Bank ICBC (Joint Stock Company)

Financial Statements
prepared in accordance with IFRS
and Independent Auditors' Report
as at 31 December 2019

Moscow 2020

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Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank ICBC (joint-stock company) (the "Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying 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 International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the independence requirements that are relevant to our audit of the annual financial statements in the Russian Federation and with the International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audited entity: Bank ICBC (joint-stock company)

Registration No. in the Unified State Register of Legal Entities № 1077711000157.

Moscow, Russia

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.

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.

Auditors' 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 auditors' 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 skepticism 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 auditors' 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 auditors' 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 of findings from procedures performed in accordance with the requirements of Federal Law No. 395-1, dated 2 December 1990, *On Banks and Banking Activity*

Management is responsible for the Bank's compliance with mandatory ratios and for maintaining internal control and organizing risk management systems in accordance with requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No. 395-1, dated 2 December 1990, *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

— the Bank's compliance with mandatory ratios as at 1 January 2020 established by the Bank of Russia; and

— whether the elements of the Bank's internal control and organisation of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

— Based on our procedures with respect to the Bank's compliance with the mandatory ratios established by the Bank of Russia, we found that the Bank's mandatory ratios as at 1 January 2020 were within the limits established by the Bank of Russia.

  We have not performed any procedures on the accounting records maintained by the Bank other than those which we considered necessary to enable us to express an opinion as to whether the Bank's 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 2019 year in accordance with the International Financial Reporting Standards.

— Based on our procedures with respect to whether the elements of the Bank's internal control and organisation of its risk management systems comply with the requirements established by the Bank of Russia, we found that:

  - as at 31 December 2019, the Bank's Internal Audit function was subordinated to, and reported to, the Board of Directors, and the risk management function was not subordinated to, and did not report to, divisions taking relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;

  - the Bank's internal documentation, effective on 31 December 2019, establishing the procedures and methodologies for identifying and managing the Bank's significant credit, market, operational, concentration, liquidity and interest rate risks, and for stress-testing was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;

  - as at 31 December 2019, the Bank maintained a system for reporting on the Bank's significant credit, market, operational, concentration, liquidity and interest rate risks, and on the Bank's capital;

- the frequency and consistency of reports prepared by the Bank's Risk Management and Internal Audit functions during 2019, which cover the Bank's credit, market, operational, concentration, liquidity and interest rate risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's Risk Management and Internal Audit functions as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2019, the Board of Directors and the Management Board of the Bank had responsibility for monitoring the Bank's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Bank's risk management procedures and their consistent application during 2019 the Board of Directors and the Management Board of the Bank periodically discussed reports prepared by the Risk Management and Internal Audit functions, and considered the proposed corrective actions.

Procedures with respect to elements of the Bank's internal control and organisation of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:

Mesheryakov S.Y.

JSC "KPMG"

Moscow, Russia

21 April 2020

(Thousands of Russian Roubles)

Statement of Profit or Loss and Other Comprehensive Income

	Note	2019	2018
Interest income calculated using the effective interest method	5	2 395 902	2 668 134
Other interest income	5	22 980	-
Interest expense	5	(1 291 706)	(907 255)
Net interest income	5	**1 127 176**	**1 760 879**
Change in allowance for expected credit losses on interest-bearing debt financial assets	11,12,13,14,16	45 900	318 858
Net interest income after change in allowance for expected credit losses		**1 173 076**	**2 079 737**
Net gains from transactions with foreign currencies and financial derivatives		775 499	460 342
Operating income		**775 499**	**460 342**
Fee and commission income	6	99 124	96 345
Fee and commission expense		(39 596)	(13 274)
Net fee and commission income		**59 528**	**83 071**
Change in other reserves	16,19	2 135	(781)
Other operating income		30 956	11 704
Operating expenses	7	**(887 647)**	**(880 025)**
Profit before income tax		**1 153 547**	**1 754 048**
Income tax expense	8	(212 565)	(320 162)
Net profit		**940 982**	**1 433 886**
TOTAL COMPREHENSIVE INCOME		**940 982**	**1 433 886**

Approved for issue and signed on behalf of the Management Board of the Bank on 21 April 2020

President — Li Wencong

Chief Accountant — Natalia V. Kuzmina

АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1077711000157
АйСиБиСи Банк
(акционерное общество)
Bank ICBC
(joint stock company)
* МОСКВА *

The accompanying notes are an integral part of these financial statements.

(Thousands of Russian Roubles)

Statement of Financial Position

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	11	7 682 672	10 893 642
Mandatory cash balances with the Central Bank of the Russian Federation		330 237	488 663
Amounts due from financial institutions	12	19 806 080	21 002 974
Financial assets measured at fair value through profit or loss	12,25	783 509	-
Loans and advances to customers	13	21 979 853	22 360 039
Investment securities	14	9 098 615	9 964 691
Property and equipment and intangible assets	15	110 883	107 587
Other assets	16	115 377	146 563
Total assets		**59 907 226**	**64 964 159**
LIABILITIES			
Amounts due to financial institutions	17	16 686 465	24 725 618
Amounts due to customers	18	22 548 224	18 896 374
Subordinated loans	20	7 497 055	8 425 850
Other liabilities and reserves	19	289 092	250 943
Total liabilities		**47 020 836**	**52 298 785**
EQUITY			
Share capital and share premium	21	10 809 500	10 809 500
Retained earnings	21	2 076 890	1 855 874
Total equity		**12 886 390**	**12 665 374**
Total liabilities and equity		**59 907 226**	**64 964 159**

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Statement of Changes in Equity

	Note	Share capital and share premium	Retained earnings	Total equity
Balance as at 1 January 2018		**10 809 500**	**2 819 154**	**13 628 654**
The effect of transition to IFRS 9 as at 1 January 2018, net of deferred tax		-	(40 418)	(40 418)
Recalculated balance as at 1 January 2018		**10 809 500**	**2 778 736**	**13 588 236**
Total comprehensive income for the year ended 31 December 2018		-	1 433 886	**1 433 886**
Dividends paid	10	-	(2 356 748)	**(2 356 748)**
Balance as at 31 December 2018		**10 809 500**	**1 855 874**	**12 665 374**
Balance as at 1 January 2019		**10 809 500**	**1 855 874**	**12 665 374**
Total comprehensive income for the year ended 31 December 2019		-	940 982	**940 982**
Dividends paid	10	-	(719 966)	**(719 966)**
Balance as at 31 December 2019		**10 809 500**	**2 076 890**	**12 886 390**

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Statement of Cash Flows

	Note	2019	2018
Cash flows from operating activities			
Interest received		2 630 521	2 671 928
Interest paid		(1 657 863)	(689 973)
Fees and commissions received		99 124	96 345
Fees and commissions paid		(39 596)	(13 274)
Receipts from transactions with foreign currencies		1 683 734	24 669
Other operating income received		30 956	11 704
Operating expenses paid		(874 005)	(862 283)
Income tax paid		(274 560)	(273 283)
Cash flows from operating activities before changes in operating assets and liabilities		**1 598 311**	**965 833**
Net change in obligatory reserves with the Central Bank of the Russian Federation		158 426	(139 903)
Net change in due from financial institutions		(1 139 281)	2 769 630
Net change in loans and advances to customers		(1 717 212)	(3 385 637)
Net change in other assets		(28 453)	20 739
Net change in due to financial institutions		(6 005 573)	11 800 866
Net change in due to customers		5 025 491	(4 766 585)
Net change in other liabilities		98 708	7 403
Net cash from/(used in) operating activities		**(2 009 583)**	**7 272 346**
Cash flows from investing activities			
Purchase of investment securities		(7 354 595)	(15 226 264)
Proceeds from disposal of investment securities		7 895 766	10 539 080
Purchase of property and equipment and intangible assets		(1 811)	(24 233)
Proceeds from sale of property and equipment		(106)	-
Net cash from/(used in) investing activities		**539 254**	**(4 711 417)**
Cash flows from financing activities			
Proceeds from issue of subordinated loans		-	3 950 468
Repayment of lease liabilities	15	(59 538)	-
Dividends paid	10	(719 966)	(2 356 748)
Net cash from/(used in) financing activities		**(779 504)**	**1 593 720**
Effect of exchange rate changes on cash and cash equivalents		(961 137)	1 673 885
Net increase/(decrease) in cash and cash equivalents		**(3 210 970)**	**5 828 534**
Cash and cash equivalents at the beginning of the reporting period	11	10 893 642	5 065 108
Cash and cash equivalents at the end of the reporting period	**11**	**7 682 672**	**10 893 642**

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Notes to the Financial Statements

1 Principal activity

Bank ICBC (joint stock company) (the "Bank") was established in 2007.

The Bank's sole shareholder is Industrial and Commercial Bank of China Limited, the ultimate controlling party of which is the People's Republic of China represented by the Ministry of Finance of the RRC.

The structure of the owners (shareholders) of the Bank is represented in the table below:

Owner (shareholder)	31 December 2019	31 December 2018
Industrial and Commercial Bank of China Limited	100.00%	100.00%
Total	**100.00%**	**100.00%**

The Bank has the following licenses issued by the Central Bank of the Russian Federation (the "Bank of Russia"):

- the general license No.3475 was granted to ICBC Bank (JSC) on 26 January 2018;
- brokerage operations, license No.045-13990-100000 issued on 18 August 2016;
- depositary operations, license No.045-13992-000100 issued on 18 August 2016;
- dealing operations, license No.045-13991-010000 issued on 18 August 2016;

The Bank is a participant of a deposit insurance system, certificate No.1009 dated 17 November 2016.

The principal activities of the Bank are the following: legal entities and individuals deposit taking (on demand and for a specific term); placement of attracted funds of legal entities and individuals on its behalf and for its own account; opening and maintenance of the banks' accounts of legal entities and individuals; settlements on behalf of legal entities and individuals including correspondent banks on their bank accounts; cash and settlement documents collection, providing cash services to individuals and legal entities; foreign exchange trading on a cash and non-cash basis; issuing bank guarantees; money transfers on behalf of individuals without opening bank accounts (except for postal transfer), professional services at the securities market.

The Chairman of the Board of Directors is Cui Liang.

The structure of the Bank operating in the Russian Federation includes:

- Branch of ICBC Bank (JSC) in Saint-Petersburg located at 12-14 Litera A, Khersonskaya Street, Saint-Petersburg, 191024, Russian Federation;
- GREENWOOD supplementary office of ICBC Bank (JSC) located at building 17, Greenwood, 69th km of MKAD, Putilkovo settlement, Krasnogorsky District, Moscow Region, 143441, Russian Federation.

The Bank's principal place of business is Moscow, Russian Federation.

The average number of people employed in 2019 was 156 (2018: 157 employees).

2 Business environment

The Bank's operations are primarily located in the Russian Federation and the Bank is exposed to the economic environment of the Russian Federation.

According to Rosstat at the end of 2019 inflation in Russia was 3.0%, slowing down compared to the previous year (in 2018 inflation was 4.3%). The rapid inflation slowdown continues to be driven by a lot of significant temporary factors.

The continuing positive credit impulse from corporate lending expansion is underpinning domestic demand in the economy. Domestic demand growth is accelerating due to the recovery of household consumer spending and an accommodative fiscal policy since the second half of 2019.

Inflation slowdown encourages the growth of real household income and consumer demand. The gradually monetary easing currently at least does not hinder the growth of economic activity.

In 2019, the economic environment remained stable despite a number of short-term commodity market shocks. The average RUB exchange rate in 2019 (RUB 64.7/USD 1) was strong due to inflows to the federal loan bonds, the continued trade surplus and the appearance of a local liquidity deficit in the banking system at the end of 2019. The GDP increased by 1.3% in 2019. A slowdown in inflation and a reduction in inflation expectations caused the Bank of Russia to move towards easing the monetary policy, reducing the key rate from 7.75% to 6.25% in 2019.

This year's reduction in the key rate, as well as the incentivising budget policy in 2020, taking into account prolonged time lags. The current high inflation expectations may also be a factor in returning inflation to the target.

The year 2019 for Russian banking sector was characterised by decrease in the interest rates.

Corporate lending dynamics slowed slightly in 2019 (+4.5%) compared to 2018 (+5.8%). This is due to a weak demand for loans from high-quality borrowers in the face of slow economic growth and cautious approaches to new investment projects. In addition, first-class borrowers have partially reoriented to the corporate bond market to attract long-term financing at lower interest rates.

Growth in corporate lending is also constrained by high credit risks of borrowers.

The situation with liquidity in the banking sector remained generally favourable.

A reduction in the number of high-quality corporate borrowers, as well as strict measures taken by the Bank of Russia to limit the growth of retail lending, contributed to the surplus liquidity. At the same time, major banks and the subsidiaries of foreign banks still have the surplus of cheap liquidity.

As for the volume of profit of the banking sector for 2019, it equalled RUB 2 trillion, which is 51% more than in the previous year. However, the increase in the financial result compared to the previous year according to the estimates of the Bank of Russia is mainly of a technical nature as a result of the application by banks of adjustments in accordance with IFRS 9. Net of the effect of IFRS 9 and net of the profit of banks under financial rehabilitation managed by the Banking Sector Consolidation Fund, the profit of the banking system equalled RUB 1.3 trillion, which is 11% lower than in 2018.

In order to ensure reliable and stable operation and further development, the Bank intends to focus on risk management and regulatory control issues. In order to ensure continued compliance with the conservative risk appetite policy established by the Shareholder and the Board of Directors, ICBC Bank (JSC) will continue to monitor the level of accepted risks and the adequacy of available capital. The Bank also regularly performs stress testing of significant risks, the results of which prove the balanced risk appetite policy of ICBC Bank (JSC), which, in the Bank's opinion, will be a key factor during a period of macroeconomic instability and volatility of global financial markets.

Ongoing international sanctions against Russia, internal economic structural changes, including changing regulatory requirements of the Bank of Russia, as well as significant global market disruption caused by the coronavirus in the first months of 2020, together with other factors, led to a sharp decline in oil prices and stock indices, as well as to a depreciation of the Russian Rouble. These developments are further increasing the level of uncertainty in the Russian business environment, and therefore the development of operations in 2020 will be a difficult task for the Bank. The Central Bank of the Russian Federation takes various measures to support the banking system, which will further facilitate the compliance with prudential requirements.

The management of the Bank takes all necessary and appropriate measures to maintain the economic stability of the Bank under the current conditions, and believes that the Bank has the potential for further normal functioning thereof. The core competencies of the Bank and applicable credit policy allows building the long-term business relationships with major counterparties and provide conditions for the Bank's continued operations.

3 Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

These financial statements are prepared on the historical cost basis except that financial instruments are stated at fair value.

Functional and presentation currency

Financial statements are presented in the national currency of the Russian Federation (Russian Rouble), which is the Bank's functional currency and presentation currency for the purposes of these financial statements. Unless otherwise indicated, the financial statements are presented in thousands of Russian Roubles.

Use of estimates and judgments

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 4;
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

4 Accounting policies

The applied accounting policies are consistent with those applied in the prior financial year, except for the Bank's adoption of new and revised standards mandatory for annual periods beginning on 1 January 2019.

Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments that are not credit-impaired assets at initial recognition the Bank assesses future cash flows taking into account all contractual terms of this financial instrument but without considering expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition less the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected loss allowance.

Calculation of interest income and expenses

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that became credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross carrying value basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation of information

Interest income calculated using the effective interest method presented in the consolidated statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the remainder of the contract.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Financial assets and liabilities

Classification of financial instruments

Upon initial recognition, financial assets are classified as measured either at amortised cost or at fair value through other comprehensive income or at fair value through profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated by the Bank as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- on specified dates contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated by the Bank as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- on specified dates contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income calculated using the effective interest method;
- expected credit losses (ECL) and their reversal; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered by the Bank includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets.

- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI criterion), the Bank will consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- features that modify consideration for the time value of money (e.g. periodic reset of interest rates).

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank assesses whether cash flows related to such modified asset significantly differ. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Changes in the amount of cash flows related to existing financial assets or liabilities are not treated as modification if they arise from the current terms of the agreement, for example, changes of interest rates due to the change of the key rate by the CBRF, if the related loan agreement permits the Bank to change interest rates.

The Bank performs quantitative and qualitative assessment of whether the modification is significant, i.e. whether cash flows related to the original financial asset differ significantly from the modified or new financial asset. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. Similarly, in performing this assessment the Bank acts in line with the requirements with regard to the derecognition of financial liabilities.

The Bank concludes that a modification is significant based on the following qualitative factors:

- change in the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of the terms of a financial asset that leads to non-compliance with the SPPI criterion.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In such case the Bank recalculates the gross carrying amount of the financial asset and recognises the amount of the gross carrying amount adjustment as profit or loss on modification in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such modification is caused by a financial distress of the borrower, the related profit or loss is presented in impairment losses. In other cases, the related profit or loss is presented in interest income calculated using the effective interest method.

For loans with terms permitting the borrower to early repay the loan at face value and with no significant penalties a change of the interest rate to the market level in response to a change in market conditions is accounted for similarly to the accounting treatment for instruments with variable interest rate, i.e. the interest rate is revised prospectively.

As part of its credit risk management the Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'). If the Bank plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the assessment as to whether the modification of terms was significant. As a result, the amount of remaining contractual cash flows related to the original financial asset that are still recognised upon modification is likely to be equal to the amount of new modified contractual cash flows. If, based on the results of a quantitative assessment, the Bank concludes that the modification of financial assets conducted as part of the forbearance policy is not significant, the Bank conducts a qualitative assessment as to whether this modification is significant.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Bank applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Bank recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

The Bank performs quantitative and qualitative assessment of whether modification is material analysing qualitative factors, quantitative factors and the overall effect of qualitative and quantitative factors. The Bank concludes that a modification is significant based on the following qualitative factors:

- change in the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment 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 per cent 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.

Impairment

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantees issued;
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and

– other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime expected credit losses ("lifetime ECLs") are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments which are not purchased or originated credit-impaired assets for which lifetime ECL are recognised are referred to as "Stage 2" financial instruments (in case credit risk on the financial instrument has increased significantly since initial recognition and the financial instrument is not credit-impaired) and "Stage 3" financial instruments (in case financial instrument is credit-impaired).

Measurement of ECL

ECLs are a default probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- for financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantees: the present value of the expected payments to reimburse the holder's credit losses less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised, and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in the calculation of cash shortfalls under the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Definition of default

Under IFRS 9, the Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

Quantitative criteria:

- the probability of default calculated as at the current date exceeds 50%;
- past due payments on principal and/or interest of more than 90 days (inclusive).

Qualitative criteria:

- significant financial difficulties (insolvency) of the borrower;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFSR 9, when determining whether the credit risk (i.e. the risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank first identifies whether a significant increase in credit risk has occurred for an exposure by comparing, among other things, the following:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For some renewable credit arrangements, such as credit cards and overdrafts, the contract date may be very long-standing. A change in the contractual terms of the financial instrument, as discussed below, may also have an impact on this estimate.

The Bank has developed a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly vary by portfolio and include a backstop based on delinquency.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired;
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

An increase in credit risk is defined as material if one or more of the following factors are identified:

Quantitative criteria:

- internal/external rating decreased by more than two grades (inclusive);
- the probability of default calculated as at the current date exceeds 20%;
- past due payments on principal and/or interest of more than 30 days (inclusive) and less than 90 days.

Qualitative criteria:

- significant increase in credit risk on other instruments of the same borrower;
- availability of information on past due loan payments at other credit institutions;
- an actual or expected significant change in the operating results of the borrower including actual or expected declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of

business or organizational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations such as a decline in the demand for the borrower's sales product because of a shift in technology;
- significant changes in the value of collateral supporting the obligation or in the quality of third-party guarantees, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring;
- significant changes such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement that are expected to reduce the borrower's economic incentive to make scheduled contractual payments;
- covenants breach which was not agreed with the Bank and documented;
- actual or expected forbearance or restructuring of the loan related to the borrower's insolvency.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves analysis of the following data:

- Data obtained as a result of a regular analysis of information about borrowers – for example, audited financial statements, management statements, budgets, forecasts and plans
- Payment discipline and overdue status
- Information provided by credit rating agencies, mass media, changes in external credit ratings
- Requests for and granting of forbearance
- Quoted bond and credit default swap (CDS) prices for the borrower where available.
- Existing and forecast changes in business, financial and economic conditions.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Credit risk grades

The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth.

For exposures to specific industries and/or regions, the analysis extends to relevant commodity and/or real estate prices.

Credit-impaired financial assets

At each reporting date the Bank assesses financial assets carried at amortised cost and debt financial assets carried at FVOCI for credit impairment. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

In making the assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Amounts of loss allowance for expected credit losses are presented in the statement of financial position in the following way:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantees: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the amount of the expected credit loss allowance is disclosed and recognised in the revaluation reserve for changes in fair value.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, the Bank can continue to perform activities to collect a loan with regard to written-off financial assets in accordance with the amounts due recovery policy.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank uses expert judgment in assessment of forward-looking information.

The Bank periodically performs stress-testing of more extreme shocks to calibrate its determination of other representative scenarios.

Loss allowance

The key inputs into the measurement of ECLs are the term structures of the following variables:

• probability of default (PD);

• loss given default (LGD);

• exposure at default (EAD).

These parameters are usually derived from internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used by the Bank to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn and potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets, for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, in respect of overdrafts that include both the loan and the undrawn component of the liability assumed, the Bank assesses the expected credit losses during the period exceeding the maximum contractual period, if the Bank's contractual ability to demand the repayment of the loan and to cancel the liability assumed in respect of undrawn funds does not limit the Bank's exposure to the risk of credit losses to the contractual deadline for submitting the notice. These lending instruments do not have a fixed term or payment schedule and are managed on a group basis. The right of the Bank to terminate the contract with immediate effect stipulated by the contract is not exercised by the Bank as part of its normal risk management activities, but only when the Bank becomes aware of an increase in credit risk at the level of the entire lending arrangement. This longer period is assessed based on the credit risk management measures expected to be taken to mitigate expected credit losses. These include the reduction of limits, the cancellation of the loan instrument agreement and/or the transformation of the remaining contract to a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grades;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

Loans and advances to customers

Loans and advances to customers caption in the statement of financial position includes:

- loans to customers measured at amortised cost (Note 13); they are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortised cost using the effective interest method;
- loans to customers mandatorily measured at FVTPL due to the non-conformance with SPPI criterion or designated by the entity as at fair value through profit or loss; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide a loan on pre-agreed terms and on time.

Financial guarantees issued or commitments to provide loans at a below-market interest rate are initially measured at fair value, with their initial fair value being amortised over the life of such guarantee or commitment. Subsequently, they are measured at the higher of the amortised amount initially recognised and the loss allowance amount.

The Bank has no loan commitments that are measured at FVTPL.

The Bank recognises a loss allowance for other loan commitments.

Financial liabilities arising from financial guarantees issued are included in provisions.

Investment securities

Based on the business model and cash flow characteristics, the Bank classifies investments in debt securities at amortised cost or at fair value through other comprehensive income. Debt securities are stated at amortised cost if held to obtain contractual cash flows, these cash flows are solely payments of principal and interest and are not designated to be measured at fair value through profit or loss in order to significantly reduce the accounting mismatch.

Debt securities are recognised at FVOCI if held to obtain contractual cash flows and for sale, are solely payments of principal and interest, and are not measured at fair value through profit or loss. Interest income on these assets is calculated using the effective interest method and is recognised in profit or loss. The impairment allowance based on the expected credit loss model is recognised in profit or loss for the year. All other changes in carrying amount are included in other comprehensive income. Upon derecognition of a debt security, comprehensive income or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks. The mandatory reserve deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Amounts due from financial institutions

Funds with other banks include non-derivative financial assets with fixed payments that are not quoted on the active market provided by the Bank to counterparty banks (including the Bank of Russia), except for:

- overnight placements;
- those that the Bank intends to sell immediately or in the near future and which should be classified as held for trading, and those that, after initial recognition, are designated by the Bank to be measured at fair value through profit or loss;
- those that after initial recognition are designated as available-for-sale;

- those for that the holder will not be able to cover the entire material amount of its initial investment for reasons other than a reduction in creditworthiness, and which should be classified as available-for-sale.

In the Amounts due from financial institutions line of the statement of financial position, the Bank records loans issued and deposits placed with other credit institutions and financial institutions, as well as balances on correspondent nostro accounts that are not cash equivalents.

Amounts due from financial institutions are stated at amortised cost. The amortised cost is based on the fair value of the amount of the loan issued or the deposit placed, calculated taking into account the established interest rates on similar loans and deposits in effect at the date of the loan issuance or deposit placement.

The difference between the fair value and the nominal value of a loan (deposit) arising from the issuance of loans (placement of deposits) at interest rates above or below the established rates is shown in the statement of profit or loss and other comprehensive income at the time of issuance of such loan (placement of a deposit) in Income (expenses) from assets placed at rates above (below) market rates. Subsequently, the carrying amount of these loans (deposits) is adjusted for amortisation of this income/(expense) and interest income is recognised in the statement of profit or loss and other comprehensive income using the effective interest method.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is acquired for sale in the short term. Derivatives with a positive fair value are also designated as financial assets at fair value through profit or loss, unless they are derivatives designated as an effective hedging instrument.

Initially and subsequently, financial assets measured at fair value through profit or loss are recognised at fair value, which is calculated either on the basis of market quotes or using different valuation methods, assuming the possibility of future sale of these financial assets. Depending on the circumstances, different valuation techniques may apply. Published active market price quotes are the best inputs for determining the fair value of the instrument.

In the absence of an active market, techniques are used that include information on recent market transactions between knowledgeable, willing parties independent of each other, the current fair value of another, largely identical instrument, discounted cash flow analysis and option pricing models. If there is a valuation technique widely used by market participants to determine the price of the instrument and has proved the reliability of valuations of price values obtained from actual market transactions, this technique is used.

Realised and unrealised income and expenses on financial assets measured at fair value through profit or loss are recognised in the statement of profit and loss for the period in which they arose, in income net of expenses on transactions with financial assets measured at fair value through profit or loss.

The purchase and sale of financial assets measured at fair value through profit or loss, which must be delivered within the timeframe established by law or convention for the given market (purchase and sale under “standard contracts”), is recorded on the date of conclusion of the transaction, i.e. on the date when the Bank undertakes to buy or sell the asset.

In all other cases such transactions are recognised as derivative financial instruments until the settlement date.

The Bank classifies financial assets at fair value through profit or loss into the respective category at the time of acquisition. Financial assets classified in this category are not reclassified.

Sale (purchase) of securities with a repurchase (resale) obligation, security loans

The transactions of sale of securities with the obligation to repurchase them (“repo”) are considered to be transactions to raise funds for collaterisation of securities.

Transactions involving the purchase of securities with the obligation to resell them (“reverse repo”) are considered to be transactions involving the provision of funds for collaterisation of securities.

Securities acquired under reverse repo transactions are not recognised in the balance sheet.

The difference between the purchase price of a security and the price of reverse repo is recognised as interest income and accrued during the entire term of the repurchase transaction, using the effective interest method.

Securities provided by the Bank as a loan to counterparties continue to be recognised as securities in the Bank’s financial statements.

Securities received as a loan are not recorded in the financial statements. If these securities are sold to third parties, the financial result of the purchase and sale of these securities is recognised in the statement of profit or loss and other comprehensive income in Income less expenses from transactions with financial assets measured at fair value through profit or loss.

The liability to return these securities is recognised at fair value as held for trading in Financial liabilities measured at fair value through profit or loss.

Fair value measurement principles

Fair value is the amount at which an asset can be exchanged or a liability can be settled in a transaction between knowledgeable, willing and independent parties. Fair value is a measurement based on market data, rather than an entity-specific measurement. Financial instruments are considered to be quoted on the active market if their quotations are regularly determined and information thereon is available on the stock exchange through information and analytical systems or other information sources, and if these prices reflect actual and regular market transactions performed by independent market participants.

Fair value of financial instruments quoted on the active market is determined based on:

- exchange market quotations (market prices), usually for financial instruments circulating through trading organisers;
- Bid prices for financial assets and ask prices for financial liabilities, as well as the estimated fair value determined based on data from information and analytical systems (for example, Reuters and Bloomberg), market dealers and other sources.

In the absence of current quotations in the active market, the following information may be used to determine fair value:

- the last quotation (bid (ask) price) according to external independent sources, if there was no material change in economic conditions from the moment of its determination to the reporting date;
- the actual price of the transaction concluded by the Bank under standard terms, if no material change in economic conditions took place from the time of its conclusion to the reporting date.

In the event of a material change in economic conditions, this last quotation (transaction price) should be adjusted for changes in the quotation (transaction price) for similar financial instruments. Debt securities may be subject to adjustment of the indicated last quotation (transaction price) taking into account changes in the maturity of the debt security.

The determination of fair value is based on the going concern assumption of an entity that has no intention or need to be liquidated, significantly curtail its operations or conclude transactions under unfavourable terms. Thus, the fair value is not equivalent to the amount received by the Bank as a result of the performance of a forced transaction, forced liquidation or sale of property for repayment of debts.

Valuation techniques such as discounted cash flow model and analysis of financial information on investees are used to determine the fair value of financial instruments for which information on market prices (quotations) is not available from external sources. If there is a valuation technique for a financial instrument widely used by market participants that confirms that the valuations are consistent with the prices derived from actual market transactions, this valuation technique may be used to determine the price of the instrument.

The valuation technique used may be selected for each specific case of determining fair value, and unless otherwise justified, valuation techniques based on exchange market prices and quoted bid and ask prices are used. Determination of the fair value of financial instruments for which information on market prices (quotations) is not available from external sources depends on various factors, circumstances and requires professional judgment.

The Bank classifies information used in determining the fair value of a financial instrument depending on the significance of the inputs used in valuations as follows:

- current prices (quotations) of the active market for financial instruments identical to the financial instrument being measured (level 1);
- in the absence of information on current prices (quotations) — the price of the most recent transaction concluded on the active market, if there were no material changes in economic conditions from the moment of its conclusion to the end of the reporting period, and current prices (quotations) on comparable financial

instruments, if the conditions have changed since the transaction, as well as information based on data observed on the market (level 2);

- prices calculated using valuation techniques for which inputs are not based on observable market data (level 3).

Foreign currency revaluation

Transactions in foreign currencies are recorded at the official exchange rate of the Bank of Russia effective on the day of the transaction. Foreign exchange differences arising from settlements on transactions in foreign currencies are included in the statement of profit or loss and other comprehensive income at the official exchange rate of the Bank of Russia effective on the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated to the currency of the Russian Federation at the official exchange rate of the Bank of Russia as at the balance sheet date.

Foreign exchange differences related to debt securities and other monetary financial assets stated at fair value are included in income and expenses from the revaluation of foreign currency.

Foreign exchange differences related to non-monetary items, such as equity securities classified as financial assets at fair value through profit or loss, are recognised as part of income or expenses from revaluation at fair value.

Foreign exchange differences for non-monetary financial assets measured at amortised cost and at fair value through other comprehensive income are allocated to equity through the revaluation reserve for available-for-sale financial assets.

As at 31 December 2019, the official exchange rate of the Bank of Russia used to revalue foreign currency balances was as follows:

USD	61.9057
EUR	69.3406
CNY	8.85937

Derivative financial instruments

Derivatives, including currency exchange contracts, interest-rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options, and other derivatives, are initially stated at fair value (typically the acquisition cost, including transaction costs) and are revalued at fair value.

Fair value is calculated based on quoted market prices, cash flow discounting models, option pricing models or year-end spot rates depending on the transaction type. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are allocated to income less expenses from foreign currency transactions, income less expenses from transactions with financial assets measured at fair value through profit and loss, and income less expenses from transactions with precious metals, depending on the type of transaction.

The Bank does not conclude transactions that are defined as hedged in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments: Recognition and Measurement*.

Property and equipment and intangible assets

Where the carrying amount of an asset is greater than its estimated recoverable amount, the carrying amount of the asset is reduced to its recoverable amount and the difference is recognised in the statement of profit or loss. In this case, the positive revaluation is eliminated first, and any additional loss is allocated to the profit and loss account. Impairment losses recognised for property and equipment in previous years are reversed if there has been a change in the estimates used to determine the recoverable amount of property and equipment. The estimated recoverable amount is the higher of the fair value of the asset less costs to sell and its value in use.

Property and equipment are reviewed by the Bank at each reporting date to determine whether there is any indication of impairment. If such indicators exist, the Bank assesses the recoverable amount, which is the higher of the net cost to sale of property and equipment and the value resulting from their use.

Gains and losses arising from the disposal of property and equipment are determined on the basis of their carrying amount and are taken into account when calculating the amount of profit (loss). Repair and maintenance costs are recorded in the statement of profit or loss and other comprehensive income as incurred.

Intangible assets are initially measured at the acquisition cost. Subsequent to initial recognition, they are stated at the acquisition cost less accumulated amortisation and accumulated impairment losses.

Depreciation

Depreciation of items of property and equipment is calculated using the straight-line method, i.e. by evenly reducing their cost to the net book value over the following estimated useful lives:

Group of property and equipment	Depreciation rate
Office equipment	4.9%-48%
Vehicles	1.67%-25%
Furniture and other fittings	4.9%-20%

The depreciation method applied to the asset should be revised at least once at the end of each financial year. Each material change in the approach to asset depreciation will be reflected in the use of the its depreciation method. This change will be accounted for as a change in accounting estimates in accordance with IAS 8 *Accounting Policy, Changes in Accounting Estimates and Errors.*

Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, provided that the residual value of the asset does not exceed its carrying amount. Repair and maintenance of an asset does not eliminate the need to depreciate it.

Depreciation of an asset begins when it becomes available for use, i.e. when the location and condition of the asset ensure its use in accordance with the Bank's intentions. Depreciation of an asset ceases upon its derecognition.

Intangible assets

Intangible assets include identifiable non-monetary assets without physical form. Intangible assets acquired separately are measured on initial recognition at the acquisition cost.

The acquisition cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Subsequent to initial recognition, intangible assets are carried at the acquisition cost less accumulated amortisation and any accumulated impairment losses.

The useful life of an intangible asset is either finite or indefinite. Intangible assets with a finite useful life are amortised over their useful life, which is from 5 to 10 years, and are analysed for impairment if any indicators of possible impairment exist. The useful life and amortisation methods of intangible assets with definite useful lives are analysed at least once per year, at the end of each reporting year.

Changes in the expected useful life or expected pattern of use of a particular asset and the consumption of future economic benefits are recognised by means of changing the useful life or amortisation method (depending on the situation) and are considered to be changes in accounting estimates. Amortisation charges for intangible assets with definite useful lives are recognised in the statement of profit or loss and other comprehensive income in operating expenses.

Intangible assets with indefinite useful lives are not amortised. At the same time, they are analysed annually for impairment either individually or at the level of the unit generating cash flows. The useful life of an intangible asset with indefinite useful lives is analysed to determine whether there are any circumstances confirming the correctness of the existing valuation of the useful life of the asset. Otherwise, the useful life is changed prospectively from indefinite to definite.

Costs related to the use of the software are included in expenses as incurred. Costs directly attributable to identifiable software that is controlled by the Bank and is highly likely to generate economic benefits exceeding the costs over a period exceeding one year are recognised as an intangible asset.

Direct costs include the maintenance of the software development team and an appropriate proportion of general expenses. Expenses that lead to an improvement or expansion of the characteristics of the software compared to its original specifications are recognised as capital expenses and are added to the initial cost of the software. Software development costs recognised as assets are amortised using the straight-line method over their useful lives using the amortisation rates.

Trade and other payables

Trade payables are recognised by the Bank when the counterparty has fulfilled its obligations and are carried at amortised cost.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Share capital and share premium

The share capital is stated at historical cost adjusted to the equivalent of the purchasing power of the Russian Rouble as at 31 December 2002 for contributions to the share capital made before 1 January 2003. Costs directly attributable to the issue of new shares are recognised as a reduction in shareholder equity.

Share premium is the excess of contributions to the share capital over the par value of shares issued.

Income tax

The financial statements show expenses on taxes in accordance with the requirements of the legislation of the Russian Federation.

Income tax expense (benefit) in the statement of profit or loss for the year includes current taxes and changes in deferred taxes. Current taxes are calculated on the basis of expected taxable profit for the year using income tax rates in effect at the balance sheet date. Tax expenses other than on income tax are recorded in administrative and other operating expenses.

Deferred income tax is calculated on the basis of the balance sheet asset and liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are determined using the tax rates expected to be applied in the period when the assets are realised and the liabilities are settled based on the tax rates that were established in the period or actually established at the reporting date.

Deferred taxes arising from revaluation at fair value of available-for-sale financial assets, with the allocation of this revaluation to an increase or decrease in equity, is also directly attributable to equity. When these financial assets are realised, the corresponding deferred tax amounts are recognised in the statement of profit or loss. The carrying amount of the deferred tax asset is revised at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which part or all of those deferred tax assets can be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will be available against which those deferred tax assets can be utilised. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxation authority.

Offsetting

Financial assets and liabilities are offset and the net amount is 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.

Provisions

Provisions are recognised where the Bank has liabilities (legal or constructive) as a result of a past event, and it is highly probable that an outflow of economic resources will be required to settle the liabilities, and a reliable estimate of the amount of the liabilities can be made.

(Thousands of Russian Roubles)

Salary and wages and related payments

Expenses related to the accrual of salary and wages, bonuses, vacation payments, insurance contributions to state extra-budgetary funds are incurred as the Bank's employees perform the corresponding work, and expenses related to the accrual of temporary disability, child care allowances and non-monetary benefits are incurred as they occur.

The Bank undertakes obligations on payments related to unused vacations to the Bank employees. Such liabilities are recognised in the statement of financial position in Other liabilities and provisions, with the simultaneous recognition in the statement of profit or loss and other comprehensive income in respect of vacations for the reporting period and in retained earnings in respect of vacations for periods preceding the reporting period.

Related party transactions

The Bank concludes transactions with related parties. The parties are deemed to be related if one of them has the ability to control the other one, is under common control with the other party, is under joint control of the other party and the third party, or may have a material influence in making financial and operational decisions by the other party.

In considering related party relationships, the Bank takes into account the economic substance of the relationship, not merely the legal form.

Standards issued but not yet adopted

The Bank has not adopted the following new and revised IFRSs issued and not yet effective:

New or revised standard or interpretation	Effective date
IFRS 17 *Insurance Contracts*	1 January 2021
Amendments to IFRS 3 *Definition of a Business*	1 January 2020
Amendments to IAS 1 and IAS 8 *Definition of Materiality*	1 January 2020

Transition to IFRS 16

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

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. According to this model, the Bank, as a lessee, recognises right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. For lessors, accounting principles remain largely unchanged. The Bank applies IFRS 16 using a modified retrospective approach. Therefore, the comparative information presented for 2018 was not restated, i.e. it is presented according to the financial statements for the previous period, in accordance with IAS 17 and related interpretations. Information about the changes in accounting policies is disclosed below.

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases – i.e. it applied IFRS 16 to all contracts entered into after 1 January 2019 that were previously identified as leases under IAS 17 and IFRIC 4. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019. At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component.

As a lessee

The Bank leases a number of assets, including real estate items and vehicles. As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Bank has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(Thousands of Russian Roubles)

The Bank presents right-of-use assets that do not meet the definition of investment property in Property and equipment, the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

	31 December 2019	1 January 2019
Real estate	29,020	85,464
Vehicles	1,736	1,471

The Bank presents lease liabilities in Other liabilities in the statement of financial position.

Significant accounting policies

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Bank has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Bank is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

Previously, the Bank classified property leases as operating leases under IAS 17. At transition to IFRS 16, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Bank applied this approach to all leases.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

– Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
– Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

As a lessor

The Bank does not lease out any investment property, including right-of-use assets. The accounting policies applicable to the Bank as a lessor are not different from those under IAS 17.

Effect of transition to IFRS 16

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

	1 January 2019
Right-of-use assets presented in property and equipment	86 935
Lease liabilities presented in other liabilities	86 935

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 7.6%.

	1 January 2019
Operating lease commitments as at 31 December 2018 as disclosed in the financial statements	**123 932**
Discounted using the incremental borrowing rate at 1 January 2019	86 974
Finance lease liabilities recognised at 31 December 2018	-
Recognition exemption for leases of low-value assets, for leases with less than 12 month lease term at transition and other contracts	(39)
Lease liabilities recognised at 1 January 2019	**86 935**

Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Bank recognised RUB 86 935 thousand of right-of-use assets and RUB 86 935 thousand of lease liabilities as at 1 January 2019. Also, in relation to those leases under IFRS 16, the Bank recognised depreciation and interest costs, instead of operating lease expense. During the year ended 30 December 2019, the Bank recognised RUB 56 179 thousand of depreciation charges and RUB 10,765 thousand of interest costs from these leases.

5 Interest income and expense

Interest income and interest expenses comprise:

	2019	2018
Interest income calculated using the effective interest rate method	**2 395 902**	**2 668 134**
Loans to customers	1 196 023	963 933
Due from financial institutions	653 289	1 168 042
Investment securities	491 429	490 312
Factoring transactions	55 161	45 847
Other interest income		
Financial assets measured at FVTPL	22 980	-
Total interest income	**2 418 882**	**2 668 134**
Interest expense		
Current accounts and deposits from customers	(760 102)	(340 352)
Due to financial institutions	(520 839)	(566 903)
Lease liabilities	(10 765)	-
Total interest expense on financial liabilities not measured at FVTPL	**(1 291 706)**	**(907 255)**
Total interest expense	**(1 291 706)**	**(907 255)**
Net interest income	**1 127 176**	**1 760 879**

6 Fee and commission income

Fee and commission income comprise:

	2019	2018
Settlement transactions	65 478	30 460
Guarantees issued	23 696	23 953
Other fee and commission income	9 637	14 683
Cash transactions	313	27 249
Total fee and commission income	**99 124**	**96 345**

(Thousands of Russian Roubles)

7 Operating expenses

Administrative and other operating expenses comprise:

	2019	2018
Personnel expenses	640 586	628 742
Depreciation	85 450	23 389
Taxes and duties, except for income tax	27 732	24 438
Expenses on property and equipment (maintenance, repairs and sale)	26 678	8 248
Communications	24 646	14 570
Expenses on the intellectual property licence	22 289	16 352
Professional services	19 899	17 738
Security	9 600	9 413
Write-offs of inventories	8 580	10 338
Travel expenses	8 079	6 644
Insurance	5 806	-
Organisational and administrative expenses	3 238	50 696
Operating lease expenses	3 678	65 112
Other	1 386	4 345
Total administrative and other operating expenses	**887 647**	**880 025**

Personnel expenses comprise:

	2019	2018
Personnel expenses		
Payroll expenses	570 618	568 267
Social security contributions	65 821	58 573
Other payments to personnel	4 147	1 902
Total personnel expenses	**640 586**	**628 742**

8 Income tax

Income tax includes the following components:

	2019	2018
Current income tax expense	(279 631)	(293 022)
Changes in deferred taxes due to origination and reversal of temporary differences	67 066	(27 140)
Income tax expense	**(212 565)**	**(320 162)**

The income tax rate applicable to the majority of the Bank's income for 2019 is 20% (2018: 20%).

(Thousands of Russian Roubles)

A reconciliation between the theoretical and the actual income tax expense is provided below:

	2019		2018	
Profit before income tax	1 153 547		1 754 048	
Theoretical income tax expense at 20% rate	(230 709)	20%	(350 810)	20%
Income subject to a special tax rate	26 539	(2%)	25 305	(1%)
Changes in unrecognised deferred tax differences	-	0%	35 530	(2%)
Other	(8 395)	0%	(30 187)	1%
Income tax expense	**(212 565)**	18%	**(320 162)**	**18%**

Differences between IFRS and statutory taxation regulations in the Russian Federation (and other countries) give rise to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Tax effect of changes in temporary differences for 2019 and 2018 is presented at 20% rate (2018: 20%), except for income on state securities which is taxed at 15% (2018: 15%).

Changes in temporary differences during 2019 and 2018 are presented as follows.

2019	Balance as at 1 January 2019	Recognised in profit or loss	Balance as at 31 December 2019
Cash and cash equivalents	34	(23)	11
Amounts due from financial institutions	1 986	168	2 154
Loans and advances to customers	(30 925)	32 290	1 365
Property and equipment	(655)	(4 922)	(5 577)
Investment securities	17 965	6 604	24 569
Other assets	713	(419)	294
Other liabilities and provisions	(6 153)	33 368	27 215
Net deferred tax asset (liability)	**(17 035)**	**67 066**	**50 031**

2018	Balance as at 1 January 2018	Transition to IFRS 9	Recognised in profit or loss	Balance as at 31 December 2018
Cash and cash equivalents	-	-	34	34
Amounts due from financial institutions	36 318	(6 157)	(28 175)	1 986
Loans and advances to customers	2 196	16 243	(49 364)	(30 925)
Property and equipment	(885)	-	230	(655)
Investment securities	(2 656)	19	20 602	17 965
Other assets	557	-	156	713
Other liabilities and provisions	-	-	(6 153)	(6 153)
Unrecognised deferred tax asset	(35 530)	-	35 530	-
Net deferred tax asset (liability)	**-**	**10 105**	**(27 140)**	**(17 035)**

(Thousands of Russian Roubles)

Net deferred tax asset is an amount of income tax which can be offset against future income taxes and are is presented as deferred tax asset in the statement of financial position. Deferred tax asset arising from tax losses carried forward to future periods is recognised to the extent that it is probable that the related tax benefit will be realised. As at 31 December 2019, the Bank recognised deferred tax asset in the amount of RUB 50 031 thousand). (31 December 2018: the Bank recognised deferred tax liability in the amount of RUB 17 035 thousand).

9 Earnings per share

Basic earnings per share are calculated by dividing the net profit (loss) attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year less treasury shares.

The Bank has no dilutive potential ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

	2019	2018
Profit attributable to shareholders – owners of ordinary shares	940 982	1 433 886
Profit for the year	**940 982**	**1 433 886**
Weighted average number of ordinary shares outstanding	432 380	432 380
Diluted earnings per ordinary share	**2.18**	**3.32**

10 Dividends

	2019	2018
	Ordinary shares	Ordinary shares
Dividends payable as at 1 January	-	-
Dividends declared during the year	719 966	2 356 748
Dividends paid during the year	(719 966)	(2 356 748)
Dividends payable as at 31 December	-	-

All dividends are declared and paid in the currency of the Russian Federation in the amount of RUB 1.67 thousand per share (2018: RUB 5.45 thousand per share).

11 Cash and cash equivalents

	31 December 2019	31 December 2018
Cash on hand	**62 532**	**62 765**
Nostro accounts with the CBR	**2 948 963**	**287 121**
Nostro accounts with other banks		
- rated from A- to A+	2 452 978	8 140 899
- rated from BBB- to BBB+	2 218 252	2 403 027
Total nostro accounts with other banks	**4 671 230**	**10 543 926**
Total cash and cash equivalents before allowance for expected credit losses	**7 682 725**	**10 893 812**
Allowance for expected credit losses	(53)	(170)
Total cash and cash equivalents	**7 682 672**	**10 893 642**

‘Nostro accounts with other banks’ comprise cash balances placed in foreign banks primarily related to the ICBC Group.

(Thousands of Russian Roubles)

As at 31 December 2019, the Bank has two clients, except for the Bank of Russia, with balances on correspondent accounts exceeding 10% of 'Cash and cash equivalents' (31 December 2018: three clients, except for the Bank of Russia, with balances on correspondent accounts exceeding 10% of 'Cash and cash equivalents'). The gross value of the balances of these clients equals to RUB 4 178 437 thousand or 54.39% of 'Cash and cash equivalents' (2018: RUB 5 144 185 thousand or 47.22% of 'Cash and cash equivalents').

The movements in allowance for credit losses on cash and cash equivalents are as follows:

	2019	2018
	12-month expected credit losses	**12-month expected credit losses**
Allowance for expected credit losses at the beginning of the period	**(170)**	**-**
Recovery (charge) of allowance	117	(170)
Allowance for expected credit losses at the end of the period	**(53)**	**(170)**

As at 31 December 2019 the Bank's cash and cash equivalents were included in Stage 1 of credit quality and were not overdue (31 December 2018: Stage 1 and not overdue).

Analysis of cash and cash equivalents by geographical regions, currency, maturity and analysis of interest rates are disclosed in Note 22.

12 Amounts due from financial institutions

Amounts due from financial institutions comprise loans (deposits) provided to counterparties by the Bank and financial assets measured at fair value.

The following table provides information on the credit quality of amounts due from financial institutions as at 31 December 2019:

	Term interbank loans and deposits	Security deposit of the payment system operator with the Bank of Russia	Other amounts due from financial institutions	Total amounts due from financial institutions
Amounts due from financial institutions measured at amortised cost				
- rated from BBB- to BBB+	9 836 915	816 998	1 193 057	**11 846 970**
- rated from BB- to BB+	7 641 630	-	328 252	**7 969 882**
Total amounts due from financial institutions before allowance for expected credit losses	**17 478 545**	**816 998**	**1 521 309**	**19 816 852**
Allowance for expected credit losses	(10 772)	-	-	**(10 772)**
Total amounts due from financial institutions measured at amortised cost	**17 467 773**	**816 998**	**1 521 309**	**19 806 080**
Amounts due from financial institutions measured at FVTPL				
- rated from BBB- to BBB+	783 509	-	-	783 509
Total amounts due from financial institutions measured at FVTPL	**783 509**	**-**	**-**	**783 509**

(Thousands of Russian Roubles)

The following table provides information on the credit quality of amounts due from financial institutions as at 31 December 2018:

	Term interbank loans and deposits	Security deposit of the payment system operator with the Bank of Russia	Other amounts due from financial institutions	Total amounts due from financial institutions
- rated from A- to A+	1 263 528	-	-	**1 263 528**
- rated BBB-	7 428 501	816 998	26 733	**8 272 232**
- rated from BB- to BB+	11 206 754	-	-	**11 206 754**
- not rated	270 577	-	-	**270 577**
Total amounts due from financial institutions before allowance for expected credit losses	**20 169 360**	**816 998**	**26 733**	**21 013 091**
Allowance for expected credit losses	(10 117)	-	-	**(10 117)**
Total amounts due from financial institutions	**20 159 243**	**816 998**	**26 733**	**21 002 974**

Information on significant balances of cash and cash equivalents held by the Bank but not available for use

As at 31 December 2019 the amount of significant balances not available for use was RUB 816 998 thousand - security deposit of the payment system operator (31 December 2018: RUB 816 998 thousand). The Bank is an operator of the ICBC payment system. Within this payment system, the Bank made quarterly payments of security deposit to the Bank of Russia. These funds are excluded from ‘Cash and cash equivalents’ as the Bank has restrictions on their use in accordance with Article 82.5 of Federal Law No. 86-FZ dated 10 July 2002 “On the Central Bank of the Russian Federation (Bank of Russia)”.

“Term interbank loans and deposits” comprises the amounts due from the Russian banks on letters of credit on post-financing transactions. As at 31 December 2019, these funds amounted to RUB 1 167 418 thousand (31 December 2018: RUB 65 585 thousand). “Other placements with financial institutions” comprises outstanding balances under the stock exchange settlement transactions in the amount of RUB 25 639 thousand (31 December 2018: RUB 20 195 thousand).

The movements in allowance for credit losses on amounts due from financial institutions are as follows:

	2019		2018		
	12-month ECL	Total	12-month ECL	Lifetime ECL of assets not credit-impaired	Total
Allowance for expected credit losses at the beginning of the period	**(10 117)**	**(10 117)**	**(18 183)**	**(133 405)**	**(151 588)**
Reversal/ (charge of) allowance	(655)	**(655)**	8 066	133 405	**141 471**
Allowance for expected credit losses at the end of the period	**(10 772)**	**(10 772)**	**(10 117)**	**-**	**(10 117)**

As at 31 December 2019 all amounts due to the Bank from financial institutions were included in Stage 1 of credit quality and were not overdue (as at 31 December 2018: Stage 1 and not overdue).

As at 31 December 2019 the Bank has five counterparties with balances individually exceeding 10% of ‘Amounts due from financial institutions’ (31 December 2018: three counterparties). The gross value of the balances of these counterparties equals to RUB 12 957 191 thousand or 62.93% of ‘Amounts due from financial institutions’ (2018: RUB 7 867 173 thousand or 37.46% of ‘Amounts due from financial institutions’).

(Thousands of Russian Roubles)

Analysis of amounts due from financial institutions by interest rates, maturity and geographical regions is disclosed in Note 22. Information on related party transactions is disclosed in Note 26. Information on the fair value of amounts due from financial institutions is disclosed in Note 25.

13 Loans and advances to customers

	31 December 2019	31 December 2018
Loans to legal entities	***22 156 373***	***22 576 572***
External credit risk rating:		
- rated from BBB- to BBB+	2 293 452	2 774 609
- rated from BB- to BB+	10 979 168	10 479 897
- rated from B- to B+	-	1 991 333
Internal credit risk rating:		
- rated from AA- to AA+	6 229 079	-
- rated from A- to A+	44 027	-
- rated from BBB- to BBB+	2 594 507	3 510 661
- rated from BB- to BB+	-	3 820 072
- not rated	16 140	-
Loans to individuals	***204***	***188***
Total loans and advances to customers before allowance for expected credit losses	**22 156 577**	**22 576 760**
Allowance for expected credit losses	(176 724)	(216 721)
Total loans and advances to customers	**21 979 853**	**22 360 039**

As at 31 December 2019 all loans and advances to customers were included in Stage 1 of credit quality and were not overdue (31 December 2018: Stage 1 and not overdue).

As at 31 December 2019 the Bank has two counterparties with balances individually exceeding 10% of 'Loans and advances to customers' (31 December 2018: three counterparties). The gross value of the balances of these counterparties equals to RUB 5 184 602 thousand or 23.59% of 'Loans and advances to customers' (2018: RUB 10 024 924 thousand or 44.83% of 'Loans and advances to customers').

The core Bank's customers are major Russian corporations.

The table below shows industry concentration of the loans and advances to customers:

	31 December 2019		**31 December 2018**	
	Amount	**%**	**Amount**	**%**
Oil and gas/Chemicals	13 341 642	60.22%	8 957 476	39.68%
Forest and timber industry	5 606 140	25.30%	3 488 030	15.45%
Metallurgical production	1 502 008	6.78%	6 140 227	27.20%
Investment and financial activities	1 247 673	5.63%	-	0.00%
Transport	398 743	1.80%	2 637 945	11.68%
Trade and services	44 027	0.20%	1 332 083	5.90%
Other	16 140	0.07%	2 723	0.01%
Individuals	204	0.00%	188	0.00%
Communications and data transmission	-	0.00%	18 088	0.08%
Total loans and advances to customers before allowance for expected credit losses	**22 156 577**	**100.00%**	**22 576 760**	**100.00%**
Allowance for expected credit losses	(176 724)	-	(216 721)	-
Total loans and advances to customers	**21 979 853**	**-**	**22 360 039**	**-**

(Thousands of Russian Roubles)

The following table provides information on collateral as at 31 December 2019:

	Loans to legal entities	Loans to individuals	Total loans and advances to customers
Unsecured claims	20 974 271	204	**20 974 475**
Secured loans:			
Property	1 182 102	-	**1 182 102**
Total loans and advances to customers before allowance for expected credit losses	**22 156 373**	**204**	**22 156 577**

The following table provides information on collateral as at 31 December 2018:

	Loans to legal entities	Loans to individuals	Total loans and advances to customers
Unsecured claims	21 281 468	188	21 281 656
Secured loans:			
Property	1 295 104	-	1 295 104
Total loans and advances to customers before allowance for impairment	**22 576 572**	**188**	**22 576 760**

The tables above exclude overcollateralisation.

As at 31 December 2019 and 31 December 2018 the Bank did not have any loans for which expected credit losses were not recognised due to existence of collateral.

The following table shows reconciliation of the opening and the closing balances of allowance for expected credit losses on loans to customers measured at amortised cost.

	2019			2018		
Loans to customers	**12-month expected credit losses (ECL)**	**Lifetime ECLs for assets that are not credit-impaired**	**Total**	**12-month expected credit losses (ECL)**	**Lifetime ECLs for assets that are not credit-impaired**	**Total**
Balance as at 1 January	(216 721)	-	**(216 721)**	**(348 496)**	**(55 669)**	**(404 165)**
Net change in loss allowance	99 327	-	**99 327**	117 979	-	**117 979**
New financial assets originated or purchased	(81 477)	-	**(81 477)**	(108 407)	-	**(108 407)**
Fully repaid loans	11 246	-	**11 246**	98 038	55 669	**153 707**
Foreign exchange and other changes	10 901	-	**10 901**	24 165	-	**24 165**
Balance as at 31 December	(176 724)		**(176 724)**	**(216 721)**	-	**(216 721)**

Explanations of how significant changes in gross carrying amount of financial instruments during the year contributed to change in allowance for expected credit losses are presented below:

- Repayment of loans by corporate customers in the amount of RUB 9 087 million during the year contributed to decrease of ECL in the amount of RUB 11 million.
- Issue of loans to corporate customers in the amount of RUB 10 511 million during the year contributed to increase of ECL by RUB 81 million.

Key assumptions and judgements in determining the expected credit losses on loans to customers are disclosed in Note 4. Changes in these estimates could affect the allowance for expected credit losses. As at 31 December 2019 an increase/decrease in the net present value of expected cash flows on loans by one percent would result in a decrease/increase in the allowance for expected credit losses on loans to customers by RUB 219 799 thousand (31 December 2018: RUB 223 600 thousand).

(Thousands of Russian Roubles)

As at 31 December 2019 all loans and advances to customers were included in Stage 1 of credit quality and were not overdue (31 December 2018: Stage 1 and not overdue).

As at 31 December 2019 the Bank assessed the loan portfolio taking into account the impact of industry, operational and interest rate risks Analysis of loans and advances to customers by interest rates, maturity and geographical regions is disclosed in Note 22. Information on related party transactions is disclosed in Note 26. Information on the fair value of loans and advances to customers is disclosed in Note 25.

14 Investment securities

	31 December 2019	31 December 2018
Debt securities		
Bonds of Russian Government and the Bank of Russia	**7 651 654**	**7 728 996**
- rated BBB-	7 651 654	7 728 996
Regional and municipal bonds	**1 005 700**	**1 005 480**
- rated BBB-	1 005 700	1 005 480
Bonds of foreign credit institutions	**444 798**	**1 240 193**
- rated from A- to A+ -	444 798	1 240 193
Total debt securities before allowance for expected credit losses	**9 102 152**	**9 974 669**
Allowance for expected credit losses	(3 537)	(9 978)
Total investment securities	**9 098 615**	**9 964 691**

During 2019, the Bank has not invested funds in investment securities on non-market terms.

Movements in allowance for expected credit losses on investment securities were as follows:

	2019	2018
	12-month ECLs	**12-month ECLs**
Allowance for expected credit losses (allowance for impairment) at the beginning of the period	**(9 978)**	**(91)**
Recovery (charge) of allowance	6 441	(9 887)
Allowance for expected credit losses (allowance for impairment) at the end of the period	**(3 537)**	**(9 978)**

As at 31 December 2019 all investment securities were included in Stage 1 of credit quality and are not overdue (31 December 2018: Stage 1 and not overdue).

Information on the fair value of investment securities is disclosed in Note 25.

(Thousands of Russian Roubles)

15 Property and equipment and intangible assets

The following table provides information on property and equipment and intangible assets for 2019:

	Office equipment	Intangible assets	Other	Right-of-use assets	Total property and equipment and intangible assets
Carrying amount as at 31 December 2018	**53 462**	**43 386**	**10 739**	**-**	**107 587**
Recognition of right-of-use assets on initial application of IFRS 16	-	-	-	86 935	**86 935**
Carrying amount as at 1 January 2019	**53 462**	**43 386**	**10 739**	**86 935**	**194 522**
Cost					
Cost as at 1 January	**105 667**	**51 941**	**15 332**	**86 935**	**259 875**
Additions	**3 133**	**83**	**-**	**-**	**3 216**
Disposals	(9 100)	(467)	(119)	(118)	**(9 804)**
Cost (or estimate) as at 31 December 2019	**99 700**	**51 557**	**15 213**	**86 817**	**253 287**
Accumulated depreciation					
Accumulated depreciation as at 1 January	(52 205)	(8 555)	(4 593)	-	**(65 353)**
Depreciation charge	(20 800)	(5 835)	(2 592)	(56 223)	**(85 450)**
Disposals	7 994	361	-	44	**8 399**
Accumulated depreciation as at 31 December 2019	(65 011)	(14 029)	(7 185)	(56 179)	**(142 404)**
Carrying amount as at 31 December 2019	**34 689**	**37 528**	**8 028**	**30 638**	**110 883**

The following table provides information on property and equipment and intangible assets for 2018:

	Office equipment	Intangible assets	Other	Total property and equipment and intangible assets
Carrying amount as at 1 January 2018	**61 881**	**35 405**	**12 516**	**109 802**
Cost as at 1 January 2018	**98 509**	**41 689**	**15 382**	**155 580**
Additions	7 746	13 478	181	**21 405**
Disposals	(588)	(3 226)	(231)	**(4 045)**
Cost as at 31 December 2018	**105 667**	**51 941**	**15 332**	**172 940**
Accumulated depreciation				
Accumulated depreciation as at 1 January 2018	**(36 628)**	**(6 284)**	**(2 866)**	**(45 778)**
Depreciation charge	(16 165)	(5 497)	(1 727)	**(23 389)**
Disposals	588	3 226	-	**3 814**
Accumulated depreciation as at 31 December 2018	**(52 205)**	**(8 555)**	**(4 593)**	**(65 353)**
Carrying amount as at 31 December 2018	**53 462**	**43 386**	**10 739**	**107 587**

Lease payments during 2019 in the amount of RUB 66 910 thousand are recognised in the Cash Flow Statement in the amount of RUB 59 538 thousand within the line ‘Repayment of lease liabilities’ and RUB 7 372 thousand within the line "Interest paid".

(Thousands of Russian Roubles)

16 Other assets

	31 December 2019	31 December 2018
Other financial assets		
Claims to customers for commission fee payment	4 255	5 303
Total other financial assets before allowance for expected credit losses	**4 255**	**5 303**
Allowance for expected credit losses	(1)	(1)
Total other financial assets	**4 254**	**5 302**
Other non-financial assets		
Deferred expenses, advances, overpayments	58 825	36 413
Deferred tax asset	50 031	-
Other	1 670	496
Current taxes	843	104 629
Total other non-financial assets before allowance for expected credit losses	**111 369**	**141 538**
Allowance for impairment	(246)	(277)
Total other non-financial assets	**111 123**	**141 261**
Total other assets	**115 377**	**146 563**

The movements in allowance for credit losses on other financial assets are as follows:

	2019	2018
	12-month ECLs	12-month ECLs
Allowance for expected credit losses at the beginning of the period	**(1)**	**(2 783)**
Recovery of allowance	-	2 782
Allowance for expected credit losses at the end of the period	**(1)**	**(1)**

The movements in allowance for impairment of other non-financial assets are as follows:

	2019	2018
Allowance for impairment at the beginning of the period	**(277)**	-
Recovery (charge) of allowance	31	(277)
Allowance for impairment at the end of the period	**(246)**	**(277)**

As at 31 December 2019 and 31 December 2018:

- other financial assets were included in Stage 1 of credit quality and were not overdue (31 December 2018: Stage 1 and not overdue).
- other non-financial assets in the amount of RUB 88 919 thousand were not overdue, assets in the amount of RUB 246 thousand were overdue and the allowance for impairment in the amount of 100% was charged (31 December 2018: other non-financial assets in the amount of RUB 141 261 thousand were not overdue, assets in the amount of RUB 277 thousand were overdue and the allowance for impairment in the amount of 100% was charged).

Analysis of other assets by interest rates, maturity and geographical regions is disclosed in Note 22. Information on related party transactions is disclosed in Note 26.

(Thousands of Russian Roubles)

17 Amounts due to financial institutions

	31 December 2019	31 December 2018
Term loans and deposits of other banks	8 713 163	10 803 817
Correspondent accounts and overnight deposits of other banks:	7 973 302	13 921 800
Other amounts due to other banks	-	1
Total amounts due to financial institutions	**16 686 465**	**24 725 618**

As at 31 December 2019 the Bank has two counterparties with balances individually exceeding 10% of ‘Amounts due to financial institutions’ (31 December 2018: two counterparties). The gross value of the balances of these counterparties equals to RUB 4 962 218 thousand or 29.74% of ‘Amounts due to financial institutions’ (2018: RUB 7 683 317 thousand or 31.07% of ‘Amounts due to financial institutions’).

Analysis of amounts due to financial institutions by interest rates, maturity and geographical regions is disclosed in Note 22. Information on related party transactions is disclosed in Note 26.

18 Amounts due to customers

	31 December 2019	31 December 2018
Amounts due to private entities		
Term deposits	15 497 961	10 246 863
Current and settlement accounts	6 739 750	7 694 574
Other deposits	270 106	354 964
Total amounts due to private entities	**22 507 817**	**18 296 401**
Amounts due to individuals		
Current and demand accounts	23 407	27 693
Term deposits	16 722	27 606
Total amounts due to individuals	**40 129**	**55 299**
Other amounts due to customers		
Other customer accounts	278	544 674
Total other amounts due to customers	**278**	**544 674**
Total amounts due to customers	**22 548 224**	**18 896 374**

Over the period of its operation, the Bank client base has been quite stable and represented by the Russian branches of Chinese commercial and state-owned companies. The Russian clients of the Bank include major energy providers as well as trade companies classified as “medium and small-scale business”.

As at 31 December 2019 the Bank has two counterparties with balances individually exceeding 10% of ‘Amounts due to customers’ (31 December 2018: the Bank had no counterparties with balances individually exceeding 10% of ‘Amounts due to customers’). The gross value of the balances of these counterparties is RUB 7 901 800 thousand or 35.04% of “Amounts due to customers”.

(Thousands of Russian Roubles)

19 Other liabilities and provisions

'Other liabilities and provisions' comprises both non-financial and financial liabilities:

	31 December 2019	31 December 2018
Other financial liabilities		
Accounts payable	60 158	13 084
Other financial liabilities	31 694	769
Total other financial liabilities	**91 852**	**13 853**
Other non-financial liabilities		
Accrued expenses on personnel remuneration	118 060	115 826
Lease liabilities	30 791	-
Current income tax liabilities	25 306	98 737
Taxes payable other than income tax	21 901	2 206
Other provisions	1 182	3 286
Deferred tax liabilities	-	17 035
Total other non-financial liabilities	**197 240**	**237 090**
Total other liabilities and provisions	**289 092**	**250 943**

The movements in other provisions are as follows:

	2019	2018
	12-month ECLs	**12-month ECLs**
Allowance for expected credit losses at the beginning of the period	**(3 286)**	-
Recovery (charge) of allowance	2 104	(3 286)
Allowance for expected credit losses at the end of the period	**(1 182)**	**(3 286)**

As at 31 December 2019 the Bank's credit related commitments were included in Stage 1 of credit quality (31 December 2018: Stage 1).

20 Subordinated loans

The subordinated loan in the amount of RUB 7 497 055 thousand (2018: RUB 8 425 850 thousand) was formed by the loans received by the Bank from its parent company Industrial and Commercial Bank of China Limited.

The loan in the amount of USD 50 000 thousand was granted in October 2013 with a ten-year term and the maturity in 2023. The agreement stipulates a variable interest rate set on the basis of 6M Libor + 1.3%. According to the loan agreement, the subordinated debt is converted into common shares of the Bank in cases stated in the regulations of the Bank of Russia.

The loan in the amount of USD 70 000 thousand was granted in February 2018, with a fifteen-year term and the maturity in 2033. The agreement stipulates a variable interest rate set on the basis of 6M Libor + 1.3%. According to the loan agreement, the subordinated debt is converted into common shares of the Bank in cases stated in the regulations of the Bank of Russia.

21 Share capital and share premium

	Number of shares	Nominal value per share	Nominal value
31 December 2018	**432 380**	**25**	**10 809 500**
31 December 2019	**432 380**	**25**	**10 809 500**

In accordance with Russian legislation, dividends may only be declared to the shareholder of the Bank from accumulated undistributed earnings as shown in the Bank's financial statements prepared in accordance with Russian Accounting Legislation, when the Bank complies with the mandatory ratios established by the Central Bank of the

Russian Federation after such payments. By the Decision No. 28 of 27 June 2019 taken by the Annual Shareholders Meeting, dividend payment of RUB 719 966 thousand was approved.

22 Risk management

One of the most important strategic goals of ICBC Bank (JSC) is to maintain a low level of bank risks acceptable to the Bank's shareholder and creditors. In order to complete this task, the Bank has established a risk management system, which provides for a range of interrelated measures and procedures aimed to prevent and minimise damage, which may arise from for the Bank as a result of realised banking risks.

The Risk and Capital Management Strategy has been developed and approved by the Board of Directors of ICBC Bank (JSC), which describes:

- the structure of management bodies and divisions performing functions related to risk and capital management;
- allocation of risk and capital management functions;
- organisation of control over the performance of internal capital adequacy assessment procedures by the Board of Directors and executive bodies ("ICAAP");
- the approaches to organising the risk management system;
- deadlines for planning volumes of transactions (deals) and capital;
- composition of ICAAP reporting;
- the procedure and frequency of notifying the Board of Directors of the identified deficiencies in the risk assessment and management methodology, achievement of signal values, facts of exceeding established limits and actions taken to eliminate them;
- risk mitigation procedures based on information contained in ICAAP reporting, etc.

The objective of risk and capital management is:

- maintaining an acceptable level of risk limited by risk appetite;
- ensuring the adequacy of economic capital and regulatory capital to cover significant risks;
- compliance with the requirements of the Bank of Russia in terms of compliance with the requirements to the activities of credit institutions (ensuring the amount of regulatory capital of ICBC Bank (JSC) at a level not lower than that required by law, compliance with regulatory limits of banking activities, etc.);
- protecting the interests of ICBC Bank (JSC), its shareholder and its clients.

The objectives of the risk and capital management system are as follows:

- identification, assessment, aggregation of significant risks of ICBC Bank (JSC) and control over their level;
- ensuring efficient allocation of resources to optimise the risk-to-return ratio of transactions performed by ICBC Bank (JSC);
- assessing the adequacy of economic capital and regulatory capital to cover significant risks;
- planning of economic capital based on the results of a comprehensive assessment of significant risks, testing of stability of ICBC Bank (JSC) in relation to internal and external risk factors, benchmarks of the Bank's development strategy, capital adequacy requirements of the Bank of Russia;
- creation of a risk and capital management system at the stage of occurrence of a negative trend, as well as of a system of prompt and adequate response aimed at preventing the risks from reaching the levels critical for ICBC Bank (JSC) (risk mitigation).

In the process of risk and capital management, ICBC Bank (JSC) is governed by the following principles:

- a multi-level principle that identifies the levels of organisational structure involved in and/or affecting the risk management process;
- the completeness principle, which implies the interaction of all divisions of ICBC Bank (JSC) in the process of identifying and assessing bank risks by line of business;
- the principle of collective decision-making in the course of banking activities, provision of services (products), which provides for the requirement for collective decision-making in cases stipulated by internal regulations;
- the principle of information sufficiency of decision-making when managing risks, involving the collection, comprehensive analysis and provision to the management bodies of ICBC Bank (JSC) of information necessary for making a balanced, objective and timely decision;

- the updating principle, which involves updating risk management methodologies and procedures in accordance with changes in the business environment and internal structural changes, constant monitoring of the adequacy of the risk and capital management methodologies used and updating them in a timely manner.

At the same time the priority for the Bank is to ensure the maximum safety of assets and the capital on the basis of minimisation of susceptibility to risks which can lead to unexpected financial losses.

Risk management is also performed by ICBC Bank for the purposes of:

- identifying, measuring and determining an acceptable level of the aggregate bank risk;
- protecting the interests of the Bank and the Bank's clients;
- constant monitoring of the aggregate bank risk;
- taking measures to maintain the aggregate bank risk at the level not threatening financial stability of the Bank and interests of its creditors and depositors;
- compliance by all the Bank's employees with regulations and internal banking rules and regulatory documents.

The purpose of managing the Bank's aggregate bank risk is achieved using a systematic, comprehensive approach, which involves the following tasks:

- receipt of prompt and objective information on the state and size of all risks of the Bank affecting the level of the aggregate bank risk;
- qualitative and quantitative assessment (measurement) of the aggregate bank risk;
- establishing relationships between specific types of risks to assess the impact of measures planned to limit one type of risk on the growth or reduction of other risks;
- creation of a system for managing risks assumed by the Bank, as well as the aggregate bank risk at the stage of occurrence of a negative trend, as well as of a system of prompt and adequate response aimed at preventing the risks from reaching the levels critical for the Bank (risk mitigation).

The Bank is exposed to banking risks, i.e. the possibility of losses inherent to the banking activities arising from adverse events related to internal and/or external factors.

Taking into account the nature of the Bank's operations and their scale, as at 31 December 2019 ICBC Bank (JSC) identifies the following types of significant risks:

- credit risk is the risk arising from the probability of non-performance of contractual obligations by a borrower or a counterparty of ICBC Bank (JSC);
- market risk is the risk of incurring financial losses due to a change in the fair value of financial instruments, rates of foreign currencies and/or accounting prices of precious metals. Market risk includes equity risk, currency risk, trading book interest rate risk and commodity risk;
- liquidity risk is the risk of incurring losses due to the inability of ICBC Bank (JSC) to ensure the full performance of its obligations. Liquidity risk arises as a result of the unbalanced financial assets and financial liabilities of ICBC Bank (JSC) (including the late performance of financial obligations by one or more counterparties of ICBC Bank (JSC)), and/or the appearance of an unforeseen need for ICBC Bank (JSC) to perform its financial obligations immediately and on a one-time basis;
- concentration risk is the risk arising from the exposure of ICBC Bank (JSC) to major risks, the realisation of which could lead to significant losses that could create a threat to the solvency of the credit institution and its ability to continue as a going concern;
- trading book interest rate risk is the risk of deterioration of the financial position of ICBC Bank (JSC) as a result of a reduction in the amount of capital, the level of income, and the value of assets as a result of changes in interest rates on the market;
- operational risk is the risk of incurring losses as a result of the unreliability and deficiencies of the internal management procedures of ICBC Bank (JSC), failure of information and other systems, or impact of external events on the activities of ICBC Bank (JSC).

Credit risk

Credit risk is the risk that the Bank will incur losses as a result of the debtor's failure to perform its financial obligations, late or incomplete performance of its financial obligations to the Bank in accordance with the terms of the contract.

The purpose of credit risk management is to maintain the risk assumed by ICBC Bank (JSC) at a level that does not threaten its financial stability and the interests of its creditors and depositors. The priority is to ensure the maximum safety of assets and capital by reducing (eliminating) possible losses.

(Thousands of Russian Roubles)

The purpose of managing the Bank's credit risk is achieved using a systematic, comprehensive approach, which involves the following tasks:

- receipt of prompt and objective information on the state and amount of credit risk;
- identification and analysis of credit risk arising in the course of operations of ICBC Bank (JSC);
- quantitative assessment (measurement) of credit risk;
- establishing relationships between specific types of risks to assess the impact of measures planned to limit one type of risk on the growth or reduction of other risks;
- determination of the level of risk of credit operations included in the loan portfolio of ICBC Bank (JSC);
- forecasting the risk level of the loan portfolio of ICBC Bank (JSC) with the aim of adopting adequate methods of its regulation;
- reducing the risk of the loan portfolio of ICBC Bank (JSC) and maintaining an acceptable ratio of profitability and risk indicators in the process of asset and liability management.

The maximum exposure to credit risk in respect of financial assets is as follows:

	31 December 2019	**31 December 2018**
Cash and cash equivalents	7 620 140	10 893 642
Obligatory reserves in the Central Bank of the Russian Federation	330 237	488 663
Amounts due from financial institutions	20 589 589	21 002 974
Loans and advances to customers	21 979 853	22 360 039
Investment securities	9 098 615	9 964 691
Other financial assets	4 254	5 302
Total maximum exposure to credit risk	**59 622 688**	**64 725 311**

Liquidity risk

Liquidity risk arises as a result of the unbalanced financial assets and financial liabilities of ICBC Bank (JSC) (including the late performance of financial obligations by one or more counterparties of ICBC Bank (JSC)), and/or the appearance of an unforeseen need for ICBC Bank (JSC) to perform its financial obligations immediately and on a one-time basis.

Liquidity risk assessment includes a set of measures to monitor the Bank's compliance with mandatory N2, N3, N4 ratios, analysis of the dynamics of these amounts; monitoring of structural fluctuations in assets and liabilities, determination of gaps in the maturity of claims and liabilities with calculation of the corresponding indicators of the liquidity position (GAP analysis); and measures to forecast the Bank's cash flows (daily preparation of the payment calendar). The Bank also performs stress tests of liquidity risk on a regular basis (biannually) in accordance with the scenarios developed by the Bank.

Liquidity is a fundamental factor of solvency. Liquidity risk is monitored on a daily basis by preparing current and forecast reports on assets' and liabilities' gaps by maturity.

In the case of unforeseen events, specifically in the event of a liquidity crisis, the Bank has developed an action plan aimed at restoring liquidity. In terms of priority measures in the event of a liquidity crisis, the events that may cause the Bank to lose liquidity are listed, and the Bank's collegiate bodies are identified: the Risk Committee, the Management Board and/or the Asset and Liability Committee ("ALCO"), which ensure the adoption and implementation of measures to eliminate the liquidity crisis. The plan also establishes asset and liability management measures that make it possible to eliminate the liquidity crisis, on the basis of which the obligations and actions of the relevant employees and divisions of the Bank are formed.

The plan also contains a description of the external and internal factors of the liquidity crisis, a system of events, the onset of which characterises the appearance of the liquidity crisis and the determination of methods to overcome the liquidity crisis, with an indication of the list of measures, responsible divisions and a coordinator from the Management Board of the Bank for each of them.

(Thousands of Russian Roubles)

The carrying amount of financial instruments at expected maturity dates is presented in the table below as at 31 December 2019:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Indefinite term	Overdue	Total
ASSETS							
Cash and cash equivalents	7 682 672	-	-	-	-	-	**7 682 672**
Obligatory reserves in the Central Bank of the Russian Federation	-	-	-	-	330 237	-	**330 237**
Amounts due from financial institutions	15 233 218	3 381 431	380 449	777 493	816 998	-	**20 589 589**
Loans and advances to customers	137 554	3 613 202	4 954 523	13 274 574	-	-	**21 979 853**
Investment securities	6 829 156	13 577	442 904	1 812 978	-	-	**9 098 615**
Other financial assets	4 254	-	-	-	-	-	**4 254**
Total assets	**29 886 854**	**7 008 210**	**5 777 876**	**15 865 045**	**1 147 235**		**59 843 646**
LIABILITIES							
Amounts due to financial institutions	15 893 819	792 646	-	-	-	-	**16 686 465**
Amounts due to customers	18 163 209	3 943 593	377 826	63 596	-	-	**22 548 224**
Other financial liabilities	91 852	-	-	-	-	-	**91 852**
Subordinated loans	-	-	-	7 497 055	-	-	**7 497 055**
Total liabilities	**34 148 880**	**4 736 239**	**377 826**	**7 560 651**	**-**	**-**	**46 823 596**
Net position at 31 December 2019	**(4 262 026)**	**2 271 971**	**5 400 050**	**8 304 394**	**1 147 235**	**-**	**12 861 624**
Cumulative net position at 31 December 2019	**(4 262 026)**	**(1 990 055)**	**3 409 995**	**11 714 389**	**12 861 624**	**-**	**12 861 624**

As at 31 December 2019 the Bank had sufficient liquid assets. The structure of the Bank's assets and liabilities distribution, as well as the Bank's net liquidity position, was maintained at a high level throughout the reporting period, and there were no breaches of the maximum limits on liquidity deficit established by the Bank.

(Thousands of Russian Roubles)

The carrying amount of financial instruments at expected maturity dates are presented in the table below as at 31 December 2018:

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Indefinite term**	**Overdue**	**Total**
ASSETS							
Cash and cash equivalents	10 893 642	-	-	-	-	-	**10 893 642**
Amounts due from financial institutions	12 288 589	-	7 897 387	-	816 998	-	**21 002 974**
Loans and advances to customers	3 914 002	114	9 509 060	8 936 863	-	-	**22 360 039**
Investment securities	2 378 880	1 035 271	5 415 208	1 135 332	-	-	**9 964 691**
Other financial assets	804	4 498	-	-	-	-	**5 302**
Total financial assets	**29 475 917**	**1 039 883**	**22 821 655**	**10 072 195**	**816 998**		**64 226 649**
LIABILITIES							
Amounts due to financial institutions	17 495 383	7 230 235	-	-	-	-	**24 725 618**
Amounts due to customers	11 417 445	7 098 900	263 346	116 683	-	-	**18 896 374**
Subordinated loans	-	-	-	8 425 850	-	-	**8 425 850**
Other financial liabilities	13 084	-	-	-	-	-	**13 084**
Total financial liabilities	**28 925 912**	**14 329 135**	**263 346**	**8 542 533**	**-**	**-**	**52 060 926**
Net position at 31 December 2018	**550 005**	**(13 289 252)**	**22 558 309**	**1 529 662**	**816 998**		**12 165 723**
Cumulative net position at 31 December 2018	**550 005**	**(12 739 247)**	**9 819 062**	**11 348 724**	**12 165 723**		**12 165 723**

(Thousands of Russian Roubles)

The table below shows the breakdown of liabilities as at 31 December 2019 by their remaining contractual maturities: Amounts included in the table represent contractual non-discounted cash flows. Such non-discounted cash flows differ from the amounts included in the statement of financial position since balance sheet amounts are based on discounted cash flows.

As a rule, the difference with the carrying amount is represented by increased potential expenses on funds raised under the terms of contracts in effect as at the date of calculation, until the end of their realisation.

Where the amount payable is not fixed, the amount shown in the table is determined by reference to the conditions existing at the reporting date Payments in foreign currency are re-calculated using the exchange spot rate at the reporting date.

The table below provides an analysis of contractual undiscounted cash flows for financial liabilities and credit related commitments as at 31 December 2019:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total	Carrying amount
LIABILITIES						
Amounts due to financial institutions	15 901 141	799 727	-	-	**16 700 868**	**16 685 465**
Amounts due to customers	18 178 005	3 957 770	386 060	66 714	**22 588 549**	**22 548 224**
Subordinated loans	-	-	-	9 787 423	**9 787 423**	**7 497 055**
Other financial liabilities	91 852	-	-	-	**91 852**	**91 852**
Total potential future payments for financial liabilities	**34 170 998**	**4 757 497**	**386 060**	**9 854 137**	**49 168 692**	**46 822 596**
Credit related commitments						
Undrawn loan commitments and overdraft limits	7 639 329	-	-	-	**7 639 329**	-
Guarantees issued	4 914 040	-	-	-	**4 914 040**	-
Other contingencies	2 718 527	-	-	-	**2 718 527**	-
Letters of credit	240 982	-	-	-	**240 982**	-
Total potential future payments	**49 683 876**	**4 757 497**	**386 060**	**9 854 137**	**64 681 570**	**46 822 596**

The table below provides an analysis of contractual undiscounted cash flows for financial liabilities and credit related commitments as at 31 December 2018:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total	Carrying amount
LIABILITIES						
Amounts due to financial institutions	17 689 199	7 679 147	-	-	**25 368 346**	**24 725 618**
Amounts due to customers	11 632 096	7 516 743	721 351	116 759	**19 986 949**	**18 896 374**
Subordinated loans	89 378	65 754	91 428	12 419 465	**12 666 025**	**8 425 850**
Other financial liabilities	13 084	-	-	-	**13 084**	**13 084**
Total potential future payments for financial liabilities	**29 423 757**	**15 261 644**	**812 779**	**12 536 224**	**58 034 404**	**52 060 926**
Credit related commitments						
Guarantees and sureties issued	6 791 830	-	-	-	**6 791 830**	-
Undrawn credit facilities	3 983 405	-	-	-	**3 983 405**	-
Total potential future payments	**40 198 992**	**15 261 644**	**812 779**	**12 536 224**	**68 809 639**	**52 060 926**

(Thousands of Russian Roubles)

Geographical risk

Assets and liabilities are generally classified according to the country of location of the counterparty. The following is a geographic analysis of the Bank's assets and liabilities as at 31 December 2019:

	Russian Federation	OECD	China	Other countries	Total
ASSETS					
Cash and cash equivalents	3 013 979	152 560	4 516 133	-	**7 682 672**
Obligatory reserves in the Central Bank of the Russian Federation	330 237	-	-	-	**330 237**
Amounts due from financial institutions	18 815 583	-	1 774 006	-	**20 589 589**
Loans and advances to customers	19 423 750	2 490 808	-	65 295	**21 979 853**
Investment securities	8 653 950	-	444 665	-	**9 098 615**
Property and equipment and intangible assets	110 883	-	-	-	**110 883**
Other assets	112 475	1 255	-	1 647	**115 377**
Total assets	**50 460 857**	**2 644 623**	**6 290 139**	**66 942**	**59 462 561**
LIABILITIES					
Amounts due to financial institutions	14 566 221	793	2 119 172	279	**16 686 465**
Amounts due to customers	21 010 670	1 344	1 523 683	12 527	**22 548 224**
Subordinated loans	-	-	7 497 055	-	**7 497 055**
Other liabilities and provisions	256 094	276	2 438	30 284	**289 092**
Total liabilities	**35 832 985**	**2 413**	**11 142 348**	**43 090**	**47 020 836**
Net balance sheet position	**14 627 872**	**2 642 210**	**(4 407 544)**	**23 852**	**12 886 390**

The following is a geographic analysis of the Bank's assets and liabilities as at 31 December 2018:

	Russian Federation	OECD	China	Other countries	Total
ASSETS					
Cash and cash equivalents	2 752 792	661 057	7 479 031	762	**10 893 642**
Obligatory reserves in the Central Bank of the Russian Federation	488 663	-	-	-	**488 663**
Amounts due from financial institutions	16 846 829	-	4 156 145	-	**21 002 974**
Loans and advances to customers	19 842 953	2 517 086	-	-	**22 360 039**
Investment securities	8 724 626	-	1 240 065	-	**9 964 691**
Property and equipment and intangible assets	107 587	-	-	-	**107 587**
Other assets	146 563	-	-	-	**146 563**
Total assets	**48 910 013**	**3 178 143**	**12 875 241**	**762**	**64 964 159**
LIABILITIES					
Amounts due to financial institutions	11 314 206	3 845 219	7 206 862	2 359 331	**24 725 618**
Amounts due to customers	17 648 355	31 673	1 154 958	61 388	**18 896 374**
Subordinated loans	-	-	8 425 850	-	**8 425 850**
Other liabilities and provisions	250 940	-	-	3	**250 943**
Total liabilities	**29 213 501**	**3 876 892**	**16 787 670**	**2 420 722**	**52 298 785**
Net balance sheet position	**19 696 512**	**(698 749)**	**(3 912 429)**	**(2 419 960)**	**12 665 374**

(Thousands of Russian Roubles)

Market risk

The Bank is exposed to market risk, which is the risk of financial losses or impairment of assets as a result of unfavourable changes in market prices (foreign exchange rates, precious metals prices, interest rates). 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 market movements.

During 2019 the Risk Management Service regularly monitored market risk as a whole and its individual components.

Market risk is divided into:

- interest rate risk;
- equity risk;
- currency risk;
- commodity risk.

As at 31 December 2019 the Bank had no equity risk, commodity risk and trading book interest rate risk due to the absence of assets on the Bank's balance sheet exposed to these types of risks.

The Bank manages market risk in accordance with its market risk management policy. The main goal of market risk management is to optimise the risk/return ratio, minimise losses in case of adverse events and reduce the amount of deviation of the actual financial result from the expected one.

The Bank assesses market risk both in terms of components and in aggregate, while determining the concentration of market risk and the effect of diversification.

Interest rate risk

The Bank assumes the risk related to effect of market interest rates fluctuations on the financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk mainly as a result of its lending activities at fixed interest rates in amounts and for a term that differ from the amounts and terms for raising funds at fixed interest rates.

The purpose of managing this type of market risk is to reduce the effect of changes in interest rates on net interest income. In order to manage interest rate risk, the Bank's Interest Rate Policy and Limits Committee establishes the maximum interest rates for attracting funds of legal entities, as well as the minimum rates for placing resources in loans to legal entities, and the minimum return on investments in securities. Interest rates on deposits and loans of individuals generally depend on the maturity of the loan or deposit, its amount and the category of the client.

The Bank uses the following main methods to manage interest rate risk:

- aligning the maturities of assets and liabilities;
- GAP analysis method.

Below is an analysis of the Bank's interest rate risk as at 31 December 2019. The table shows the assets and liabilities exposed to interest rate risk grouped into different time ranges of the category according to the contractual date of interest rate revision.

Financial instruments subject to interest rate risk	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
ASSETS					
Cash and cash equivalents	7 682 672	-	-	-	**7 682 672**
Amounts due from financial institutions	16 040 491	4 361 631	187 467	-	**20 589 589**
Loans and advances to customers	12 010 937	9 968 916	-	-	**21 979 853**
Investment securities	6 829 156	1 189 830	-	1 079 629	**9 098 615**
Other financial assets	4 254	-	-	-	**4 254**
Total financial assets	**42 567 510**	**15 520 377**	**187 467**	**1 079 629**	**59 354 983**

(Thousands of Russian Roubles)

Financial instruments subject to interest rate risk	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
LIABILITIES					
Amounts due to financial institutions	15 893 819	792 646	-	-	**16 686 465**
Amounts due to customers	18 163 209	3 943 593	377 826	63 596	**22 548 224**
Subordinated loans	-	7 497 055	-	-	**7 497 055**
Other financial liabilities	35 182	24 976	-	-	**60 158**
Total financial liabilities	**34 092 210**	**12 258 270**	**377 826**	**63 596**	**46 791 902**
Absolute GAP	8 475 300	3 262 107	(190 359)	1 016 033	
Sensitivity to interest rate risk	**81 222**	**23 284**	**(476)**		**104 030**

Below is an analysis of the Bank's interest rate risk as at 31 December 2018.

Financial instruments subject to interest rate risk	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
ASSETS					
Cash and cash equivalents	10 893 642	-	-	-	**10 893 642**
Amounts due from financial institutions	12 288 589	2 489 164	5 408 223	-	**21 002 974**
Loans and advances to customers	7 611 832	7 296 387	7 451 820	-	**22 360 039**
Investment securities	7 720 864	1 003 761	-	1 240 066	**9 964 691**
Other financial assets	804	4 499			**5 303**
Total financial assets	**38 332 729**	**10 793 811**	**12 860 043**	**1 240 066**	**64 226 649**
LIABILITIES					
Amounts due to financial institutions	18 445 414	3 871 313	2 408 891	-	**24 725 618**
Amounts due to customers	11 417 445	7 098 900	263 346	116 683	**18 896 374**
Subordinated loans	-	8 425 850	-	-	**8 425 850**
Other financial liabilities and provisions	13 084	-	-	-	**13 084**
Total financial liabilities	**29 875 943**	**19 396 063**	**2 672 237**	**116 683**	**52 060 926**
Absolute GAP	9 456 786	(8 602 252)	10 187 806	1 123 383	
Sensitivity to interest rate risk	**90 628**	**(60 933)**	**25 470**		**55 165**

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

The analysis of the interest rate risk based on the above tables is performed with respect to the amount of absolute gap obtained at the end of the year. As at 31 December 2019 an increase of 100 basis points in interest rates would have increased net interest income by RUB 104 030 thousand, and a decrease in the interest rate would have reduced net interest income by RUB 104 030 thousand (31 December 2018: an increase of 100 basis points in interest rates would have increased net interest income by RUB 55 165 thousand, and a decrease in the interest rate would have reduced net interest income by RUB 55 165 thousand).

Currency risk

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

The Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

(Thousands of Russian Roubles)

The table below summarises the exposure to foreign currency exchange rate risk of the Bank as at 31 December 2019:

	RUB	**USD**	**EUR**	**CNY**	**HKD**	**SGD**	**Total**
ASSETS							
Cash and cash equivalents	2 975 748	408 876	70 316	4 216 956	10 040	736	**7 682 672**
Obligatory reserves in the Central Bank of the Russian Federation	330 237	-	-	-	-	-	**330 237**
Amounts due from financial institutions	14 129 845	4 354 456	-	2 101 313	3 975	-	**20 589 589**
Loans and advances to customers	4 054 857	12 936 011	4 985 039	3 946	-	-	**21 979 853**
Investment securities	8 653 950	-	-	444 665	-	-	**9 098 615**
Property and equipment and intangible assets	105 539	5 344	-	-	-	-	**110 883**
Other assets	109 618	2 086	195	3 478	-	-	**115 377**
Total assets	**30 359 794**	**17 706 773**	**5 055 550**	**6 770 358**	**14 015**	**736**	**59 907 226**
LIABILITIES							
Amounts due to financial institutions	5 247 342	1 645 869	4 609 019	5 169 865	13 667	703	**16 686 465**
Amounts due to customers	13 217 735	7 447 957	412 801	1 469 596	135	-	**22 548 224**
Subordinated loans	-	7 497 055	-	-	-	-	**7 497 055**
Other liabilities and provisions	199 816	37 917	18 942	32 386	31	-	**289 092**
Total liabilities	**18 664 893**	**16 628 798**	**5 040 762**	**6 671 847**	**13 833**	**703**	**47 020 836**
Net balance sheet position	**11 694 901**	**1 077 975**	**14 788**	**98 511**	**182**	**33**	**12 886 390**

(Thousands of Russian Roubles)

The table below summarises the exposure to foreign currency exchange rate risk of the Bank as at 31 December 2018:

	RUB	**USD**	**EUR**	**CNY**	**HKD**	**SGD**	**Total**
ASSETS							
Cash and cash equivalents	312 571	990 112	3 240 188	6 142 575	202 200	5 996	**10 893 642**
Obligatory reserves in the Central Bank of the Russian Federation	488 663	-	-	-	-	-	**488 663**
Amounts due from financial institutions	12 873 805	6 614 852	51 647	1 456 133	6 537	-	**21 002 974**
Loans and advances to customers	3 954 186	16 259 230	2 123 739	22 884	-	-	**22 360 039**
Investment securities	8 724 626	-	-	1 240 065	-	-	**9 964 691**
Property and equipment and intangible assets	107 587	-	-	-	-	-	**107 587**
Other assets	140 993	2 849	9	2 712	-	-	**146 563**
Total assets	**26 602 431**	**23 867 043**	**5 415 583**	**8 864 369**	**208 737**	**5 996**	**64 964 159**
LIABILITIES							
Amounts due to financial institutions	5 182 747	7 570 840	5 044 207	6 719 510	201 980	6 334	**24 725 618**
Amounts due to customers	9 012 913	7 661 098	375 027	1 840 555	6 731	50	**18 896 374**
Subordinated loans	-	8 425 850	-	-	-	-	**8 425 850**
Other liabilities and provisions	250 456	2	-	485	-	-	**250 943**
Total liabilities	**14 446 116**	**23 657 790**	**5 419 234**	**8 560 550**	**208 711**	**6 384**	**52 298 785**
Net balance sheet position	**12 156 315**	**209 253**	**(3 651)**	**303 819**	**26**	**(388)**	**12 665 374**

In order to control currency risk, the Bank monitored its open currency position on a daily basis throughout 2019 and analysed the impact of this type of risk on the capital and financial result of ICBC Bank (JSC).

According to the internal currency risk assessment model, the value at risk (VAR) with a probability of 99% for 1 day as at 01.01.2020 was RUB 14.41 million, and the value at risk in the range of 5 days was RUB 32.23 million (2018: the value at risk (VAR) with a probability of 99% for 1 day as at 01.01.2019 was RUB 7.58 million, and the value at risk in the range of 5 days was RUB 16.95 million).

Market risk is regularly monitored by the Bank. Information on the state of market risk is communicated to the members of the Board of Directors at least once a quarter and to the members of the Risk Committee at least once a month.

Operational risk

Operational risk is the risk of losses due to inappropriateness of internal regulations and procedures for conducting banking operations and other transactions to the nature and scope of the Bank's business and/or the requirements of current legislation, their violation by employees of the Bank and/or other persons (as a result of incompetence, unintentional or deliberate actions or inaction), inadequacy (insufficiency) of functional capabilities (characteristics) of information, technological and other systems used by the Bank and/or their failures (malfunctions), and also as a result of external events.

The process of management of operational risk in the Bank consists of several stages: identification of operational risk, assessment of operational risk, monitoring of operational risk, control and/or mitigation of operational risk.

In order to mitigate operational risks, the Bank performs regular checks of compliance with information security, improves internal regulations governing the transactions performance procedure, and works on optimising information flows and internal document flow technology are carried out.

In order to reduce operational risk, the Bank shall organise and establish procedures for internal control over operations in the Bank's divisions. The control system includes effective segregation of duties, access rights, approval, documentation and reconciliation procedures, compliance with the requirements of the laws and regulations of the Bank of Russia, development of plans to maintain operations in unusual situations, training of personnel, and assessment procedures, including internal audit.

Operational risk assessment is performed by the Bank on a continuing basis. For this purpose, an analytical database on incurred operating losses is maintained, which contains information on the types and amounts of losses by the Bank's lines of business and the circumstances of their occurrence. The Bank also maintains an external database on operational risks, containing realised facts of operational risk in the Bank's external environment.

Legal risk

Legal risk is the risk of losses incurred by the Bank as a result of the Bank's failure to comply with the requirements of regulations and concluded contracts, legal errors in the performance of transactions, shortcomings in the legal system (contradictory legislation of the Russian Federation, lack of legal norms to regulate certain issues arising in the course of the Bank's activities), violation of regulations and the terms of concluded contracts by counterparties.

In its turn, the Bank constantly monitors changes in the Russian and international legislation and makes timely changes to internal instructions and regulations, which makes it possible to reduce this type of risk.

23 Capital management

The Bank's objectives when managing capital are:

- compliance with regulatory capital requirements established by the Bank of Russia;
- ensuring the Bank's ability to operate as a going concern.

The Bank of Russia establishes the procedure for calculating core capital, additional capital, supplementary and equity (capital) of the Bank for regulatory purposes. To date, banks are required by the Bank of Russia to maintain a ratio of core capital, additional capital, supplementary and equity (capital) to risk-weighted assets above a certain minimum level.

(Thousands of Russian Roubles)

	Acceptable level	31 December 2019	31 December 2018
Core capital		11 458 235	11 414 484
Additional capital		11 458 235	11 414 484
Supplementary capital		7 818 875	9 089 504
Equity (capital)		**19 277 110**	**20 503 988**
Core capital adequacy ratio (N1.1), %	Min 4.5%	22.5	20.3
Additional capital adequacy ratio (N1.2), %	Min 6%	22.5	20.3
Equity (capital) adequacy ratio to risk-weighted assets (N1.0), %	Min 8%	37.9	36.4

The Bank monitors the implementation of the capital adequacy ratio established by the Bank of Russia on a daily basis. The Bank provides to the Bank of Russia monthly information on the calculation of the capital adequacy ratio, which is reviewed and approved by the Bank's head and chief accountant. Other objectives of capital management are assessed on an annual basis.

The Bank of Russia has also introduced additional capital adequacy requirements for banks in accordance with the requirements of Basel III. These include a capital conservation buffer of 2.25% and a counter-cyclical buffer of 0%. If the capital adequacy of the Bank falls to a level below the standard value of capital adequacy (N1) increased by capital buffers, measures will be taken to limit the rights to distribute profits and pay non-fixed remuneration to management.

As at 31 December 2019 and 31 December 2018 the Bank complied with all external capital requirements, and there were no restrictions on the rights to distribute profits and pay non-fixed remuneration to management.

24 Provisions, contingent liabilities and contingent assets

Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection used in other countries are not yet generally available in the Russian Federation. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Bank’s property or relating to the Bank’s operations.

Litigations

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial conditions or the results of future operations of the Bank.

Tax legislation

The taxation system in the Russian Federation continues to develop and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

In general, the management believes that the Bank has assessed or paid all taxes set forth bay law. As to transactions, for which there is any uncertainty over taxes, except for income tax, the Bank assessed tax liabilities in accordance with the best assessment by the management of probable outflow of resources that would be required to settle the said liabilities. Possible liabilities identified as at the reporting date, which are determined by management as liabilities related to different interpretation of the tax legislation and regulations, are not assessed in the financial statements.

(Thousands of Russian Roubles)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, 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 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.

The Bank's outstanding credit related commitments are as follows:

	31 December 2019	31 December 2018
Undrawn loan commitments and overdraft limits	7 639 329	3 983 405
Guarantees issued	4 914 040	4 255 398
Other contingencies	2 718 527	-
Letters of credit	240 982	2 536 432
Total credit related commitments	**15 512 878**	**10 775 235**
Allowance for expected credit losses	(1 182)	(3 286)
Total credit related commitments	**15 511 696**	**10 771 949**

25 Fair value of financial instruments

Fair value is the amount for which an asset or liability could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is given by quoted price in the market for the financial instrument.

The Bank determined the estimated fair value of financial instruments on the basis of available market data (if any) and proper valuation techniques. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Notwithstanding the fact that the Russian Federation has investment grade ratings, it continues to display some characteristic of an emerging economy and economic environment continues to limit the level of activity in financial markets. Market quotations may be outdated or reflect low sale cost and, in view if this, mispresent the fair value of financial instruments. Management uses all available market data when assessing the fair value of financial instruments.

Cash and cash equivalents and Amounts due from financial institutions

According to the Management's assessment, the fair value of cash and cash equivalents and amounts due from financial institutions did not differ significantly from their respective carrying amounts. This is due to the existing practice of revising interest rates to reflect market conditions. Accordingly, the majority of funds are placed at interest rates close to market interest rates.

Loans and advances to customers

The fair value of instruments with floating interest rates usually equals their carrying amount. If the market situation significantly changes, the Bank may revise interest rates on loans to customers with fixed interest rate. As a result, interest rates on loans issued before the reporting date do not significantly differ from current interest rates in the market of loans for new instruments with similar credit risk and maturity date. If, according to the Bank's estimates, interest rates on earlier issued loans significantly differ from current interest rates for similar instruments as at the reporting date, the Bank determines estimated fair value for these loans. The estimate is based on the discounted cash flow method using current interest rates in the market of loans for new instruments with similar credit risk and maturity date. Discounting rates depend on currency, maturity date and credit risk of the counterparty.

Investment securities

The fair value of investment securities is calculated based on quoted market prices.

Other financial assets

The Bank assesses that fair values of other financial assets, including trade receivables, approximates their carrying amount due to their short-term nature.

(Thousands of Russian Roubles)

Liabilities measured at amortised cost

The fair value of these liabilities is based on market prices, if any. The estimated fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using interest rates for instruments with similar credit risk and maturity date. The fair value of liabilities repayable on demand or upon advance notice ("liabilities repayable on demand") is calculated as the amount payable on demand discounted from the first date of the potential making of the demand to settle the liability.

Derivative financial instruments

All derivative financial instruments are recognised at fair value as assets if the fair value of these instruments is positive, and as liabilities if the fair value is negative.

Fair value of financial instruments is represented below:

	31 December 2019			31 December 2018		
	Carrying amount	**Fair value (Level 1)**	**Fair value (Level 3)**	**Carrying amount**	**Fair value (Level 1)**	**Fair value (Level 3)**
Investment securities	9 102 152	9 168 981	-	9 964 691	9 994 480	-
Financial assets at fair value through profit or loss						
Amounts due from financial institutions	783 509	-	783 509	-	-	-

The Bank measures fair values for financial instruments recorded in the financial statements of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1 − Quoted market price (unadjusted) in an active market for identical assets or liabilities;

Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. These are inputs (adjustable), which are directly or indirectly observable for a financial instrument, except for price quotations categorised as Level 1.

Inputs of Levels 1 and 2 are observable data for a financial instrument being valued;

Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category covers all instruments for which the valuation technique includes inputs not based on public data and such data, which is not publicly available in the market, has significant effect on the instrument valuation. The Bank includes instruments that are valued based on quoted prices for similar instruments where significant adjustments or judgements, which are not publicly available, are required to reflect differences between the instruments.

Fair value of financial assets measured at fair value through profit or loss was calculated by discounting using an average weighted market rate, which was equal to the allocation rate under the contract at initial recognition.

Movement in fair value of amounts due from financial institutions measured at fair value through profit or loss for the years ended 31 December 2019 and 2018 is as follows:

	31 December 2019	**31 December 2018**
Fair value as at 1 January	-	-
Loans issued	954 405	-
Loans repaid	(134 156)	-
Interest income accrued	15 771	-
Interest income paid	(10 682)	-
Change in foreign exchange differences	(41 829)	-
Fair value as at 31 December	**783 509**	**-**

(Thousands of Russian Roubles)

Determining the fair value of financial instruments as at 31 December 2019, management of the Bank made the following assumptions:

- to discount future cash flows of financial institutions, the Bank may use an average weighted (average market) interest rate, or a mean value between the maximum interest rates, or an average between the minimum and maximum market rates (depending on the type of instrument). Inputs used to determine a market rate for trade finance transactions, including risk sharing, are classified as unobservable (Level 3), therefore, the Bank used its own assumptions for market rates: cost of resources for the Bank quoted by the Bank Treasury, participating bank or other financing banks at the time of transaction negotiation + the Bank's margin of 0.15% - 3.00% p.a. irrespective of the transaction currency. The rate depends on the timing and volume of transaction as well as assessment of a counterparty's financial position.

The table below sets out information about significant unobservable inputs used to measure financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2019:

Type of instrument	**Fair value**	**Valuation technique**	**Significant unobservable inputs**	**Unobservable inputs**
Amounts due from financial institutions measured at FVTPL	783 509	Discounted cash flows from operating activities	Risk-adjusted discount rate	The cost of resources for the Bank + the Bank's margin of 0.15% - 3.00% p.a. irrespective of the transaction currency

If discount rates changed by plus/minus one per cent, fair value of the said instruments would be by RUB 7 835 thousand higher/lower respectively (31 December 2018: no such instruments).

For other financial assets and financial liabilities as at 31 December 2019 and 31 December 2018, fair value is not materially different from the carrying amount.

26 Related party transactions

For the purposes of these financial statements, the parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as stated in IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

To disclose related parties information, the Bank considers four categories of related parties:

1. The parent company is Industrial and Commercial Bank of China Limited JSC. The party with ultimate control over the Bank is the Government of the People's Republic of China.
2. Companies of ICBC group are entities, which are members of the financial group of Industrial and Commercial Bank of China Limited JSC.
3. The Bank's key management personnel is represented by an individual or a close family member of the individual who is the Bank's key management personnel.
4. Other companies are parties under influence of the same governmental bodies of the PRC as those who have control, joint control or significant influence on other parties and the Bank, except those represented in other categories by companies of ICBC group.

During the reporting period, the Bank actively cooperated with the Parent company – Industrial and Commercial Bank of China Limited JSC, which is a shareholder of the Bank, its branches and subsidiaries in the interbank lending market, trade finance, foreign currency purchase and sales transactions (including CNY/RUB currency pair).

As at 31 December 2019, the Bank's related parties were as follows:

(Thousands of Russian Roubles)

Key management personnel of the Bank:

Name	Activity	Functions
Li Wencong	President	Management
Lang Weijie (quitted in the reporting period)	Vice-President	Management
Igor G. Titlin	Vice-President	Management
Wang Gang	Vice-President	Management
Natalia V. Kuzmina	Chief Accountant	Management
Shao Changyong	Vice-President	Management

Transactions with the Bank's key management personnel

Total remuneration included in operating expenses is as follows:

	for the year 2019		for the year 2018	
	Total accrued expenses	**Share, %**	**Total accrued expenses**	**Share, %**
Wages and salaries	62 510	66.5%	61 920	51.9%
Bonuses	24 205	25.8%	43 520	36.5%
Long-term benefits	7 240	7.7%	11 267	9.5%
Other payments	-	-	2 512	2.1%
including payroll related taxes and deductions	*11 273*	*12 %*	*14 034*	*12%*
TOTAL	**93 955**	**100%**	**119 219**	**100%**

These amounts include cash and non-cash remuneration of the members of Board of Directors and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2019 and 31 December 2018 for transactions with the members of the Board of Directors and the Management Board are as follows:

	31 December 2019		31 December 2018	
	Carrying amount	**Average effective interest rate, %**	**Carrying amount**	**Average effective interest rate, %**
LIABILITIES				
Amounts due to customers (individuals)	-	-	32 732	2.32%
Other liabilities and reserves	15 170	-	44 535	-
Total liabilities	**15 170**	**-**	**77 267**	**-**

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board are as follows.

	2019	2018
Interest expense	(36)	(90)
Net gains from transactions with foreign currencies and financial derivatives	263	128

(Thousands of Russian Roubles)

The outstanding balances and the related average effective interest rates as at 31 December 2019 and related income and expenses on transactions with related parties for the year 2019 are as follows:

	Parent company		Companies of ICBC group		Other companies		
		Average effective interest rate		Average effective interest rate		Average effective interest rate	Total
Statement of financial position							
Cash and cash equivalents	2 290 348	1.29%	40 843	(0.38%)	2 464	0.50%	**2 333 655**
Amounts due from financial institutions	-	-	-	-	-	-	**-**
Investment securities	-	-	-	-	444 664	2.90%	**444 664**
Other assets	-	-	1 634		1 909		**3 543**
Total assets	**2 290 348**		**42 477**		**449 037**		**2 781 862**
Amounts due to financial institutions	1 246 568	0.14%	793 697	3.02%	2 876 300	5.51%	**4 916 565**
Amounts due to customers	-	-	-	-	9 611 917	1.32%	**9 611 917**
Other liabilities and reserves	-		32 750	-	1 888	-	**34 638**
Subordinated loans	7 497 056	3.27%	-	-	-	-	**7 497 055**
Total liabilities	**8 743 624**		**826 447**		**12 490 105**		**22 060 176**
Off-balance sheet commitments							
Guarantees received	-	-	988 214	0.29%	3 640 797	0.20%	**4 629 011**
Guarantees issued	-	-	988 214	0.29%	3 640 797	0.20%	**4 629 011**
Statement of profit or loss and other comprehensive income							
Interest income	46 492		14 320		37 022		**97 834**
Interest expense	(334 668)		(114 644)		(363 794)		**(813 106)**
Net gains from transactions with foreign currencies and financial derivatives	233 752		951 999		5 893		**1 191 644**

(Thousands of Russian Roubles)

	Parent company		**Companies of ICBC group**		**Other companies**		
		Average effective interest rate		**Average effective interest rate**		**Average effective interest rate**	**Total**
Fee and commission income	9 619		4 472		87 129		**101 220**
Fee and commission expense	(3)		(2 432)		(48)		**(2 483)**
Other operating income	-		-		315		**315**
Operating income	-		-		(8 208)		**(8 208)**
Change in allowance for expected credit losses (impairment allowance) on interest-bearing debt financial assets	(20)		-		(134)		**(154)**
Net gain (loss) from transactions with financial assets / liabilities	387 469		(29 060)		46 459		**404 868**

The outstanding balances and the related average effective interest rates as at 31 December 2018 and related income and expenses on transactions with related parties for the year 2018 are as follows:

(Thousands of Russian Roubles)

	Parent company		**Companies of ICBC group**		**Other companies**		
		Average effective interest rate		**Average effective interest rate**		**Average effective interest rate**	**Total**
Statement of financial position							
Cash and cash equivalents	3 599 836		4 375 848		2 402 776		**10 378 460**
Amounts due from financial institutions	-	-	1 263 527	3.00%	1 289 968	7.50%	**2 553 495**
Investment securities	-	-	-	-	1 240 193	4.80%	**1 240 193**
Other assets	-	-	12	-	-	-	**12**
Total assets	**3 599 836**		**5 639 387**		**4 932 937**		**14 172 160**
Amounts due to financial institutions	7 138 176	1.24%	6 199 449	3.46%	1 816 786	7.13%	**15 154 411**
Amounts due to customers	-	-	-	-	8 048 621	2.32%	**8 048 621**
Subordinated loans	8 425 850	3.88%	-	-	-	-	**8 425 850**
Total liabilities	**15 564 026**		**6 199 449**		**9 865 407**		**31 628 882**
Off-balance sheet commitments							
Guarantees received	-	-	573 713	0.20%	3 550 548	0.20%	**4 124 261**
Guarantees issued	-	-	573 713	0.20%	3 550 548	0.20%	**4 124 261**
Statement of profit or loss and other comprehensive income							
Interest income	48 689		34 534		58 058		141 281
Interest expense	(319 589)		(143 113)		(158 015)		(620 717)
Net gain (loss) from foreign exchange operations and derivative financial instruments	(2 345)		(210 211)		12 524		(200 032)
Fee and commission income	5 739		5 354		57 689		68 782
Fee and commission expense	(15)		(898)		(768)		(1 681)
Other operating income	-		-		223		223

27 Subsequent events

Since the beginning of 2020 the coronavirus outbreak (COVID-19) has spread around the world, affecting the world economy. An additional factor of instability was the breakdown of the OPEC+ agreement, which had a significant impact on the reduction in the cost of oil. As a result of these events in March 2020 the Russian rouble weakened, as well as stock exchange indices declined. In addition, at the end of March 2020 the Russian government introduced precautionary measures against the spread of coronavirus (COVID-19) in the country.

The Bank considers the spread of coronavirus and increased volatility (instability) in the markets to be significant non-adjusting events. Due to the uncertainty and duration of events the Bank cannot accurately and reliably assess the quantitative impact of these events on its financial position. They are expected to have impact on financial instruments measured at fair value and on the measurement of expected credit losses in accordance with IFRS 9. At present the Bank is closely monitoring the financial implications of these events.

President Li Wencong

Chief Accountant Natalia V. Kuzmina