for oil and gas. In light of these negative market trends, the Bank assessed the influence of changes of market quotes and currency rates, and came to a conclusion that the Bank will continue to comply with regulatory requirements of the regulator, including requirements for capital adequacy according to Basel III.