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INDEPENDENT AUDITOR'S REPORT

ON ANNUAL FINANCIAL STATEMENTS OF
Public Joint Stock Company «Best Efforts Bank»

for the year of 2019

To Shareholders and Board of Directors
of PJSC «Best Efforts Bank»

Opinion

We have audited the accompanied annual financial statements of Public Joint Stock Company «Best Efforts Bank» (OGRN 1037700041323,127006, Moscow, Dolgorukovskaya str., 38, hereinafter – the Bank) which comprise the Statement of Financial Position as at 31 December 2019, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for 2019, as well as notes to the annual financial statements, containing a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanied annual financial statements present fairly, in all material respects, the financial position of Public Joint Stock Company «Best Efforts Bank» as at 31 December 2019, financial performance and cash flows for 2019 in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the audited entity in accordance with the Rules for the Independence of Auditors and Audit Organisations and the Code of Professional Ethics of Auditors that comply with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including international standards of independence) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How out audit addressed the key audit matters
Measurement of financial assets at fair value through other comprehensive income We focused on this matter due to the significance of investments in financial instruments, which are securities of various issuers, and also due to the use of subjective judgment by management in developing models for assessing the fair value of financial instruments. The current financial markets are affected by various external and internal factors and are volatile, that is why measurement of financial instruments may have a significant effect on the Bank's financial performance and financial position. Financial instruments are measured at fair value, analyzed and allocated to the levels of the fair value hierarchy. The levels correspond to the ability to directly determine fair value based on market data. In 2019, the Bank carried out transactions with securities and other financial assets classified as at 1 January 2020 as financial assets at fair value through other comprehensive income. The Bank's investments in securities are mainly represented by financial instruments traded in active markets (Level 1). To measure the fair value of financial instruments, the Bank uses observable and unobservable inputs of various levels. Measurement of the fair value is disclosed in Note 32 of the financial statements.	In relation to the Bank: We reviewed the Bank's internal regulations on measurement methods for their compliance with IFRS and the regulations of the Bank of Russia, as well as sources of material assumptions used to measure the fair value of financial instruments. We analysed internal control and control environment in terms of the market risk management policy, including risk limitation, differentiation of powers when accepting the market risk, the market risk monitoring by the Bank's management bodies. We tested in detail (on a sample basis) significant financial instruments to check methods used to measure the current fair value. We assessed sufficiency of disclosures made by the Bank in the notes to the annual financial statements about the fair value of financial instruments.

Other Matter

The annual financial statements of PJSC Best Efforts Bank for 2018 were audited by FBK Grant Thornton. Following the audit of the financial statements FBK Grant Thornton expressed an unmodified opinion on the financial statements of PJSC Best Efforts Bank for 2018. The auditor's report is dated 14 March 2019.

Other Information

Management of the Bank is responsible for the other information. The other information comprises the information included in the Annual Report for 2019, but does not include the annual financial statements and our auditor's report thereon. The Annual Report for 2019 is expected to be made available to us after the date of this auditor's report.

Our opinion on the annual financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and members of Board of Directors for the annual Financial Statements

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

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

Board of Directors is responsible for overseeing the preparation of annual financial statements.

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

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

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

a) Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the audited entity's internal control.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management of the audited entity.

d) 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 audited entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the audited entity to cease to continue as a going concern.

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

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

We also provide the members of the Board of Directors of the audited entity with a statement that we have complied with all relevant ethical requirements regarding independence and informed these persons about all relationships and other issues that can reasonably be considered to affect the independence of the auditor, and, if necessary, about the relevant precautionary measures.

From the issues that we brought to the attention of the members of the board of directors of the audited entity, we identified the issues that were most significant for the audit of the annual financial statements for the current period and, therefore, are key audit issues. We describe these issues in our audit opinion, except when public disclosure of information about these issues is prohibited by law or regulation, or when, in extremely rare cases, we conclude that information about any issue should not be communicated to our conclusion, since it can reasonably be assumed that the negative consequences of the communication of such information will exceed the socially significant benefit of its communication.

Report on procedures performed in accordance with the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

Management of the Bank is responsible for compliance of the Bank with the obligatory ratios established by the Bank of Russia, as well as for compliance of the Bank's internal control and risk management systems with the Bank of Russia requirements.

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990 in the course of our audit of the Bank's financial statements for 2019 we performed procedures with respect to the following:

- the Bank's compliance with the obligatory ratios as at 1 January 2020;
- compliance of the Bank's internal control and risk management systems with the Bank of Russia requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Bank's policies, procedures and methodologies with the Bank of Russia requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1) with respect to the Bank's compliance with the obligatory ratios established by the Bank of Russia:

   a) the obligatory ratios established by the Bank of Russia as at 1 January 2020 were within the limits established by the Bank of Russia.

We have not performed any procedures with respect to the Bank's financial information other than those we considered necessary to express our opinion on whether the financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, its financial performance and its cash flows for 2019 in accordance with International Financial Reporting Standards.

2) with respect to compliance of the Bank's internal control and risk management systems with the Bank of Russia requirements:

   a) in accordance with the Bank of Russia requirements and recommendations as at 1 January 2020 the Bank's internal audit department was subordinated and accountable to the Bank's Board of

Directors and the Bank's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the Bank of Russia;

b) as at 1 January 2020, the Bank had duly approved in accordance with the Bank of Russia requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;

c) as at 1 January 2020, the Bank had a reporting system with regard to the Bank's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Bank's capital;

d) frequency and sequential order of reports prepared by the Bank's risk management and internal audit departments in 2019 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Bank's internal policies; these reports included results of monitoring by the Bank's risk management and internal audit departments of effectiveness of the Bank's respective methodologies and improvement recommendations;

e) as at 1 January 2020, the authority of the Bank's Board of Directors and the Bank's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control effectiveness and consistency of application of the Bank's risk management policies, during 2019 the Bank's Board of Directors and the Bank's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

We have carried out the procedures with respect to the Bank's internal control and risk management systems solely to report on the findings related to compliance of the Bank's internal control and risk management systems with the Bank of Russia requirements.

The engagement partner on the audit resulting in this
independent auditor's report
CEO OOO Moore Stephens: Gorbunova M.A.

Auditor:
OOO Moore Stephens, OGRN 1027739140857,
Russian Federation, 117638, Moscow, Odesskaya street, house 2, floor 6, office I
Member of the self-regulatory organisation of auditors Association "Sodruzhestvo"
ORNZ 11606055761.

27.04.2020

Public Joint Stock Company Best Efforts Bank

Financial Statements for the year ended 31 December 2019

and Independent Auditor's Report

Financial Statements for the period ended 31 December 2019
(thousands of Russian roubles)

Content

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Statement of comprehensive income
(in thousands of Russian roubles)

	Note	for the year ended 31 December 2019	2018
Interest income	6	152 621	248 890
Interest expense	6	(48 273)	(104 497)
Net interest income		**104 348**	**144 393**
Change in provision for expected credit losses on interest bearing assets	7	(8)	38 109
Net interest income after change in provision for expected credit losses		**104 340**	**182 502**
Profit less losses from operations with financial assets and liabilities at fair value	8	79 008	(9 419)
Income less expenses from transactions with derivative financial instruments		233	(7 455)
Income less expenses from transaction with foreign currency		73 894	15 434
Income less expenses from revaluation of foreign currency		(46 893)	29 436
Fee and commission income	9	262 318	249 791
Fee and commission expense	9	(162 600)	(116 119)
Change in other provisions and change in estimated liabilities	7	307	4 114
Other operating income		2 884	1 097
Administrative and other operating expenses	10	(237 059)	(242 923)
Profit before tax		**76 432**	**106 458**
Current income tax	11	(18 097)	(12 918)
Changes in deferred taxes due to occurrence and writing off of temporary differences	11	7 752	(17 926)
Net profit		**66 087**	**75 614**
Other comprehensive income			
Other comprehensive income (expense) that cannot be reclassified to profit or loss in the future		**(183)**	**914**
Change in value of fixed assets at revaluation		(183)	914
Other comprehensive income (expense) that may be reclassified to profit or loss in the future		**29 193**	**(14 373)**
Change in fair value of financial assets at fair value through other comprehensive income		40 743	(16 969)
Accumulated income transferred to profit or loss account in connection with disposal, net of tax		(6 203)	-
Change in deferred tax relating to components of other comprehensive income	11	(5 347)	2 596
Other comprehensive income / (loss) for the period		**29 010**	**(14 373)**
Total comprehensive income for the period		**95 097**	**61 241**

Signed 24 April 2020

I.B. Ionova
Chairman of the Management Board

Н. Попова

N.G. Popova
Chief Accountant

ПАО «Бест Эффортс Банк» МОСКВА

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Statement of Financial Position
(in thousands of Russian roubles)

	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	13	360 159	340 674
Mandatory cash balances with the Bank of Russia		24 424	22 239
Due from financial institutions	14	769 440	403 299
Financial assets at fair value through profit or loss	15	-	58 743
Derivative financial assets	16	509	3 549
Financial assets at fair value through other comprehensive income	17	627 247	1 171 791
Financial assets pledged under repurchase agreements	18	69 747	413 541
Accounts receivable under repo agreements	19	3 292 522	1 901 925
Loans to customers	20	5 779	13 189
Current income tax receivables		-	4 385
Deferred tax asset	11	4 878	2 656
Property, plant and equipment and assets in the form of right of use	21	88 055	86 332
Intangible assets	22	14 271	11 177
Other assets	23	14 618	14 903
Total assets		**5 271 649**	**4 448 403**
Liabilities			
Due to banks and other financial institutions	24	14 084	11 242
Derivative financial liabilities and obligations to deliver securities	28	39 184	2 542
Accounts payable under repo agreements	19	2 025 395	470 084
Customer accounts	25	1 591 078	2 187 803
Subordinated debt	26	502 705	509 493
Current income tax payable		11 028	-
Other liabilities	27	28 787	146 325
Total liabilities		**4 212 261**	**3 327 489**
Equity			
Share capital	29	702 762	702 762
Share premium	29	685 811	685 811
Revaluation reserve for financial assets at fair value through other comprehensive income		11 458	(17 735)
Revaluation reserve for property, plant and equipment		731	914
Accumulated deficit		(341 374)	(250 838)
Total equity		**1 059 388**	**1 120 914**
Total liabilities and equity		**5 271 649**	**4 448 403**

Signed 24 April 2020

I.B. Ionova
Chairman of the Management Board

N.G. Popova
Chief Accountant

The accompanying notes on pages 8 to 65 form an integral part of the annual financial statements

Statement of Changes in Equity
(in thousands of Russian roubles)

	Notes	Share capital	Share premium	Revaluation reserve for financial assets held at fair value through other comprehensive income	Revaluation reserve for property, plant and equipment	Accumulated deficit	Total equity
Balance at 1 January 2018		**702 762**	**685 811**	**(2 448)**	**-**	**(46 115)**	**1 340 010**
Comprehensive income for the period		-	-	(15 287)	914	75 614	61 241
Dividends payment		-	-	-	-	(280 337)	(280 337)
Balance at 31 December 2018		**702 762**	**685 811**	**(17 735)**	**914**	**(250 838)**	**1 120 914**
Comprehensive income for the period		-	-	29 193	(183)	66 087	95 097
Dividends payment	12	-	-	-	-	(156 623)	(156 623)
Balance at 31 December 2019		**702 762**	**685 811**	**11 458**	**731**	**(341 374)**	**1 059 388**

Signed 24 April 2020

I.B. Ionova
Chairman of the Management

N.G. Popova
Chief Accountant

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Cash flow Statement
(in thousands of Russian roubles)

	2019	2018
Cash flows from operating activities		
Interest received	153 645	258 134
Interest paid	(55 432)	(115 050)
Fees and commissions received	262 318	249 168
Fees and commissions paid	(162 600)	(116 159)
Expenses from transactions with financial assets at fair value	(12 409)	(9 419)
Income from foreign currency transactions	73 894	7 979
Other operating income	2 884	1 097
Operating expenses paid	(219 711)	(243 007)
Income tax paid	(11 470)	(29 919)
Cash flow from operating activity before changes in operating assets and liabilities	**31 119**	**2 824**
Net (increase)/decrease in mandatory cash balances with the Bank of Russia	(2 185)	16 658
Net (increase)/decrease in due from financial institutions	(500 606)	33 873
Net (increase)/decrease of assets at fair value through profit or loss	151 563	(6 408)
Net (increase)/decrease in accounts receivable under repo agreements	(1 440 607)	1 500 634
Net decrease in loans to customers	7 708	6 321
Net (increase)/decrease in other assets	(7 421)	22 930
Net increase in due to banks and other financial institutions	2 842	10 109
Net decrease in obligations to deliver securities	38 512	(718 993)
Net increase/(decrease) in accounts payable under repo agreements	1 570 602	(1 096 090)
Net decrease in customer accounts	(408 422)	(854 628)
Net (decrease)/increase in other liabilities	(121 316)	108 305
Net cash flows used in operating activity	**(678 211)**	**(974 465)**
Cash from investing activities		
Acquisition of financial assets at fair value through other comprehensive income	(16 842 792)	(12 976 860)
Revenues from sales of financial assets at fair value through other comprehensive income	17 752 051	12 970 167
Acquisition of fixed and intangible assets	(7 670)	-
Revenues from sale of fixed assets and assets in the form of right of use	-	32 258
Net cash used in investing activities	**901 589**	**25 565**
Cash flows from financial activities		
Dividends paid	(156 623)	(279 581)

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	2019	2018
Net cash flows used in financial activities	**(156 623)**	**(279 581)**
Effect of changes in exchange rate on cash and cash equivalents	(47 245)	101 869
Net increase/(decrease) in cash and cash equivalents	**19 510**	**(1 126 612)**
Cash and cash equivalents at the beginning of the reporting period	340 682	1 467 286
Cash and cash equivalents at the end of the reporting period	**360 192**	**340 674**

Signed on 24 April 2020

I. B. Ionova
Chairman of the Management Board

N. G. Popova
Chief Accountant

Notes to the Financial Statements as at 31 December 2019

1. Principal Activities

The Bank has been carrying out its activities since the year of 1990 under the current legislation and the licenses issued:

- License of the Central Bank of the Russian Federation for banking transactions with individuals and legal entities No. 435 without limitation of the validity period;
- Professional securities trader license for dealership No. 077-13818-010000 without limitation of the validity period;
- Professional securities trader license for brokerage No. 077-13817-100000 without limitation of the validity period;
- Professional securities trader license for custody business No. 077-13860-000100 without limitation of the validity period.

The Bank participates in the Russian deposit insurance program since 26 August 2005.

The Bank is a member of the Association of Financial Market Participants Non-Commercial Partnership of RTS' Financial Market Development, The National Association of Stock Market Participants, The Association of Banks of Russia, and Non-Commercial Organization Russian National SWIFT Association.

RAEX (Expert RA) rating agency upgraded the credit rating of the Bank to the level ruA-. The rating has a stable outlook, which means a high probability of maintaining the rating in the medium term.

PJSC Best Efforts Bank was registered on the website of the US Internal Revenue Service (IRS) (The IRS is a government agency of the US federal government that collects taxes and monitors compliance with tax legislation). In the status of a «Participating Foreign Financial Institution» and was assigned the Global Intermediary Identification Number (GIIN): B57WNA.99999.SL643. The US Internal Revenue Service (IRS) has assigned to PJSC Best Efforts Bank the identification number of a qualified intermediary (QI-EIN) 98-0242949.

As at 31 December 2019 and 31 December 2018 the Bank did not have any branches or subsidiaries.

The Bank has one structural until – additional Central office: 38/1 Dolgorukovskaya str., Moscow 127006.

Principal banking transactions of the Bank are as follows:
- Brokerage and custody services;
- Cash management and payment services for legal entities and individuals in Russian rouble and foreign currencies;
- Outsourcing of internal accounting of professional participants of securities market;
- Repo transactions;
- Securities transactions;
- Foreign exchange transactions both by customer orders and for account of the Bank;
- Lending of legal entities and individuals;
- Attraction of deposits of corporate clients and individual depositors.

The Bank is a trader for Moscow Exchange PJSC and St. Petersburg Exchange PJSC; it provides services for access to international sites (CME Group, American and European stock markets).

A key area of the Bank's activities is the provision of a wide range of brokerage and depository services to professional participants in the financial market, including custody services for clients of professional securities market participants who do not have a license for depositary services. The Bank is an intermediary for access to key exchange trading floors, offering effective solutions for asset reservation and risk calculation.

The Bank consistently implements objectives of the adopted development strategy, focusing on maintaining and expanding the achieved volumes of cooperation with professional participants in the financial market, including foreign.

1. Principal Activities (continued)

Considering further ways to develop and improve the service, the Bank constantly masters new tools and technologies, offering its customers a complete package of innovative services with advanced information solutions, products and know-how, allowing to achieve maximum economic efficiency. The Bank plans to provide a qualitatively new level of customer service and the construction of a modern competitive Bank with significant technological tools sufficient to ensure resistance to stressful situations in the economy and constitute the necessary foundation for further development.

Starting 2 December 2019, the Bank has been performing the functions of a settlement depository (settlements by securities based on the results of clearing obligations arising from transactions concluded at the auctions of PJSC St. Petersburg Exchange). The clearing organization performing the above clearing is Joint Stock Company "IFAC Clearing Centre".

By providing customers with access to exchange platforms, in 2019 the Bank secured high positions in the ranking of Moscow Exchange PJSC and St. Petersburg Exchange PJSC.

On the stock market of PJSC St.Petersburg exchange:
- In total turnover in all trading modes – 2 place;
- Turnover in the maid trading mode – 1 place.

In the markets of PJSC Moscow Exchange (ME):
- ME stock market: by volume of client operations: main trading mode, negotiation transacitons mode, T+ basic trading mode, RPS mode with the Central Committee, repo trading mode, repo trading mode with the Central Committee – 19 place;
- Foreign exchange market of ME: in terms of volume of client operations – 20 place;
- Derivatives market ME: in the overall ranking of market leaders in futures and options in terms of transactions – 16 place.

The Bank has the status of a qualified intermediary Qualified Intermediary, (QI), which does not accept responsibility for the retention of funds and does not accept responsibility for reporting (hereinafter QI without primary withholding and reporting responsibility). Best Efforts Bank PJSC may provide tax relief for income tax payments under the corporate tax exemption (WTRC) corporate action for securities of US issuers subject to regulation in accordance with chapters 3 and 4 of the US Tax Code.

The Bank has timely re-registered the FATCA agreement and passed the initial and subsequent certification of the Bank's activities according to FATCA. The Internal Audit Service conducts annual periodic certification. The Bank has appointed a responsible person for fulfilling the requirements of the FATCA law. The Bank adopted the document "Regulation on the observance by PJSC Best Efforts Bank of the US legislation on taxation of foreign accounts (FATCA)", approved by Order No. 01-04-05 / 03 of the Chairman of the Management Board of the Bank dated 04 May 2017.

The document contains information on the necessary terms and definitions of the US Law on Taxation of Foreign Accounts - the Foreign Account Tax Compliance Act (FATCA) and Federal Law dated 28 June 2014 No. 173-ФЗ On the Features of Financial Transactions with Foreign Citizens and Legal Entities". The procedures for customer identification and identification for the purposes of FATCA are prescribed, the order of interaction between units, and the provision of annual reporting is defined. In order to comply with the "Regulations on the Compliance of Best Efforts Bank PJSC with US Legislation on the Taxation of Foreign Accounts (FATCA)", the Bank introduces information on the status of clients according to FATCA, reflects the presence of GIIN numbers for customers. During the year, the state of the Bank's client base is monitored for the purpose of not increasing customers with a negative FATCA status among customers - professional participants in the securities market conducting operations in foreign markets. Bank employees responsible for working with clients are familiar with the current versions of tax forms W-8BEN, W-8BEN-E, W-8IMY and the specifics of filling them out.

1. Principal Activities (continued)

The Bank has developed and is operating the document "Criteria for classifying the customers of Best Efforts Bank PJSC as foreign taxpayers and how to obtain the necessary information from them", approved by Order No. 01-09-01 / 05 of the Chairman of the Management Board of the Bank dated 01 September 2017. The Bank approved the forms of Questionnaires for classifying customers as foreign taxpayers. For the convenience of customers, the text of the questionnaires has a translation into English. These documents, as well as the current edition of the tax forms W-8BEN, W-8BEN-E, W-8IMY, W-8ECI, are available on the Bank's official resource on the Internet - http://besteffortsbank.ru.

In accordance with the requirements of the Federal Law of 27 November 2017 No. 340-Ф3 "On Amendments to Part One of the Tax Code of the Russian Federation in connection with the implementation of the international automatic exchange of information and documentation on international groups of companies and the entry into force of the Government Decision of 16 June 2018 of year No. 693 "On the implementation of the international automatic exchange of financial information with the competent authorities of foreign states (territories)", the Bank developed and adopted a document "Regulation of PJSC Best Efforts Bank's actions to establish tax residence of customers, beneficiaries and (or) persons directly or indirectly controlling them and submitting information to the federal executive body authorized for control and supervision in the field of taxes and fees ", approved by Order of the Chairman of the Management Board Bank dated 12 July 2018 No. 01-07-12 / 01. The Bank approved and put into effect forms for confirming the tax resident status of customers, the forms are posted on the Bank's website - http://besteffortsbank.ru in the FATCA / CRS section.

The Bank has no beneficial owners. The shareholder, the Association of participants in the financial market "Non-profit Partnership for the Development of the Financial Market of RTS", owns 82.89% of the votes in the authorised capital of the Bank.

The Association of Financial Market Participants, the Non-profit Partnership for the Development of the RTS Financial Market (hereinafter referred to as the "NP RTS Association") is a non-profit organization created in the form of a non-profit partnership. In accordance with Article 8 of the Federal Law of 12 January 1996 No. 7-FZ "On Non-Profit Organizations", a partnership is a non-profit organization based on membership. In accordance with the Charter of NP RTS Association, regardless of the membership fee, each member of NP RTS Association has one vote when voting at the general meeting of NP RTS Association members. Thus, there are no persons owning 25% or more of the votes at the general meeting of members of the NP RTS Association.

2. Economic Environment in which the Bank Operates

The Bank operates in the territory of the Russian Federation, as a result it is exposed to economic and financial risks in the markets of the Russian Federation that exhibit characteristic features inherent in emerging markets.

The legislation of the Russian Federation continues to improve but it can be interpreted differently and is often subject to changes, which, together with other shortcomings of the legal and fiscal systems, create additional difficulties for enterprises operating in the Russian Federation.

According to the information and analytical material "On the Development of the Banking Sector of the Russian Federation in 2019" published on the Bank of Russia website, in general, assets of the banking sector grew by 5.2% in 2019, mainly due to an increase in the loan portfolio.

Corporate lending growth for 2019 (+ 4.5%) was slightly lower than in 2018. (+ 5.8%), due to a weak demand from legal entities, in part due to their more active involvement in bond borrowings. Large companies partially reoriented to the corporate bond market which allows attracting long-term funding at low rates. Against the backdrop of favourable conditions, the growth in the volume of rouble denominated corporate bonds in circulation for 2019 amounted to about 1 trillion roubles (an increase of about 15%).

2. Economic Environment in which the Bank Operates (continued)

The annual growth rate of the banks' retail portfolio indicates a significant slowdown - from + 22.8% in 2018 to + 18.6% in 2019, which had been caused partly by the application by the Bank of Russia of restraining regulatory measures in relation to unsecured consumer loans.

The total increase in deposits attracted by banks in 2019 amounted to + 10.1%, which is significantly higher than in 2018 (+ 6.5%).

Deposits and funds of organizations - a volatile source of funding; In 2019, the volume of deposits and funds of organizations on accounts increased by only 4.4%.

Since the beginning of the year, the share of retail deposits of individuals in foreign currency decreased from 21.5% in January to 19.6% in December (in December the decrease was 1.1 pp), and the share of foreign currency funds of organizations - from 37.0 to 30.5% respectively. Depreciation of deposits was facilitated by, among other things, the appreciation of the rouble, as well as a sharp decrease in interest rates on foreign currency deposits (long-term deposits in US dollars fell from 3.3% in January to 1.1% in November), as against the backdrop of a decrease in profitability foreign currency assets and measures taken by the Bank of Russia to devalue the main balance sheet items. At the same time, a decrease in rouble rates and a decrease in their differential with foreign exchange rates may constrain further devaluation of deposit operations.

Rouble liquidity is at a comfortable loss, despite a slight decrease in the structural surplus in December to 2.8 trillion. roubles. Among the main factors of the decrease, one can single out an increase in the volume of cash in circulation and an increase in the balances of funds in correspondent accounts with the Bank of Russia due to the delayed fulfilment by banks of averaging of required reserves. At the end of 2019, foreign currency liquidity amounted to $ 43 billion.

According to the results of the whole 2019, the profit of banks before tax amounted to 2.0 trillion. roubles (net profit - 1.7 trillion roubles, + 73% by 2018). Such a big leap is due to the fact that 2019 profit includes technical income of about 0.4 trillion. roubles from part of the adjustments related to the introduction of the new IFRS 9 credit risk accounting standard, as well as the fact that in 2018, banks managed by UK FKBS LLC recorded a significant loss of about 0.5 trillion roubles due to a one-time re-establishment of reserves for old distressed assets, while in 2019 their result was close to zero. Excluding the impact of IFRS 9 and the result of banks managed by UK FKBS LLC, the sector's net profit in 2019 amounted to 1.3 trillion roubles, which is 11% lower than in 2018 (1.5 trillion roubles).

As of 01 January 2020, 442 credit organizations operated in Russia (at the beginning of 2019 - 484). For the whole of 2019, licenses of 31 credit organizations were revoked / revoked, 12 reorganizations took place in the form of accession. At the same time, in March 2019, for the first time in more than four years, a license was issued for banking operations to a newly created bank.

The adequacy of own funds (capital) of the sector increased slightly from 12.2% on January 1, 2019 to 12.4% on 01 December 1, 2019. The adequacy of basic and fixed capital increased more significantly - from 8.3 to 8.7% and from 8.9 to 9.4%, respectively. The increase in capital adequacy is due to the outstripping growth of capital (total capital increased by 5.5%, and base and main - by 8.8 and 9.4%, respectively) compared with risk-weighted assets (+ 3.7%) Also, an increase in capital adequacy in the banking sector was significantly facilitated by a reduction in the capital deficit of banks that do not comply with capital adequacy standards. Capital growth, in turn, was facilitated by an increase in retained earnings, even taking into account significant dividends.

According to the data of PJSC Moscow Exchange, by the end of 2019, the volume of bond placements amounted to 3.17 trillion roubles. 299 companies placed 634 bond issues, of which 83 issuers entered the market for the first time. New products have been offered in all markets.

2. Economic Environment in which the Bank Operates (continued)

Trading began on the first issue of structural bonds registered under Russian law, 18 exchange-traded funds, derivatives on the RUSFAR money market rate, the US dollar – Japanese yen currency pair, and supply silver futures. The placement of Federal Treasury funds in deposits with the Central Committee began. In order to attract additional liquidity in the foreign exchange market, the Request for Stream (RFS) service began, which allows corporate clients and financial institutions to conclude large transactions with foreign currency.

In 2019, at St. Petersburg Exchange PJSC, the exchange turnover on foreign securities, including shares, depositary receipts and bonds, increased by 175%: $ 8.8 billion in 2018 to 22.1 billion. The growth in turnover was caused by natural growth factors: access to the exchange of large retail brokers.

The management of the Bank believes that it is taking appropriate measures to maintain the economic stability of the Bank in the current environment. However, the future consequences of the current economic situation are difficult to predict; current expectations and management estimates may differ from actual results..

3. Basis of preparation of financial statements

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), including all previously adopted IFRS and Interpretations of the Standing Interpretations Committee and the Interpretations Committee for International Financial Statements. The Bank maintains accounting records and prepares financial statements in accordance with the requirements of the legislation applicable in the countries of their registration. These financial statements have been prepared on the basis of the financial statements, subject to adjustments and reclassifications of the items that are necessary to bring it into line with IFRS. The accounting policies used in preparing these financial statements are presented below. These principles have been applied consistently to all periods presented in the statements (unless otherwise indicated).

These financial statements have been prepared on a going concern basis.

The functional currency of the Bank is the national currency of the Russian Federation, the Russian rouble ("RUB"). Unless otherwise indicated, the figures in the financial statements are presented in thousands of Russian roubles.

At the end of 31 December 2019, the official exchange rate used to revalue foreign currency account balances was:

	31 December 2019	**31 December 2018**
US Dollar/Rouble	61,9057	69,4706
Euro/Rouble	69,3406	79,4605
British Pound/Rouble	81,1460	88,2832
Swiss franc/Rouble	63,6039	70,5787
Hong Kong dollar (10 units) / Rouble	79,5049	88,7191
Chinese Yuan (10 units) / Rouble	88,5937	10,0997

The accounting policies and calculation methods used in preparing these annual financial statements are consistent with the accounting policies and methods used in the Bank's annual financial statements for the year ended 31 December 2018, with the exception of some new standards, interpretations and changes to existing standards listed in the annual Bank financial statements, which became mandatory from 1 January 2019. The appearance of new standards, interpretations and changes to existing standards are disclosed in Note 5 of these annual financial statements

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4. Accounting Policies

The accounting policies and calculation methods used in preparing these financial statements are consistent with the accounting policies and methods used in the Bank's annual financial statements for the year ended 31 December 2018, with the exception of certain new standards, interpretations and changes to existing standards listed in the financial statements Bank, which became mandatory from 1 January 2019. The new standard includes IAS 16 "Leases", the effect of the transition to which is disclosed in these financial statements, other standards did not significantly affect the Bank's financial statements.

4.1 Key assessment conditions

When reflecting financial instruments, the Bank uses the following methods for evaluating them:

- at fair value;
- at amortized cost.

Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the assumption that a transaction to sell an asset or transfer a liability takes place either in the main market for the asset or liability or in the absence of the main market in the most profitable market for the asset or liability. Fair value is the current bid price of financial assets, the current bid price of financial liabilities and average current bid and ask prices when the Bank holds both a short and long term position in a financial instrument. A financial instrument is regarded as quoted in an active market if quotes are regularly and at any given time available according to the exchange or other institution, and these prices represent actual and regularly performed market operations on an on-going basis.

Valuation methods are used to measure the fair value of certain financial instruments for which pricing information on the foreign market is not available.

Such valuation methods include discounted cash flow models, generally accepted option pricing models, models based on recent transactions between independent market participants, or an analysis of the financial performance of the investee. Valuation methods may require assumptions that are not supported by observable market data.

Further information about fair value and fair value measurements is presented in these financial statements.

The amortized cost of a financial asset or liability is the cost at which the financial asset or liability was measured at the time of initial recognition, net of payments of principal, adjusted for the accumulated amortization of the difference between the initial recognised value and the value at maturity determined using the method effective interest rate, and adjusted for financial assets, adjusted for the allowance for losses ki. Premiums and discounts, as well as transaction costs, are included in the carrying amount of the respective instrument and amortized based on the effective interest rate of the instrument.

The gross carrying amount of a financial asset measured at amortized cost is the amortized cost of a financial asset before adjusting for the amount of the allowance for losses.

When calculating the amortized cost, either the linear method or the effective interest rate method are used in accordance with the accepted materiality criteria established by the Bank's Accounting Policy.

The linear method - interest and coupons are calculated at the rate established by the terms of the contract for the corresponding asset (liability) or the terms of the issue of debt securities, the amount of discount and premium are charged to the balance sheet account for interest income (expenses) evenly during the term of the contract or the circulation of the debt security.

4. Accounting Policies (continued)

The effective interest method is a method of distributing interest income or interest expenses for the corresponding period in order to ensure a constant periodic interest rate (effective interest rate) on the current value of the instrument. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument right up to:

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

When calculating the effective interest rate on financial instruments that are not credit-impaired assets, the Bank estimates future cash flows, taking into account all contractual terms of the financial instrument, but excluding expected credit losses. For credit-impaired financial assets, the effective interest rate adjusted for credit risk is calculated using the expected future cash flows, including expected credit losses.

Calculation of the effective interest rate includes transaction costs, as well as interest and fees paid or received, which are an integral part of the effective interest rate. Transaction costs include incremental costs directly attributable to the acquisition or issue of a financial asset or financial liability.

4.2 Initial recognition and classification of financial instruments

The Bank classifies financial assets in accordance with their characteristics related to the cash flows stipulated by the contract and based on the business model of managing the respective group of financial assets.

Depending on the purpose of managing the respective group of financial assets, the Bank applies the following business models:

- retention of financial assets to receive cash flows stipulated by the contract, i.e payments representing repayment of the principal amount of the debt and payment of interest on the outstanding portion of the principal amount of the debt;
- retention of financial assets to receive cash flows and sales stipulated by the contract;
- retention of financial assets for other purposes, including the sale of a financial asset.

The Bank classifies financial assets in one of the three categories:

1. financial assets carried at amortized cost;
2. financial assets carried at fair value through profit or loss (hereinafter referred to as FVPL);
3. financial assets carried at fair value through other comprehensive income (hereinafter referred to as FVOCI).

A financial asset is measured at amortized cost only if it meets both of the following conditions and is not classified at the Bank's discretion as measured at fair value through profit or loss:

- The asset is held in the framework of a business model, the purpose of which is to hold assets to receive cash flows stipulated by the contract; and
- The contractual terms of the financial asset provide for the occurrence of cash flows in a timely manner, representing the payment of the principal amount of the debt and interest accrued on the outstanding part of the principal.

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not classified at the Bank's discretion as measured at fair value through profit or loss:

4. Accounting Policies (continued)

- The asset is held in the framework of the business model, the purpose of which is achieved both by obtaining the cash flows stipulated by the contract and by selling financial assets; and
- The contractual terms of the financial asset provide for the occurrence of cash flows in a timely manner, representing the payment of the principal amount of the debt and interest accrued on the outstanding part of the principal.

For debt financial assets at fair value through other comprehensive income, profit or loss is recognised in other comprehensive income, except for the following items, which are recognised in profit or loss in the same way as for financial assets at amortized cost:

- Interest income calculated using effective interest method;
- Expected credit losses and recovery amounts; and
- Gains or losses from changes in exchange rates.

On derecognition of a debt financial asset at fair value through other comprehensive income, the accumulated profit or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Upon initial recognition of non-trading investments in equity instruments, the Bank may, at its sole discretion, decide, without the right of subsequent cancellation, to present subsequent changes in the fair value of investments in other comprehensive income. This choice is made for each investment separately.

For such equity instruments, gains and losses are never reclassified to profit or loss, and no impairment is recognised in profit or loss. Dividends are recognised in profit, unless it is obvious that they represent a refund of a portion of the cost of the investment, and in these cases, dividends are recognised in other comprehensive income. On disposal of an investment, accumulated gains and losses recognised in other comprehensive income are transferred to retained earnings.

All other financial assets are classified at fair value through profit or loss.

The Bank in rare cases (for example, if the Bank has acquired, sold or discontinued business) may change the financial asset management business model.

The decision to change the business model is made by key management personnel.

When changing the business model, financial assets are subject to reclassification. Financial assets are reclassified on the first business day of the next reporting period after a decision is made to change the asset management business model. After making a decision to change the business model, the Bank does not carry out activities in accordance with the previous asset management business model.

4.3 Impairment of financial assets

The Bank recognises an allowance for expected credit losses on all loans and other debt financial assets that are not measured at fair value through profit or loss (excluding deferred tax assets, assets arising from employee benefits), as well as loan commitments.

The provision for ECL is calculated based on the expected credit losses for the entire life of the asset (CMB for the entire term), if there is no significant increase in credit risk from the moment of recognition; in the latter case, the reserve is calculated based on the expected credit losses for 12 months (12-month ECL). 12-month ECL are part of the entire ECL, which are ECL arising from defaults on a financial instrument that are possible within 12 months of the reporting date. Full-time ECL and 12-month ECL are calculated on an individual or collective basis, depending on the nature of the underlying portfolio of financial instruments.

4. Accounting Policies (continued)

The Bank approved a policy for assessing a significant increase in the credit risk of a financial instrument from the moment it was initially recognised by analysing changes in default risk arising over the remaining life of the financial instrument.

Upon initial recognition of a financial asset, the Bank assesses the impairment of the financial asset in the amount of 12-month expected credit losses. With respect to the Bank's obligations to provide loans to borrowers without the right of subsequent cancellation, the date of initial recognition for the purpose of applying the requirements for impairment is the date of conclusion of the relevant agreement.

As of each reporting date, for each financial instrument or group of financial instruments (falling under portfolio management), the Bank assesses credit risk:

- If the credit risk for a financial instrument or group of financial instruments has not increased significantly since the initial recognition, the Bank forms an estimated reserve of 12 months of expected credit losses for the financial instrument or group of financial instruments.
- If the credit risk for a financial instrument or group of financial instruments has increased significantly since the initial recognition, the Bank forms an estimated reserve in the amount of expected credit losses for the financial instrument or group of financial instruments for the entire life of the financial instruments.
- If less than 12 months remain before the maturity of the financial instrument, the Bank forms an estimated reserve for the instrument in the amount of expected credit losses before the end of its term.
- If at the reporting date the credit risk of a financial instrument is low, then the Bank accepts that the credit risk of a financial instrument has not increased significantly since initial recognition.
- If, in the previous reporting period, the Bank established an allowance for losses on a financial instrument in an amount equal to expected credit losses for the whole term, but as of the current reporting date, the credit risk on a financial instrument decreased in such a way that, compared to initial recognition, a significant increase there is no credit risk, at the current reporting date the Bank estimates the estimated reserve in the amount equal to 12-month expected credit losses.

In order to assess whether the credit risk of a financial instrument has increased significantly since its initial recognition, the Bank focuses on changing the risk of a default occurring over the expected life of the financial instrument (not on changing the amount of expected credit losses).

The risk assessment of the occurrence of default of financial instruments is carried out in the framework of risk assessment models generated by business models. The Bank assesses the risk of a default occurring on a group or individual basis (if the number of financial instruments is insufficient to conduct a group-based assessment). The use of a group or individual valuation method is determined when approving the business model of managing a financial instrument in the Bank's asset and liability management policy. When forming groups of financial instruments, the Bank does not include financial instruments with different risk characteristics in one group, and the groups are formed in such a way that the number of financial instruments is sufficient to obtain valid results.

For financial instruments that are assessed on a group basis, the risk of default is assessed on the basis of information on late payments, taking into account the forecast macroeconomic information, available without undue cost and effort.

For financial instruments that are assessed on an individual basis, the risk of default is assessed using information about overdue payments on a financial instrument, and using information about the borrower (his financial situation, availability of facts of debt restructuring, etc.), available without undue cost and efforts.

If reasonable and verifiable forward-looking information is available without undue cost or effort, the Bank does not rely solely on late payment information to determine whether credit risk has increased significantly since initial recognition.

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4. Accounting Policies (continued)

However, when information that is more predictive than the status of late payments (whether on an individual or group basis) is not available without undue cost or effort, the Bank uses the information on late payments to determine whether credit risk has increased significantly since initial recognition . The Bank accepts that the credit risk of a financial instrument has increased significantly if the payments specified in the contract are overdue by more than 30 days.

The methods used to determine whether the credit risk of a financial instrument has increased significantly since initial recognition take into account the characteristics of the financial instrument (or group of financial instruments) and the occurrence of defaults in previous periods for comparable financial instruments.

The Bank measures the expected credit losses of a financial instrument in a manner that reflects:

- An unbiased and probability-weighted amount determined by assessing the range of possible outcomes;
- Time value of money;
- Reasonable and confirmed information about past events, current conditions and projected future economic conditions, available at the reporting date without undue cost or effort.

The period considered in assessing expected credit losses is the maximum period under the contract (including extension options) during which the organization is exposed to credit risk, and not a longer period, even if it is consistent with business practice.

Expected credit losses are a probability-weighted estimate of credit losses (that is, the present value of all expected cash shortfalls) for the entire expected life of the financial instrument. Non-receipt of cash is the difference between the cash flows due to the Bank in accordance with the agreement and the cash flows that the Bank expects to receive. Since the expected credit losses take into account the amount and terms of repayments, a credit loss occurs even if the Bank expects to receive the full amount in full, but later than stipulated by the contract.

In the case of a credit-impaired financial asset as at the reporting date, which is not an acquired or created credit-impaired financial asset, the Bank estimates expected credit losses as the difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted using initial effective interest rate on a financial asset. Any adjustment is recognised in profit or loss as profit or loss from impairment.

Impairment losses from financial assets carried at amortised cost are recognised in profit or loss as they arise as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset.

The Bank avoids, but does not exclude, the possibility of impairment losses on initial recognition of financial assets.

If in a subsequent period the amount of the impairment loss of a financial asset decreases, and this decrease can be objectively attributed to the event that occurred after the impairment of the financial asset was recognised (such as raising the credit rating of a debtor), the previously recognised impairment loss is restored by adjusting the created reserve through composition of profit or loss.

Financial assets, the repayment of which is impossible, and in respect of which all necessary procedures have been completed with the aim of full or partial compensation and the final amount of the loss has been determined, are written off from the allowance for impairment in the balance sheet.

The main criteria for writing off impaired financial assets from the reserve are:

- The Bank has taken all necessary and sufficient measures to collect debts, the possibility of implementation of which arises from the law, business customs or an agreement.

4. Accounting Policies (continued)

- Writing off debt unrealistic for collection is justified if there are documents confirming the fact that the debtor did not fulfil obligations to the Bank for a period of at least one year before the date of the decision to write off the debt.
- In cases where the amount of unrealistic debt exceeds one per cent of the Bank's own funds (equity) - the presence of acts of authorized state bodies proving the impossibility of collecting debt.

Impairment losses on financial assets at fair value through other comprehensive income are recognised in profit or loss as incurred as a result of one or more events ("loss events") that occurred after the initial recognition of financial assets at fair value through other comprehensive income.

A significant or prolonged decline in the fair value of an equity security, measured at fair value through other comprehensive income, below its cost is a sign of impairment.

If there is any indication of impairment, the accumulated loss, defined as the difference between the acquisition cost and the current fair value, net of the impairment loss for the asset, which was initially recognised in the profit or loss account, is transferred from equity to profit or loss. Impairment losses on equity instruments are not reversed through the profit or loss account; an increase in fair value after impairment is recognised directly in equity.

For debt instruments that are measured at fair value through other comprehensive income, impairment indicators are assessed using the same criteria ("loss events") as for financial assets carried at amortized cost.

The amount of loss to be transferred to profit or loss is equal to the difference between the purchase price of the asset (net of payments to pay off the principal amount and taking into account depreciation on assets measured using the effective interest method) and current fair value minus impairment losses for this asset previously recognised in profit or loss. If, in a subsequent reporting period, the fair value of a debt instrument measured at fair value through other comprehensive income increases, and such an increase can be objectively attributable to the event that occurred after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the composition profit or loss of the current reporting period.

4.4 Derecognition of financial assets and financial liabilities

The Bank ceases to recognise a financial asset when it loses the contractual rights to cash flows for a given financial asset, or when it transfers a financial asset as a result of a transaction in which practically all risks and benefits associated with ownership are transferred to the other side on this financial asset, or in which the Bank neither transfers nor retains a substantial part of all the risks and benefits associated with the ownership of this financial asset, but does not retain control over the financial asset. Any interest in transferred financial assets that are subject to derecognition requirements created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank ceases to recognise a financial liability when its contractual obligations are fulfilled, cancelled or terminated.

The Bank enters into transactions under the terms of which it transfers the assets recognised in the statement of financial position, but at the same time retains all or part of the risks and benefits arising from the ownership of the transferred assets. While retaining all or almost all of the risks and benefits, the Bank does not cease to recognise transferred assets.

When transactions are concluded under the terms of which the Bank does not retain, but does not transfer practically all the risks and benefits arising from the ownership of the financial asset, the recognition of this asset is terminated if the Bank has lost control of the asset.

If, during the transfer of an asset, the Bank retains control over it, it continues to recognise the asset to the extent that it retains participation in the asset, defined as the degree to which the Bank is exposed to changes in its value.

4. Accounting Policies (continued)

The Bank writes off assets that are recognised as uncollectible.

Any accumulated profit / loss recognised in other comprehensive income for equity investment securities classified at the discretion of the Bank at fair value through other comprehensive income is not reclassified to profit or loss upon derecognition of such securities. Any interest in transferred financial assets with respect to which the requirements for derecognition are created, created or retained by the Bank, is recognised as a separate asset or liability.

Any accumulated profit / loss recognised in other comprehensive income for financial liabilities classified at the Bank's discretion as a fair value through profit or loss is not reclassified to profit or loss upon derecognition of such financial liabilities.

Valuation of securities disposed of (sold) is carried out at the cost of the first-time securities purchased (FIFO method) in the context of securities portfolios formed on the basis of the business model used for securities management.

4.5 Cash and cash equivalents

Cash and cash equivalents include cash, Nostro accounts with the Bank of Russia, Nostro accounts with other banks, deposits with the Bank of Russia and deposits with other banks placed for a period not exceeding 1 business day with a reserve level under expected credit losses of up to 1%.

All other short-term placements with other banks are included in amounts due from financial institutions. Cash equivalents are carried at amortized cost.

4.6 Mandatory cash balances with the Bank of Russia

Required reserves are funds deposited in accounts with the Bank of Russia and not intended to finance the Bank's current operations. Therefore, they are excluded from cash and cash equivalents for the purpose of compiling a statement of cash flows.

4.7 Sale (purchase) transactions of trading securities with the obligation of repurchase (sale)

Securities sold under sale agreements with a repurchase obligation ("repos") are recorded as financing transactions secured by a pledge of securities, while securities continue to be reflected in the statement of financial position and obligations to counterparties are included in accounts payable under repurchase agreements. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss for the term of the repo transaction using the effective interest method.

Securities purchased under agreements to resell are not recognised in the balance sheet. Relevant cash requirements (hereinafter referred to as "reverse repos") are recorded as receivables for repos. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss for the duration of the reverse repurchase agreement using the effective interest method.

If assets acquired under agreements to resell are sold to third parties, the obligation to return the securities is recorded as a trading liability and measured at fair value, and the financial result from the acquisition and sale of these securities is recorded in the statement of comprehensive income in the line "Income less expenses from operations with financial assets / liabilities".

4. Accounting Policies (continued)

4.8 Due from financial institutions

Due from financial institutions include financial assets that are not derivative financial instruments, with defined payments, which are not quoted in an active market, provided by the Bank to counterparty banks (including the Bank of Russia), with the exception of:

- overnight placements;
- those in respect of which the Bank has the intention to sell them immediately or in the near future and which should be classified as held for sale, and those which, after initial recognition, are determined by the Bank to be measured at fair value through profit or loss;
- those that, after initial recognition, are designated as withheld for income or sale;
- those for which the Bank will not be able to cover the entire substantial amount of its initial investment for reasons other than creditworthiness, and which should be classified as withheld for income and for sale.

In the line "Due from financial institutions" of the statement of financial position, the Bank reflects loans issued and deposits placed with other credit organizations and financial institutions, balances on correspondent Nostro accounts, as well as balances on brokerage accounts that are not equivalent to cash equivalents.

Amounts due from financial institutions are carried at amortized cost.

The difference between the fair value and the nominal value of the loan (deposit) arising from the provision of loans (placement of deposits) at interest rates higher or lower than prevailing market rates is reflected in the statement of comprehensive income at the time of issuing such a loan (placement of deposit) under "Income (expenses) from assets placed at rates higher (lower) than market ones". Subsequently, the carrying value of these loans (deposits) is adjusted for the amortization of this income / expense, and interest income is reflected in the statement of comprehensive income using the effective interest method.

4.9 Loans to customers

One of the criteria for classifying a financial asset as being measured at amortized cost or as being measured as FVOCI is the compliance of cash flows for the financial asset with the SPPI criterion - i.e. whether the terms of the contract of this financial asset provide for the occurrence, within the established time limits, of cash flows, which represent the payment of exclusively the principal amount and interest.

A financial asset that does not meet the SPPI criterion is always measured using the FVPL, unless it is an equity instrument for which the Bank has decided to use the option of valuation through other comprehensive income.

Loans to customers that meet the SPPI test are withheld in order to obtain the cash flows stipulated by the contract and are carried at amortized cost. The impairment of loans measured at amortized cost or fair value through other comprehensive income is determined using the forecast model of expected credit losses. Information is provided on the source data, assumptions and calculation methods used in assessing expected credit losses, including an explanation of how the Bank includes forecast information in the expected credit loss models.

The SPPI test assumes that the cash flows of a financial asset represent only the repayment of face value and interest. For example, loans whose profitability depends on the company's profit will not pass the SPPI test and will be carried at fair value. During the test, all loans are divided into three stages:

Stage 1. A group of assets for which the implementation of the SPPI test is obvious from the general parameters of the contract
Stage 2. A subgroup of homogeneous assets for which a collective analysis is possible
Stage 3. Analysis on an individual basis.

4. Accounting Policies (continued)

The difference between the fair and nominal value of the loan is recognised in profit or loss as income from assets placed at rates higher than market, or as an expense from assets placed at rates below market. Subsequently, the carrying amount of these loans is adjusted for depreciation of the income (expense) of the loan, and the corresponding income is recognised in profit or loss using the effective interest method.

The Bank applies the impairment accounting model based on changes in credit quality since initial recognition:

- a financial asset that is not impaired at initial recognition, for which there was no significant increase in credit risk in the reporting period compared to the level established at the time of initial recognition, as well as an asset that is classified as a low-risk portfolio at the reporting date and is classified as related to Stage 1. For the financial assets of Stage 1, the expected credit losses are estimated at an amount equal to the portion of the expected credit losses for the entire period that arise as a result of defaults that may occur over the next 12 months (12-month ECL).
- if the Bank reveals a significant increase in credit risk from the moment of initial recognition, the asset is transferred to Stage 2 and the expected credit losses for it are estimated based on the expected credit losses for the entire term (CMR for the whole term).
- if the Bank determines that the financial asset is impaired: the borrower is assigned default status and at the same time the loan is recognised as problematic, the asset is transferred to Stage 3 and the expected credit losses for it are estimated as expected credit losses for the entire term.

The carrying amount of credit and receivables is reduced through the provision account for expected credit losses. After determining the objective evidence of impairment on an individual basis and subject to the absence of such evidence, loans are included in the group of financial assets with similar credit risk characteristics in order to determine the indicators of impairment on an aggregate basis.

4.10 Fixed assets

Items of property, plant and equipment are carried at revalued amounts and at cost less accumulated depreciation and impairment losses.

If an item of property, plant and equipment consists of several components having different useful lives, such components are recorded as separate items of property, plant and equipment.

If the carrying amount of an asset exceeds its estimated recoverable amount, the carrying amount of the asset is reduced to its recoverable amount, and the difference is recognised in profit or loss. Estimated recoverable amount is determined as the higher of the fair value of the asset, less costs to sell and value in use.

If a revaluation of an individual object of fixed assets is carried out, then the whole group of fixed assets to which this asset belongs is subject to revaluation.

The revaluation of a group of fixed assets is carried out simultaneously to exclude the possibility of selective revaluation of assets, as well as the presentation in the financial statements of articles that are the sum of fixed assets valued at actual cost and revalued value for different dates. However, a group of assets can be revalued on a rolling schedule if the revaluation is made in a short time and the results are constantly updated.

At each reporting date, the Bank determines whether there is any indication of impairment of property, plant and equipment. If such signs exist, the Bank assesses the recoverable amount, which is determined as the higher of the net sale price of fixed assets and the value resulting from their use

4. Accounting Policies (continued)

If the carrying amount of property, plant and equipment exceeds their estimated recoverable amount, the carrying amount of property, plant and equipment is reduced to recoverable amount, and the difference is recognised in profit or loss as an expense from impairment of property, plant and equipment, unless revaluation has been made previously. In this case, a positive revaluation is excluded first, and any additional loss is included in profit or loss. Impairment losses recognised for property, plant and equipment in previous years are reversed if there has been a change in the estimates used to determine the recoverable amount of property, plant and equipment.

Gains and losses arising from the disposal of fixed assets are determined on the basis of their carrying value and are taken into account when calculating the amount of profit (loss). Repair and maintenance costs are recognised in profit or loss when incurred.

4.11 Assets in the form of right of use and lease obligations

In accordance with IFRS 16 "Leases", the Bank, as a lessee, recognises a lease as an asset in the form of a right of use and a corresponding liability on the date that the leased asset is available for use by the Bank. Upon initial recognition, an asset in the form of a right of use is measured based on the cash flows of the lease.

Each rental payment is allocated between the liability and financial expenses. Finance costs are recognised in profit or loss over the lease term to ensure a constant periodic interest rate on the remaining lease liability for each period. An asset in the form of a right of use is amortized on a straight-line basis over the shorter of the terms, useful life of the asset or the lease term.

To calculate the lease liability and the corresponding asset in the form of a right to use, the Bank discounts future lease payments with an appropriate discount rate.

Lease payments are discounted using the interest rate implied in the contract, or, if it is not available, at the affordable rate for attracting additional borrowed funds by the lessee, which is the rate that the lessee must pay in order to raise the funds necessary to obtain an asset of a similar value in a similar economic environment with similar conditions.

When determining the lease term, the non-cancellable period established in the contract is taken into account during which the lessee has the right to use the underlying asset, taking into account possible renewal options, if the tenant has sufficient confidence to renew. In particular, in respect of those contracts that allow the tenant to renew the lease by default after the first set of years, the lease term is determined taking into account factors such as the duration of the first period, the availability of plans to terminate the use of the leased asset and any other circumstances indicating reasonable assurance in renewal.

Assets in the form of a right of use relating to property, plant and equipment, after initial recognition, are measured by the lessee using the historical cost model less accumulated depreciation and any accumulated impairment losses, and an adjustment is made to reassess the lease liability.

Lease obligations are re-measured as adjustments to the asset in the form of a claim by discounting rental payments in one of the following cases:

- change in lease term (revised lease payments are determined based on the revised lease term);
- change in the assessment of the right to purchase a leased asset.

In relation to leased assets in the form of real estate, the tenant decides to apply practical simplification not to allocate utilities as a separate component of the lease, but to take them into account as part of the lease.

4. Accounting Policies (continued)

The Bank decided not to apply the provisions of IFRS 16 "Leases", as this standard allows, in relation to:

- rental of intangible assets;
- short-term leases for a period of less than 12 months;
- rental of assets with low cost (not more than 300 thousand roubles, such as computers, furniture, etc.).

Payments related to short-term leases and leases of low-value assets are recognised evenly as expenses in profit or loss.

4.12 Depreciation

Depreciation on property, plant and equipment is charged on a straight-line basis over their estimated useful lives. Depreciation is charged from the date when the object becomes available for use, and for fixed assets constructed in an economic way - from the moment the object is completed and ready for operation. For land plots depreciation is not charged. The useful lives of various items of property, plant and equipment can be represented as follows:

Categories of fixed assets	Useful life
Buildings	From 10 to 50 years
Furniture and equipment	From 5 to 20 years
Computers and office equipment	From 2 to 5 years

The residual value of an asset is the estimated amount that the Bank would currently receive in the event of the sale of the asset, less the estimated costs of disposal, if the condition and age of the asset corresponded to the age and condition that the asset would have at the end of its useful life. The residual value of an asset is zero if the Bank intends to use the asset before the end of its physical life. The residual value of assets and their useful lives are reviewed and, if necessary, adjusted at each reporting date.

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

4.13 Intangible assets

Intangible assets of the Bank, except for business reputation, have a definite useful life of 5 to 10 years, and mainly include capitalised software. Acquired intangible assets are carried in the financial statements at actual costs less accumulated amortisation and impairment losses.

The costs of acquiring licenses for special software and its implementation are capitalized at the cost of the corresponding intangible asset.

Amortisation of intangible assets is accrued on a straight-line basis over the estimated useful lives and is recognised in profit or loss. The useful lives of intangible assets can be either specific or uncertain. Intangible assets with fixed useful lives are amortised over their useful lives.

4.14 Non-financial assets

Other non-financial assets other than deferred taxes are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

4. Accounting Policies (continued)

In determining the value in use, the estimated future cash flows are discounted to their current value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows that are largely independent of the cash flows generated by other assets, the recoverable amount is determined by the group of cash generating assets to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or a group of cash generating assets exceeds its recoverable amount.

All losses from impairment of non-financial assets (with the exception of assets carried at revalued amounts, the impairment loss of which does not exceed the balance of the increase in the value of these objects) are recognised in profit or loss and must be reversed only if there have been changes in the estimates used in determination of recoverable amount. Any impairment loss of an asset is recoverable to the extent that the carrying amount of the asset does not exceed the carrying amount (net of depreciation and amortization) that would have occurred if the impairment loss had not been reflected in the financial statements.

4.15 Classification of financial liabilities

The Bank recognises a financial liability in its statement of financial position when it becomes a party to an agreement determining the terms of a financial instrument.

The Bank classifies financial liabilities in accordance with their characteristics related to cash flows stipulated by the contract.

The classification of financial liabilities after initial recognition is not subject to change.

Financial liabilities at fair value through profit or loss include derivative instruments, including foreign exchange contracts, as well as trading financial liabilities or "short" positions associated with securities return liabilities.

Financial liabilities measured at amortized cost include borrowed funds. Borrowed funds include customer accounts, funds from financial institutions (including the Bank of Russia), subordinated deposits (debts), and other borrowed funds.

4.16 Settlements with suppliers and other payables

Accounts payable are recognised by the Bank when the counterparty fulfils its obligations and is carried at amortized cost.

4.17 Share capital and dividends

Share capital is recognised at historical cost, adjusted to the equivalent of purchasing power of the Russian rouble at the end of 31 December 2002, for contributions to the authorized capital made before 1 January 2003. Costs directly attributable to the issuance of ordinary shares and stock options are recognised as a decrease in equity, net of any tax effects.

Preferred shares that are not redeemable and for which dividends are not required are recognised in equity.

The ability of the Bank to declare and pay dividends is subject to the regulation of the current the legislation of the Russian Federation.

Dividends on ordinary and preferred shares are recorded in the financial statements as the use of retained earnings as they are declared. Dividends declared after the balance sheet date are reflected in the note on events that occurred after the balance sheet date. Dividends and other distribution of profits are based on the net profit of the current year according to the financial statements prepared in accordance with the legislation of the Russian Federation.

4. Accounting Policies (continued)

If dividends to holders of equity instruments are declared after the reporting date, such dividends at the reporting date are not recognised as liabilities. Dividends are recognised upon approval by the General Meeting of Shareholders and shown in the financial statements as distribution of profits.

Share premium represents the excess of contributions to the share capital over the nominal value of shares issued.

4.18 Recognition of income and expenses

Interest income and expense are recognised in profit or loss using the effective interest method.

Interest income from operations on the provision (placement) of cash and precious metals, on acquired debt securities, including promissory notes, on operations of the loan of securities, as well as income from the provision for a fee for temporary use (temporary ownership and use) are recorded taking into account commission and transaction costs that reduce interest income.

Fees and other income and expenses are recognised in profit or loss on the date the related service is provided.

Net income from transactions with financial instruments at fair value, changes in which are recognised in profit or loss for the period, include profit or loss from sales and changes in the fair value of financial assets and liabilities at fair value, changes in which are recorded in profit or loss for the period.

Other commissions, as well as other income and expenses are recognised in profit or loss as of the date of provision of the corresponding service.

Dividend income is recognised in profit or loss on the date the dividend is declared.

4.19 Taxation

The financial statements reflect taxation expenses in accordance with the requirements of the legislation of the Russian Federation.

Income tax expense (reimbursement) in the statement of comprehensive income for the year includes the amount of current tax for the year and the amount of deferred tax. Income taxes are recognised in profit or loss in full, excluding amounts relating to transactions recognised in other comprehensive income or to transactions with owners recognised directly on capital accounts, which, respectively, are recorded in other comprehensive income or directly in equity. Taxes, other than income taxes, are recognised as administrative and other operating expenses.

Current income tax is calculated based on the estimated amount of taxable profit for the reporting period, taking into account income tax rates at the reporting date, as well as the amount of liabilities arising from the refinement of the amount of income tax for previous reporting periods.

Deferred tax is recognised for temporary differences arising between the carrying amount of assets and liabilities determined for the purposes of their reflection in the financial statements and their tax base. Deferred tax is not recognised for assets and liabilities, the fact of the initial reflection of which does not affect either accounting profit or taxable.

The amount of deferred tax is determined depending on the manner in which the Bank expects to realize or pay the carrying amount of its assets or liabilities using income tax rates at the reporting date.

4. Accounting Policies (continued)

Deferred tax requirements are recognised to the extent that it is probable that future taxable profits will be sufficient to cover temporary differences, unaccepted tax expenses and unused tax benefits. Deferred tax claims are reduced to the extent that there is no longer any likelihood that the related benefits will be derived from the implementation of tax claims.

4.20 Derivative financial instruments

Derivative financial instruments include swap transactions, futures and futures transactions, spot transactions and options on interest rates, foreign currency, precious metals and securities, as well as any combination of the above instruments.

Derivative financial instruments are initially recognised at fair value at the transaction date and subsequently re-measured at fair value. All derivative financial instruments are recorded as assets if their fair value is positive and as liabilities if their fair value is negative.

Changes in the fair value of derivative financial instruments are recognised immediately in profit or loss. Changes in the fair value of derivatives are included in gains less losses from operations with foreign currencies, gains less losses from operations with financial assets at fair value through profit or loss, and gains less losses from operations with precious metals, depending on type of transaction.

Embedded derivative financial instruments are not distinguished from the underlying financial asset contract.

The Bank does not conduct transactions that are defined as hedging in accordance with IFRS 9 "Financial Instruments".

4.21 Provisions

Estimated liabilities are recognised when the Bank has liabilities (legal or arising from established business practices) that arose prior to the reporting date. Moreover, there is a high probability that the Bank will need an outflow of economic resources to fulfil these obligations, and the amount of obligations can be reliably estimated.

4.22 Related party transactions

The Bank conducts transactions with related parties. The parties are considered related, including if one of them has the ability to control the other, together with the other party it is under common control, is under the joint control of the other party and a third party, or can have a significant impact when the other party makes financial and operational decisions.

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

5. Transition to New or Revised Standards and Interpretations

IFRS 16 Leases

The Bank applied IFRS 16 Leases, issued on 13 January 2016, from the effective date of 1 January 2019.

The new standard defines the principles for recognition, measurement, presentation and disclosure of information in relation to rental transactions. All leases result in the tenant receiving the right to use the asset from the moment the lease begins, as well as in obtaining financing if lease payments are made over a period of time. In accordance with this, IFRS 16 cancels the classification of leases as operating or financial in accordance with IAS 17 and instead introduces a single model of accounting for leases for tenants. The Bank applied this standard using a modified retrospective method, without recounting comparative indicators. The Bank recognised assets in the form of a right of use in the amount of 4,190 thousand roubles, as well as the corresponding lease liability for 1 January 2019 in the amount of 4,190 thousand roubles.

Below is a reconciliation of operating and finance lease contractual obligations with a recognised lease liability under IFRS 16:

(unaudited data)	Note	1 January 2019
Operating and finance lease payments		**4 858**
Future lease payments accepted for the purpose of IFRS 16		**4 858**
Effect of applying discounts		(668)
Lease obligations under IFRS 16		**4 190**
Assets in the form of right of use in accordance with IFRS 16	**21**	**4 190**

The amendments to the standards below became applicable to the Bank starting January 1, 2019, but did not have a significant impact on the Bank.

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 19 "Amendment, Reduction and Settlement of the Pension Plan"** (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019.

In connection with the change in the format for the presentation of financial statements, the following are changes in the presentation of data:

Statement of financial position at the end of 31 December 2018:

Before reclassification		Reclassification	After reclassification	
Category	**Amount**	**Amount**	**Category**	**Amount**
Customer accounts	2 697 296	(509 493)	Customer accounts	2 187 803
			Subordinated debt	(509 493)
Total	**2 697 296**	**(509 493)**	**Total**	**2 697 296**

5. Transition to New or Revised Standards and Interpretations (continued)

Statement of comprehensive income for the year of 2018:

Before reclassification		Reclassification	After reclassification	
Category	**Amount**	**Amount**	**Category**	**Amount**
Gains less losses from derivative financial instruments	7 979	(15 434)	Gains less losses from derivative financial instruments	(7 455)
			Revenue less expenses from operations with foreign currency	15 434
Interest income	258 395	(9 505)	Interest income	248 890
Interest expenses	(114 002)	9 505	Interest expense	(104 497)
Total	**152 372**	**(15 434)**	**Total**	**152 372**

6. Income and Expense

Interest income and expenses were as follows:

	2019	2018
Interest income on assets measured at amortised cost		
Accounts receivable under repo agreements	73 067	125 569
On loans to customers	1 256	2 150
On correspondent accounts with other banks	104	103
Total interest income on financial assets measured at amortised cost	**74 427**	**127 822**
Interest income on assets measured at fair value through other comprehensive income		
Financial assets at fair value through other comprehensive income	78 194	121 068
Total interest income on financial assets at fair value through other comprehensive income	**78 194**	**121 068**
Total interest income	**152 621**	**248 890**
Interest expense on liabilities measured at amortised cost		
Subordinated debt	(36 647)	(37 106)
Accounts payable under repo agreements	(5 971)	(51 411)
Accounts and deposits of legal entities	(1 846)	(13 767)
Deposits of customers being individuals	(584)	(1 145)
Lease obligations	(249)	-
Other	(2 976)	(1 068)
Total interest expense on financial liabilities measured at amortised cost	**(48 273)**	**(104 497)**
Total interest expense	**(48 273)**	**(104 497)**
Net interest income	**104 348**	**144 393**

7. Provision for Expected Credit Losses on Interest bearing Assets and Other Provisions

Changes in provisions for 2019 were as follows:

	Balance as at 31 December 2018	12 month ECL	Lifetime ECL – non-impaired assets	Lifetime ECL – impaired assets	Net change in provision for expected credit loss	Balance as at 31 December 2019
Measured at amortised cost:						
Due from financial institutions	7 818	314	-	-	314	8 132
Accounts receivable under repo agreements	-	20	-	-	20	20
Loans to customers	370	(326)	-	-	(326)	44
Total change in provision for expected credit losses from interest bearing assets	**8 188**	**8**	**-**	**-**	**8**	**8 196**
Other						
Change in other provisions	1 377	4 346	(4 304)	(349)	(307)	1 070
Total change in provisions for ECL and other provisions	**9 565**	**4 354**	**(4 304)**	**(349)**	**(299)**	**9 266**

Changes in provisions for the year of 2018 were as follows:

	Balance for 31 December 2017	12 month ECL	Lifetime ECL – non-impaired assets	Lifetime ECL – impaired assets	Net change in provisions for expected credit loss	Balance as of 31 December 2019
Measured at amortised cost:						
Due from financial institutions	45 247	(37 429)	-	-	(37 429)	7 818
Loans to customers	1 050	(680)	-	-	(680)	370
Total change in provision for expected credit losses from interest bearing assets	**46 297**	**(38 109)**	**-**	**-**	**(38 109)**	**8 188**
Other						
Change in other provisions	5 491	(4 114)	-	-	(4 114)	1 377
Total change in provisions for ECL and other provisions	**51 788**	**(42 223)**	**-**	**-**	**(42 223)**	**9 565**

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8. Income Less Expenses from Transactions with Financial Assets and Liabilities

	2019			2018		
	Fair value adjustment and revaluation	Sold from resale and repayment	Total	Fair value adjustment and revaluation	Sold from resale and repayment	Total
Financial assets/liabilities at fair value through profit or loss	110 139	(36 070)	**74 069**	(4 588)	4	**(4 584)**
Financial assets at fair value through other comprehensive income	-	4 939	**4 939**	4 370	(9 205)	**(4 835)**
Total income less expenses from transactions with financial assets and liabilities	**110 139**	**(31 131)**	**79 008**	**(218)**	**(9 201)**	**(9 419)**

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9. Fee and Commission Income and Expense

Fee and commission income and expenses were as follows:

	2019	2018
Commission income		
Brokerage	185 431	205 650
Market maker services	47 209	21 967
Depositary operations	8 948	8 944
Accounts maintenance	14 676	9 001
Maintenance of internal records	4 657	3 309
Other fee and commission income	1 397	920
Total fee and commission income	**262 318**	**249 791**
Commission expense		
Brokerage	(146 999)	(105 725)
Custody transactions	(9 592)	(5 099)
Settlements	(2 655)	(2 310)
Other commission expense	(3 354)	(2 985)
Total commission expense	**(162 600)**	**(116 119)**
Total fee and commission income	**99 718**	**133 672**

10. Administrative and Other Operating Expenses

Administrative and other operating expenses were as follows:

	2019	2018
Salaries and bonuses	131 356	116 707
Obligatory insurance contributions to non-budgetary funds	33 342	29 647
Training costs	272	338
Other staff benefits	5 229	4 634
Total staff costs	**170 199**	**151 326**

10. Administrative and Other Operating Expenses (continued)

	2019	2018
Communication services	9 335	9 683
Right to use items of intellectual property	8 981	6 591
Taxes and duties other than income tax	8 786	8 511
Software maintenance and services	8 524	5 781
Other information services	8 078	8 878
Amortisation and depreciation	7 036	7 308
Expenses associated with property, plant and equipment (maintenance, repair, sale)	5 874	31 626
Inventories written-off	2 920	1 609
Professional services	1 070	664
Operating lease expenses	942	2 701
Insurance	725	266
Transportation costs	519	494
Security costs	286	249
Advertising and marketing	247	51
Business travel expenses	163	94
Other expenses on other invested or borrowed funds	-	3 658
Other operating expenses	3 374	3 433
Other administrative and operating expenses	**66 860**	**91 597**
Total administrative and other operating expenses	**237 059**	**242 923**

11. Income Tax

Income tax comprises as follows:

	2019	2018
Current income tax expense	(18 097)	(12 918)
Change in deferred taxes due to occurrence and write-off of temporary differences	7 752	(17 926)
Total income tax	**(10 345)**	**(30 844)**

In 2019 and 2018, the interest rate on income tax did not change (20%, 15%).

The tax effect of temporary differences at the end of 31 December 2019 is as follows:

11. Income Tax (continued)

	31 December 2018	Change in profit or loss	Change in equity	31 December 2019
Tax effect of temporary differences that reduce the tax base				
Revaluation at fair value of financial assets at fair value through profit or loss	429	(397)	-	32
Fixed assets: depreciation and revaluation	5 113	(90)	-	5 023
Intangible assets	-	4	-	4
Other	554	1899	-	2 453
Total deferred tax asset	**6 096**	**1416**	**-**	**7 512**
Tax effect of temporary differences increasing the tax base				
Provisions for ECL and revaluation of financial assets at fair value through OCI	3 440	(6 336)	5347	2 451
Fixed assets: revaluation of OCI	-	-	183	183
Total deferred tax liability	**3 440**	**(6 336)**	**5 530**	**2 634**
Total net deferred tax asset (liability)	**2 656**	**7 752**	**(5 530)**	**4 878**

The tax effect of temporary differences at the end of 31 December 2018 is as follows:

	31 December 2017	Change in profit of loss	Change in equity	31 December 2018
Tax effect of temporary differences that reduce the tax base				
Reserves for loan portfolio	127	(127)	-	-
Revaluation at fair value of financial assets at fair value through profit or loss	-	429	-	429
Reserves for ECL and revaluation of financial assets at fair value through OCI	-	(6 036)	6 036	
Fixed assets: depreciation and revaluation	-	5 113	-	5 113
Tax loss	14 602	(14 602)	-	-
Other	4 287	(3 733)	-	554
Total deferred tax asset	**19 016**	**(18 956)**	**6 036**	**6 096**
Tax effect of temporary differences increasing the tax base				
Revaluation at fair value of financial assets at fair value through profit or loss	1 030	(1 030)	-	-
Provisions for ECL and revaluation of financial assets at fair value through OCI	-	-	3 440	3 440
Fixed assets: revaluation of OCI	-	-	-	-
Total deferred liability	**1 030**	**(1 030)**	**3 440**	**3 440**
Total net deferred tax asset (liability)	**17 926**	**(17 926)**	**2 565**	**2 656**

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12. Dividends

During the year of 2019 shareholders' meetings decided to pay dividends totalling 156,623 thousand roubles.

On May 15, 2019, the general meeting of shareholders decided to pay dividends from the retained earnings of previous years of the Bank in the total amount of 96 106 thousand roubles. The total amount of dividend accrued per share of a certain category (type) was:

- for ordinary registered shares with the state registration number of the issue 10400435B in the amount of 1.70 roubles (one rouble seventy kopecks) per share (before tax on income received as dividends);

- for preferred registered shares with the state registration number of the issue 20100435B in the amount of 0.70 roubles (zero roubles seventy kopecks) per share (before paying income tax received as dividends);

- on preferred registered shares with state registration number of the issue 20200435B in the amount of 1.00 roubles (one rouble zero kopecks) per share (before tax on income received as dividends).

On August 26, 2019, an extraordinary meeting of shareholders decided to pay dividends from current year profit in the total amount of 60 517 thousand roubles. The total amount of dividend accrued per share of a certain category (type) was:

- for ordinary registered shares with the state registration number of the issue 10400435B in the amount of 1.07 roubles (one rouble seven kopecks) per share (before tax on income received as dividends);

- for preferred registered shares with the state registration number of the issue 20100435B in the amount of 0.70 roubles (zero roubles seventy kopecks) per share (before paying income tax received as dividends);

- on preferred registered shares with state registration number of the issue 20200435B in the amount of 1.00 roubles (one rouble zero kopecks) per share (before tax on income received as dividends).

13. Cash and Cash Equivalents

	31 December 2019	31 December 2018
Balances on accounts with the Bank of Russia (other than mandatory reserve fund)	37 566	25 017
Funds in correspondent accounts	46 479	128 617
Total cash and cash equivalents before provision for ECL	276 147	187 048
Provision for ECL	**360 192**	**340 682**
Total cash and cash equivalents	(33)	(8)
	360 159	**340 674**

The estimated fair value of cash and cash equivalents is presented in Note 32. An analysis of cash and cash equivalents by currency structure and maturity is presented in Note 30.

14. Due from Financial Institutions

	31 December 2019	31 December 2018
Correspondent accounts	68	68
Brokerage accounts	619 504	400 262
Other accounts with financial institutions	157 967	10 830
Total due from financial institutions before provision for ECL	**777 539**	**411 109**
Provision for ECL	(8 099)	(7 810)
Total due from financial institutions	**769 440**	**403 299**

Estimates of fair value of due from financial institutions as well as the fair value measurements used are disclosed in Note 32. An analysis of the amounts due from financial institutions by currency structure and maturity is presented in Note 30.

15. Financial Assets at Fair Value through Profit or Loss

	31 December 2019	31 December 2018
Equity securities at fair value through profit or loss		
Shares	-	58 743
Total financial assets at fair value through profit or loss	**-**	**58 743**

16. Derivative Financial Instruments

The fair values of forwards, swaps and options for currency and securities contracts entered into by the Bank are presented in the table below as at the end of 31 December 2019 and at the end of 31 December 2018.

	31 December 2019	31 December 2018
Foreign exchange contracts	**435**	**3 155**
Forward and swaps	435	3 155
Securities contracts	74	394
Total derivative financial assets	**509**	**3 549**

Estimates of fair value of derivative financial assets are presented in Note 32. An analysis of derivative financial assets by currency structure and maturity is presented in Note 30.

17. Financial Assets at Fair Value through Other Comprehensive Income

	31 December 2019	31 December 2018
Corporate bonds	258 669	257 535
Bonds of credit organizations	188 523	190 932
Corporate Eurobonds	131 428	209 985
Bond loans of the Russian Federation and the Bank of Russia	48 627	513 339
Total financial assets at fair value through other comprehensive income	**627 247**	**1 171 791**

The following is information about the quality of debt financial assets at fair value through other comprehensive income at the end of 31 December 2019.

	Corporate bonds	Bonds of credit organisations	Corporate Eurobonds	Bonds issued by the Ministry of Finance of the Russian Federation	Total
- with a rating from BBB- to BBB+	203 762	76 592	109 322	-	**389 676**
- with a rating from BB- to BB+	52 939	98 892	16 754	-	**168 585**
- with a rating from B- to B+	1 968	13 039	5 352	-	**20 359**
Bond loans of the Russian Federation	-	-	-	48 627	**48 627**
Total financial assets at fair value through other comprehensive income	**258 669**	**188 523**	**131 428**	**48 627**	**627 247**

The following is information about the quality of debt financial assets at fair value through other comprehensive income at the end of 31 December 2018:

17. Financial Assets at Fair Value through Other Comprehensive Income (continued)

	Corporate bonds	Bonds of credit organisations	Corporate Eurobonds	Bonds issued by the Ministry of Finance of the Russian Federation	Total
- with a rating from BBB- to BBB+	202 359	-	190 368	-	**392 727**
- with a rating from BB- to BB+	49 974	190 932	2 718	-	**243 624**
- with a rating from B- to B+	5 202	-	16 899	-	**22 101**
Bond loans of the Russian Federation	-	-	-	513 339	**513 339**
Total financial assets at fair value through other comprehensive income	**257 535**	**190 932**	**209 985**	**513 339**	**1 171 791**

Estimates of fair value of financial assets at fair value through other comprehensive income are presented in Note 32. An analysis of financial assets measured at fair value through other comprehensive income, by currency structure and maturity is presented in Note 30.

18. Financial Assets pledged under Repurchase Agreements

	31 December 2019	31 December 2018
Financial assets at fair value through other comprehensive income		
Corporate Eurobonds	3 103	-
Bonds of credit organisations	-	5 485
Bond loans of the Russian Federation	66 644	408 056
Total financial assets pledged under repurchase agreements	**69 747**	**413 541**

The following is information about the quality of financial assets at fair value through other comprehensive income at the end of 31 December 2019.

	Corporate Eurobonds	Bonds issued by the Ministry of Finance of the Russian Federation	Total
- with a rating from BBB- to BBB+	3 103	-	**3 103**
Bond loans of the Russian Federation	-	66 644	**66 644**
Total financial assets pledged under repurchase agreements	**3 103**	**66 644**	**69 747**

The following is information about the quality of financial assets at fair value through other comprehensive income at the end of 31 December 2018.

	Bonds of credit organisations	Bonds issued by the Ministry of Finance of the Russian Federation	Total
- with a rating from BB- to BB+	5 485	-	**5 485**
Bond loans of the Russian Federation	-	408 056	**408 056**
Total financial assets pledged under repo agreements	**5 485**	**408 056**	**413 541**

18. Financial Assets pledged under Repurchase Agreements (continued)

Estimates of fair value of financial assets pledged under repurchase agreements are presented in Note 32. An analysis of financial assets pledged under repurchase agreements by currency structure and maturity is presented in Note 30.

19. Repo Agreements

As of the end of 31 December 2019 and 31 December 2018, repo transactions were concluded on PJSC "Moscow Exchange" and PJSC "Saint Petersburg Exchange" through central counterparties in accordance with the rules of the exchange and clearing.

The following is information on the structure accounts receivable under repo agreements as at the end of 31 December 2019 and 31 December 2018:

	31 December 2019		31 December 2018	
	Fair value of assets accepted	Amount of claims	Fair value of assets accepted	Amount of claims
Russian government bonds	951 677	900 951	1 314 607	1 246 831
Bonds of credit organisations	289 043	243 801	-	-
Eurobonds	1 157 354	1 029 666	195 732	299 431
Corporate bonds	475 407	319 723	371 267	258 889
Corporate shares	565 151	563 173	27 955	27 804
Shares of credit organisations	240 961	235 227	69 259	68 970
Total	**3 679 593**	**3 292 542**	**1 978 820**	**1 901 925**
Provision for ECL		(20)		-
Total accounts receivable under repo agreements		**3 292 522**		**1 901 925**

The following is information on the structure of accounts payable under repo agreements as at the end of 31 December 2019 and 31 December 2018:

	31 December 2019		31 December 2018	
	Fair value of assets transferred	Liabilities	Fair value of assets transferred	Liabilities
Russian government bonds	872 288	826 484	408 056	384 784
Bonds of credit organisations	-	-	5 485	5 003
Eurobonds	755 949	745 981	-	-
Corporate shares	429 855	365 781	26 782	22 372
Shares of credit organisations	103 306	87 148	69 259	57 925
Total accounts payable under repo agreements	**2 161 398**	**2 025 395**	**509 582**	**470 084**

The estimated fair value of accounts receivable and payable under repo agreements is disclosed in Note 32. An analysis of the accounts receivable and payable under repo agreements by currency structure and maturity dates is presented in Note 30.

20. Loans to Customers

	31 December 2019	31 December 2018
Loans to individuals – consumer	5 823	13 559
Total loans to customers before provision for ECL	**5 823**	**13 559**
Provision for ECL	(44)	(370)
Total loans to customers	**5 779**	**13 189**

The movement of provision for ECL for loans to customers is disclosed in Note 7. The estimated fair value of loans to customers as well as the used fair value measurements is disclosed in Note 32. An analysis of the structure of currencies and maturities of loans to customers is presented in Note 30. Information about transactions with related parties is presented in Note 33.

21. Property, Plant and Equipment and Assets in the Form of Right of Use

	Building	Computer and office equipment	Furniture and equipment	Right to use leased asset	Total
Cost					
31 December 2018	**85 737**	**10 345**	**758**	**-**	**96 840**
Impact of the application of IFRS 16	-	-	-	4 190	**4 190**
01 January 2019	**85 737**	**10 345**	**758**	**4 190**	**101 030**
Additions	-	497	-	-	**497**
Disposals	-	(872)	-	-	**(872)**
31 December 2019	**85 737**	**9 970**	**758**	**4 190**	**100 655**
Accumulated depreciation					
31 December 2018	**-**	**(9 802)**	**(706)**	**-**	**(10 508)**
Depreciation charge for the period	(1 714)	(339)	(13)	-	**(2 066)**
Depreciation charge for the period of the right to use the leased asset	-	-	-	(898)	**(898)**
Written-off on disposal	-	872	-	-	**872**
31 December 2019	**(1 714)**	**(9 269)**	**(719)**	**(898)**	**(12 600)**
Net book value					
31 December 2019	**84 023**	**701**	**39**	**3 292**	**88 055**
31 December 2018	**85 737**	**543**	**52**	**-**	**86 332**

The latest assessment of the building was made by an independent appraiser of the Expert Legal Bureau LLC as of September 7, 2018.

22. Intangible assets

Cost	
31 December 2018	**23 021**
Additions	7 173
Disposals	(230)
31 December 2019	**29 964**
Accumulated amortisation	
31 December 2018	**(11 844)**
Amortisation charge for the period	(4 072)
Written-off on disposal	223
31 December 2019	**(15 693)**
Net book value	
31 December 2019	**14 271**
31 December 2018	**11 177**

23. Other Assets

	31 December 2019	31 December 2018
Accounts receivable and advance payments	12 537	11 186
Other	3 151	5 094
Provision for ECL	(1 070)	(1 377)
Total other assets	**14 618**	**14 903**

The estimated fair value of other assets is disclosed in Note 32. An analysis of the structure of currencies and the maturity of other assets is disclosed in Note 30. Information on transactions with related parties is disclosed in Note 33.

24. Due to Banks and Other Financial Institutions

	31 December 2019	31 December 2018
Clearing bank accounts	14 084	11 242
Total due to banks and other financial institutions	**14 084**	**11 242**

Estimates of fair value of due to banks and other financial institutions are disclosed in Note 32. An analysis of the structure of currencies and maturities of due to banks and other financial institutions is presented in Note 30. Information on transactions with related parties is presented in Note 33.

25. Customer Accounts

	31 December 2019	31 December 2018
Accounts of non-state legal entities		
Current and settlement accounts	107 313	293 129
Term deposits	17 200	78 675
Total accounts of non-state legal entities	**124 513**	**371 804**
Individual accounts		
Current accounts	7 460	9 763
Term deposits	16 492	24 846
Total individual accounts	**23 952**	**34 609**
Brokerage accounts and other borrowed funds	1 442 613	1 781 390
Total brokerage accounts and other borrowed funds	**1 442 613**	**1 781 390**
Total customer accounts	**1 591 078**	**2 187 803**

Estimates of fair value of customer accounts are presented in Note 32. An analysis of customer accounts by currency structure and maturity is presented in Note 30. Information on transactions with related parties is presented in Note 33.

26. Subordinated Debt

As of the end of 31 December 2019 and 31 December 2018, a subordinated debt was received on the following conditions:

	Maturity date	Interest rate, %	Balance as at 31 December 2019	Balance as at 31 December 2018
Association “NP RTS”	19.04.2027	6.25	502 705	509 493
Total subordinated debt			**502 705**	**509 493**

The estimated fair value of the subordinated debt is presented in Note 32. An analysis of the subordinated debt by currency structure and maturity is presented in Note 30. Information on transactions with related parties is presented in Note 33.

27. Other Liabilities

	31 December 2019	31 December 2018
Accrued expenses for the payment of remuneration to staff	13 188	10 702
Accounts payable	10 353	134 508
Rental rights obligations	3 398	-
Dividends payable	1 307	755
Tax payables (other than income tax)	541	360
Total other liabilities	**28 787**	**146 325**

The estimated fair value of other liabilities is presented in Note 32. An analysis of other liabilities by currency structure and maturity is presented in Note 30. Information on transactions with related parties is presented in Note 33.

28. Derivative Financial Liabilities and Obligations to Deliver Securities

The fair values of forwards, swaps and options for currency and securities contracts entered into by the Bank are presented in the table below as at the end of 31 December 2019 and at the end of 31 December 2018.

	31 December 2019	31 December 2018
Derivative financial liabilities	671	2 542
Securities obligations	38 512	-
Total derivative financial liabilities and obligations to deliver securities	**39 183**	**2 542**

	31 December 2019	31 December 2018
Foreign exchange contracts	**671**	**2 521**
Forwards and swaps	671	2 521
Securities contracts	-	21
Total derivative financial liabilities	**671**	**2 542**

Information on the obligations to deliver securities at the end of 31 December 2019 and at the end of 31 December 2018 is presented in the table below.

	30 December 2019	31 December 2018
Bond loans of the Russian Federation	38 512	-
Total obligations to deliver securities	**38 512**	**-**

The estimated fair value of derivative financial liabilities and obligations to deliver securities is presented in Note 32. An analysis of derivative financial liabilities and obligations to deliver securities by currency structure and maturity is presented in Note 30.

29. Share Capital and Share Premium

	Nominal value of ordinary shares	Nominal value of preference shares	Inflation adjustment of share capital	Total authorised capital
31 December 2018	564 900	100	137 762	**702 762**
31 December 2019	564 900	100	137 762	**702 762**

30. Risk Management

Information on the risks taken by the Bank, methods for their identification, measurement, monitoring and control

In 2019, risk management at the Bank was carried out in accordance with the scale and nature of the Bank's activities, as well as taking into account the recommendations of the Bank of Russia and the Basel Committee on Banking Supervision, as part of an established risk and capital management system.

30. Risk Management (continued)

The established procedures and methods for managing significant risks are an essential element of the strategy, one of the main areas of activity and a key part of the Bank's management decision-making system. An important aspect in the process of managing the Bank and performing operations is the management and control of risks and capital adequacy considered by the Bank Management.

The approaches to the organization of the risk and capital management system are defined in the Strategy and Risk and Capital Management Strategy of PJSC Best Efforts Bank for 2019 - 2020 adopted and approved by the Board of Directors.

The risk management procedure is governed by the adopted Bank Effectiveness and Banking Risk Management Policy of Best Efforts Bank PJSC, which establishes principles for organizing a risk management system and establishes common management standards.

In order to identify potential risks to which the Bank may be exposed and the risks inherent in the Bank's activities, a procedure is regularly carried out to identify risks that are significant for the Bank. Based on the results of risk identification, the Bank groups identified risks according to the extent they impact the financial stability of the Bank and, depending on this, builds processes for managing significant risks at an individual and aggregated level, as well as sets capital requirements to cover them.

Within the framework of the risk and capital management system, based on the accepted classification, as well as the nature and scope of activities, the Bank determines for itself the most significant risks and the amount of capital necessary to cover them.

The Bank classifies financial risks as follows:

- Liquidity risk;
- Credit risk;
- Market risk;
- Interest rate risk;
- Operational risk;
- Concentration risk.

The Bank classifies non-financial risks as follows:

- Strategic risk;
- Regulatory risk;
- Legal risk;
- Reputation risk.

Financial and non-financial risks are directly related, the occurrence of one of them can be both a consequence and a cause of the other.

Segregation of duties and responsibilities in the process of banking risk management

As part of effective risk management, the Bank pays special attention to the distribution of powers and responsibilities between structural divisions (employees of the Bank) and the Bank's governing bodies for managing bank risks.

One of the principles of forming the organizational structure of the Bank is to ensure continuous monitoring of banking operations and the risk management process. Banking risk control is one of the areas of the Bank's internal control system.

30. Risk Management (continued)

The Bank's organisational structure includes the following three levels of risk management:

- Management of the Bank;
- Responsible Risk Management Unit;
- Structural units and officials.

The Board of Directors carries out strategic management of the Bank, determines the basic principles and approaches to organising a risk management and internal control system at the Bank, monitors the activities of executive bodies, and also implements other key functions in accordance with the Charter and internal documents of the Bank.

The Bank's Management Board is in charge of implementation of the strategy and policy in the field of risk and capital management approved by the Board of Directors of the Bank and other issues within the framework of the risk and capital management system.

The Management Board of the Bank may delegate risk management issues within its competence to the Collegial working bodies (Committees of the Bank) for consideration.

In order to implement the risk management process and implement the Bank's risk management principles, the following committees have been created:

- Credit Committee (CC).
- Asset and Liability Management Committee (ALCO).

The main objective of the Credit Committee is to develop recommendations on the Bank's credit policy and reduce credit risks.

The main objective of the Asset and Liability Management Committee is to determine the Bank's policy in the field of management and control of bank liquidity and reduction of bank risks.

To effectively carry out the organizational and control functions in the part of bank risk management by the Board of Directors, the Bank has created a structural unit - the Risk Management Service, which is responsible for coordinating bank risk management and fulfilling the functions assigned to it by internal regulatory documents.

The Bank's structural divisions are responsible for identifying risks arising in the course of operations that are core to the division. All structural divisions of the Bank exercise control over the level of banking risks arising in the process of fulfilling their goals and objectives. Control over the level of banking risks in the structural divisions of the Bank is aimed at limiting and minimising them, as well as at ensuring the procedure for the implementation of functions by the Bank's employees, subject to the requirements of the current legislation, Bank of Russia regulations, professional standards, business customs and internal regulatory documents.

Risk and capital management strategy

In 2019, the Bank implemented the Board of Directors' Strategy for Risk and Capital Management of Best Efforts Bank PJSC for 2019-2020.

Within the Strategy, the Bank determined for itself the basic approaches and basic principles of risk management, based on the nature and scope of activities, as well as the structure and functions of the risk and capital management bodies of the Bank, and the organization of control by the Board of Directors.

30. Risk Management (continued)

The strategic goal of the Bank is to organize risk and capital management of the Bank in order to maintain an acceptable level of risk and equity to cover significant risks, including the effective functioning of the Bank and the fulfilment of the requirements of the state bodies of the Russian Federation regulating the Bank's activities. The Bank's risk management (risk management) strategy is aimed at ensuring long-term financial stability, maintaining a balance of profitability and the level of accepted risks.

The risk and capital management strategy defines risk appetite at the Bank level.

The Bank's risk management strategy involves the effective management of equity in order to maintain it at a sufficient level.

Risk management procedures

In the framework of the adopted internal document, the processes of bank risk management and capital adequacy assessment and a set of interrelated measures and measures aimed at preventing and minimizing potential damage to the Bank in 2019 were as follows:

- identification (identification) of risks to which the Bank is exposed, determination of the causes, factors and sources;
- analysis and assessment of the level of possible losses due to the influence of risks;
- assessment of compliance of the overall risk level with the Bank's equity capital;
- response to risks (minimisation - reduction or limitation of risks using appropriate management methods to ensure that the overall risk level corresponds to the capital of the Bank);
- monitoring - continuous monitoring of the level of risk;
- preparation of risk reporting.

Risk assessment procedures and their management are integrated into on-going operations.

These procedures are established by internal documents of the Bank and cover the following:

- all stages of decision-making, conducting, monitoring and analysis of operations, workflow and reporting;
- all types of risks arising in connection with operations, including those associated with structurally complex financial instruments (transactions) and / or with the simultaneous occurrence of several types of risk, ensuring the completeness and absence of duplication in accounting for risks;
- both regular operations of the Bank, and one-time transactions (operations) and work on the development and introduction of new banking products;
- all operations of the organization, both in a detailed separate analysis, and in the aggregate on the position of the Bank as a whole;
- monitoring and development of the risk management system with a view to its compliance with the Bank's development strategy, requirements of regulatory authorities with regard to risk management and reporting, approved best practices in the field of risk management, current market conditions, infrastructure and general business conditions;
- assessment of the effectiveness of risk management and staff actions in this area.

In relation to each of the significant risks, the Bank has determined a methodology for assessing this type of risk and determining capital requirements, including data sources used to measure risk; stress testing procedures and methodology; methods used to reduce risk and manage risk arising from the fact that the methods used by the Bank to reduce risk may not produce the expected effect.

30. Risk Management (continued)

The main methods of managing various types of risks of the Bank include:

- limitation;
- hedging (compensation);
- diversification;
- creation of provisions.

The maximum effectiveness of the risk management system in the Bank is achieved by applying the described methods together.

For non-financial risks, the Bank uses a methodology that ensures their assessment by qualitative methods based on professional judgment based on the analysis of risk factors.

Composition and frequency of risk reporting

The Bank has developed a procedure for informing members of the Board of Directors, executive management bodies, and heads of relevant structural divisions in the context of risks taken by the Bank.

The Bank draws up management reports in accordance with the adopted “Risk and Capital Management Strategy of Best Efforts Bank PJSC for 2019-2020”.

Reporting is generated by the Risk Management Service of Best Efforts Bank PJSC, independent of the units performing functions related to the adoption of risks.

Country risk

The main activities of the Bank are related to operations in the Russian Federation.

As of 1 January 2020, 82.6% of assets and 87.0% of the Bank's liabilities are in the Russian Federation, 14.5% of assets and 1.6% of liabilities are in countries with developed economies (hereinafter referred to as the OECD), and other countries - 2.9% of assets and 11.4% of the Bank's liabilities.

As of 1 January 2019, 86.6% of assets and 88.0% of the Bank's liabilities are in the Russian Federation, 13.1% of assets and 3.8% of liabilities are in OECD countries, and in other countries - 0.3% of assets and 8 , 2% of the Bank's liabilities.

Information regarding certain types of significant risks

Credit risk

Credit risk is the risk of financial losses arising as a result of default by a borrower or counterparty of the Bank. The Bank manages credit risk through the application of approved policies and procedures, including the requirements for setting and observing credit risk concentration limits, as well as through the existing Credit Committee and ALCO, whose functions include making decisions on credit risk management and monitoring compliance with internal limits and standards.

The key elements of effective credit risk management were developed credit policies and procedures, portfolio management, and effective credit control.

When managing credit risk, the Bank is guided by the adopted "Credit policy of PJSC Best Efforts Bank for 2019-2020", within which the Bank:

30. Risk Management (continued)

- identifies credit risks inherent to the Bank's activities;
- identifies potential credit risks to which the Bank may be exposed;
- carries out an assessment of credit risks;
- controls the volumes of risks significant for the Bank (including credit);
- ensures compliance with the mandatory standards established by the Bank of Russia, as well as control over the level of credit risk.

The Credit Policy adopted by the Bank regulates the Bank's conduct of credit and other operations containing credit risk that are carried out with retail and corporate clients, including various types of short-term and long-term lending, the provision of guarantees, the opening of letters of credit, the adoption of guarantees to ensure the fulfilment of obligations of corporate clients, confirmation of letters of credit.

Credit risk management procedures are defined in the Bank's internal documents and include:

- the procedure for granting loans and making decisions on their issuance;
- methods for determining and the procedure for setting limits (risk limit per borrower (group of related borrowers), risk limit by type of economic activity of borrowers, other limits);
- a methodology for assessing the risk to the counterparty (that is, the risk of default of the counterparty before the settlement of the transaction), including a methodology for assessing the financial position of counterparties (borrowers), the quality of loans, determining the amount of claims on equity (capital);
- requirements for ensuring the fulfilment of obligations of counterparties (borrowers), and the methodology for its assessment.

The Bank uses the following credit risk management methods:

- analysis and assessment of credit risk for specific loan products;
- non-acceptance of credit risk, at the stage preceding operations that are exposed to credit risk;
- introduction of uniform risk assessment and identification processes;
- planning the level of credit risk by assessing the level of expected losses;
- limiting credit risk by setting limits and / or limiting risk, as well as limiting authority;
- formation of provisions to cover possible losses on loans;
- collateral management of loan products;
- work with bad debts;
- monitoring and control of credit risk.

The Bank constantly monitors the status of individual loans and regularly reassesses the solvency of its borrowers. Revaluation procedures are based on analysis of the financial statements of the borrower and other information provided by the borrower or received by the Bank in another way.

The Bank measures and recognises expected credit losses on financial assets at fair value through other comprehensive income or at amortized cost. The amount of expected credit losses recognised as an allowance for credit losses depends on the degree of deterioration in credit quality since the initial recognition of a financial asset.

The key variables in assessing expected credit losses are the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

30. Risk Management (continued)

These parameters, for most of the Bank's assets, were obtained on the basis of internal statistical models and external credit ratings of agencies, the use of ratings of which is allowed by the Bank of Russia for the calculation of regulatory reserves.

PD ratings are calculated, among other things, on the basis of statistical rating models adapted to various categories of counterparties and credit requirements. These statistical models are based on internal and external data containing both quantitative and qualitative factors. Market data can also be used to obtain PD for large corporate counterparties, subject to the availability of such data. If the counterparty or credit requirement moves between the rating categories, this leads to a change in the rating of the corresponding PD. PD is valued against contractual maturities.

When evaluating PD for portfolios of grouped loans, the Bank determines the weighted value of the credit risk parameter PD for the retrospective period, taking into account the effective interest rate received.

LGD reflects the level of probable losses in the event of a default. The Bank estimates LGD parameters based on internal data on the level of default losses by default for assets by segments, as well as using external statistics of default losses on default segments with insufficient internal statistics.

In assessing LGD for grouped loan portfolios, the Bank determines the weighted value of the LGD credit risk parameter at the reporting date for the retrospective analysis period, taking into account the effective interest rate, the calculated PD value and the cash flow from the restoration of bad loan reserves.

EAD represents the expected amount of the credit requirement in the event of default. The Bank estimates the EAD based on the current amount of the loan requirement and possible changes in the current amount under the contract, including depreciation. The EAD of a financial asset is its gross carrying amount.

When evaluating the EAD for grouped loan portfolios, the Bank determines the weighted value of the EAD credit risk parameter for the retrospective period is determined by the ratio of the amount of loss from the written off bad loans to the book value of the written off bad loans.

The provision for ECL is calculated based on the expected credit losses for the entire life of the asset (CMB for the entire term), if there is no significant increase in credit risk from the moment of recognition; in the latter case, the provision is calculated based on the expected credit losses for 12 months (12-month ECL). 12-month ECL are part of the entire ECL, which are ECL arising from defaults on a financial instrument that are possible within 12 months of the reporting date. Full-time ECL and 12-month ECL are calculated on an individual or portfolio basis, depending on the nature of the underlying portfolio of financial instruments:

- The period until repayment of funds on correspondent, trading, and clearing accounts with credit organisations is assumed by the Bank to be 1 month or 1/12 year, as cash flow analysis in previous periods shows multiple cash turnover within one month.
- For receivables (including lease agreements), the Bank uses a simplified approach, i.e. it always determines the estimated provision in the amount equal to the expected credit losses for the entire life of the asset, and does not go over to the calculation of 12-month ECL in the absence of a significant increase in the credit risk of a financial instrument.

The estimated provision is assessed by the Bank at each reporting date of the financial statements.

The maximum level of credit risk is usually reflected in the carrying amount of financial assets in the statement of financial position and in the amount of unrecognised contractual obligations.

The maximum level of credit risk in relation to financial assets as of the reporting date can be represented as follows:

30. Risk Management (continued)

	31 December 2019	31 December 2018
ASSETS		
Cash and cash equivalents	360 159	340 674
Mandatory reserves in the Central Bank of the Russian Federation	24 424	22 239
Due from financial institutions	769 440	403 299
Financial assets at fair value through profit or loss	-	58 743
Derivative financial instruments	509	3 549
Financial assets at fair value through other comprehensive income	627 247	1 171 791
Financial assets pledged under repo agreements	69 747	413 541
Accounts receivable under repo agreements	3 292 522	1 901 925
Loans to customers	5 779	13 189
Total assets	**5 149 827**	**4 328 950**

At the end of 31December 2019 and throughout 2019, the Bank had no overdue loans in its loan portfolio.

At the end of 31 December 2019 and throughout 2019, there was no restructured debt.

The table below provides information on the gross carrying amount at the stages of credit risk:

	Stage 1	Stage 2	Stage 3	Total
Due from financial institutions	777 471		68	777 539
Loans to customers	5 823	-	-	5 823
Accounts receivable under repo agreements	3 292 542	-	-	3 292 542
Financial assets at fair value through other comprehensive income	696 994	-	-	696 994
Other assets	10 434	4 655	599	15 688
Total	**4 783 264**	**4 655**	**667**	**4 788 586**

In order to assess whether the credit risk of a financial instrument has increased significantly since its initial recognition, the Bank focuses on changing the risk of a default occurring over the expected life of the financial instrument (not on changing the amount of expected credit losses).

The Bank defines the change in credit risk as significant in case of changes in one or more of the following parameters:

- Changes in indicators of the external market.
- The spread of crisis.
- Changes in market conditions for similar contracts.
- Changes in the Bank's approach to work with the issuer / borrower.
- Deterioration in the operating results of the issuer / borrower.
- Delay in payments stipulated by the contract for more than 30 days.
- Changes in the legal, regulatory or technological conditions of a business.
- Change in internal or external credit rating.
- Debt restructuring (past or expected).
- Obtaining information regarding arrears.
- Obtaining information on collateral, guarantees or financial support if they affect the likelihood of default.
- Deterioration of covenant by issuer / borrower.

30. Risk Management (continued)

Signs of a significant increase in credit risk that require value judgments are:

- A significant change in external market indicators of credit risk (interest rates, exchange rates).
- An existing or projected adverse change in technological, commercial, legal, financial or economic conditions that may affect the borrower (increase in unemployment, increase in interest rates, increase in inflation, change in tax legislation).
- A significant or expected change in the operating results of the borrower.
- A significant change in the value of collateral provided.

In assessing the criteria for classifying credit risk changes as "significant", the Bank also assesses the relativity of the changes and their relationship to default.

The risk of default decreases as we approach the expiration of the instrument. Concerning this:

- The Bank considers a 10% change in PD for a long-term financial asset as a significant change in credit risk, a 2% - as insignificant.
- For a short-term financial asset, the change in PD by 2% is considered by the Bank as a significant change in credit risk.

The Bank considers collateral when assessing the significance of changes in credit risk:

- A significant change in PD for a financial asset if there is sufficient collateral, the Bank considers it to be a minor change in credit risk.
- A significant change in PD for a financial asset in the absence of collateral is considered by the Bank as a significant change in credit risk.

Given that the market for the main part of the securities portfolio is recognised as active (99.95% of the portfolio) and the initial data of the first hierarchy level are used to determine fair value, the credit risk for the securities portfolio is considered low, the expected credit losses are zero.

The Bank recognised the portfolio of consumer loans granted as low risk, the expected credit loss is 0.76%. Portfolio risk assessment uses data:

1) The carrying value of the portfolio at the reporting date;
2) Portfolio reservation at the reporting date;
3) The carrying amount of loans added to the portfolio for the reporting period;
4) The carrying amount of loans withdrawn from the portfolio for the reporting period;
5) The value of the accumulated provisions for the reporting period;
6) The amount of recovered provisions for the reporting period;
7) The carrying amount of bad loans written off from the portfolio for the reporting period;
8) The amount of losses from writing off bad loans from the portfolio for the reporting period;
9) The amount of recovery of losses on bad loans contained in the portfolio for the reporting period;
10) Income received on the portfolio for the reporting period.

Considering that for the billing period (3 years) there were no defaults on loans included in the portfolio, all loans were provided on market conditions, including interest at market rates, loan provisions were minimal, the bank recognised the portfolio risk as low.

The risk on claims against non-resident brokers, clearing and credit institutions is assessed as low based on high credit ratings and / or good financial position of these categories of counterparties. Risk is recognised as average for current (unexpired) receivables.

30. Risk Management (continued)

The risk arising from overdue receivables is assessed as high with the formation of estimated provisions for expected credit losses at the rate of 100% of the amount of overdue claims.

The share of assets for which payments are overdue for more than 30 days is minimal (0.11% of the total value of the Bank's assets), which indicates a low risk for the Bank as a whole. As of the end of 31 December 2019, overdue assets include commissions (for brokerage, depository services, for cash settlement services and overdue claims for settlements with legal entities (suppliers, contractors, buyers).

In 2019, there were no significant changes in the assessment models, as well as significant assumptions.

There are no circumstances in which the Bank does not have reasonable and corroborated information that, without excessive costs or efforts, is available to estimate expected credit losses for the entire term for a particular instrument.

Market risk

Market risk - the risk of the Bank incurring financial losses (losses) as a result of changes in the current (fair) value of financial instruments of the trading portfolio and derivative financial instruments of the Bank, as well as foreign exchange rates and (or) accounting prices for precious metals.

Market risk includes interest rate risk, stock, currency and commodity risks.

When managing market risk, the Bank solves the following tasks:

- organisation of control over diversification of trading portfolios;
- maintaining the Bank's open positions at a level that does not threaten its financial position.

Methods of managing market risk depend on the nature of the emerging risks and are divided into general and special:

- a system for collecting and analysing information about markets and counterparties;
- system for setting and monitoring limits;
- a system for monitoring current changes in market prices;
- hedging system;

Interest rate risk

Interest rate risk is the risk of deterioration in the financial position of the Bank due to a decrease in the amount of capital, income, value of assets as a result of changes in interest rates in the market. Interest rate risk management is part of the Bank's risk and capital management system.

Interest rate risk management procedures include a list of assets (liabilities) sensitive to changes in interest rates.

The quantitative parameters of the acceptable (permissible) level of interest rate risk, and other elements (components) of the interest rate risk management system are defined in the Bank's internal documents.

The conformity of the quantitative parameters of the acceptable (acceptable) level of interest rate risk adopted by the Bank is determined on the basis of management reporting, based on GAP analysis data.

30. Risk Management (continued)

The identification of interest rate risk involves an analysis of all the conditions of the Bank's functioning for the presence or possibility of occurrence of risk factors, which can be carried out at several levels:

- analysis of the impact of changes in interest rates on individual transactions;
- analysis of the impact of changes in interest rates on certain types of instruments (products);
- analysis of the degree of correlation of the Bank's interest rates for different periods of active and passive balance sheet items (determination of GAP-gaps).

The following is an analysis of the Bank's risk associated with changes in interest rates at the end of 31 December 2019. The table below shows the assets and liabilities exposed to interest rate risk, grouped at different time intervals according to the contractual date for the revision of interest rates.

	On demand and less than 1 month	**From 1 to 6 months**	**From 1 to 12 months**	**Over 1 year**	**Total**
Assets					
Financial assets at fair value through other comprehensive income	1 710	96 894	4 237	594 153	696 994
Accounts receivable under repo agreements	3 292 522	-	-	-	3 292 522
Loans to customers	-	-	56	5 723	5 779
Total assets	**3 294 232**	**96 894**	**4 293**	**599 876**	**3 995 295**
Accumulated total assets	**3 294 232**	**3 391 126**	**3 395 419**	**3 995 295**	
Liabilities					
Derivative financial liabilities and obligations to deliver securities	39 184	-	-	-	39 184
Accounts payable under repo agreements	2 025 395	-	-	-	2 025 395
Customer accounts	-	4 270	27 314	500 000	531 584
Total liabilities	**2 064 579**	**4 270**	**27 314**	**500 000**	**2 596 163**
Accumulated total liabilities	**2 064 579**	**2 068 849**	**2 096 163**	**2 596 163**	
Off-balance sheet items					
Securitas received on operations performed on a return basis	(3 641 191)	-	-	-	(3 641 191)
Securities transferred on operations performed on a return basis	2 091 651	-	-	-	2 091 651
Marginal GAP	(319 887)	92 624	(23 021)	99 876	
Interest rate sensitivity	(12 262)	2 316	(230)	3 995	(6 181)

30. Risk Management (continued)

The following table presents an analysis of the Bank's risk related to changes in interest rates at the end of 31 December 2018.

	On demand and less than 1 month	From 1 to 6 months	From 1 to 12 months	Over 1 year	Total
Assets					
Accounts receivable under repo agreements	1 901 925	-	-	-	1 901 925
Loans to customers	-	264	128	12 796	13 189
Financial assets at fair value through other comprehensive income	6 794	89 092	132 981	1 356 465	1 585 332
Total assets	**1 908 719**	**89 356**	**133 109**	**1 369 261**	**3 500 445**
Accumulated total assets	**1 908 719**	**1 998 075**	**2 131 184**	**3 500 445**	
Liabilities					
Accounts payable under repo agreements	470 084	-	-	-	470 084
Customer accounts	-	11 846	2 330	500 000	514 176
Total liabilities	**470 084**	**11 846**	**2 330**	**500 000**	**984 260**
Accumulated total liabilities	**470 084**	**481 930**	**484 260**	**984 260**	
Off-balance items					
Securities received on operations performed on a return basis	(2 284 133)	-	-	-	(2 284 133)
Securities transferred on operations performed on a return basis	216 982	-	-	-	216 982
Marginal GAP	(628 516)	77 510	130 779	869 261	
Interest rate risk sensitivity	(24 092)	1 938	1 308	34 770	13 924

Market risk

Market risk is the risk of the Bank incurring losses due to adverse changes in market prices for stock values (securities, including fixing rights to participate in management) of the trading portfolio and derivative financial instruments under the influence of factors related to both the issuer of stock valuables and derivative financial instruments, and general fluctuations in market prices for financial instruments.

The sensitivity analysis of profit / loss and capital to changes in quotations of equity securities (compiled on the basis of positions effective at the end of 31 December 2019 and at the end of 31 December 2018, and the simplified scenario of a 20% decrease or increase in quotations of equity securities) was not carried out due to the fact that until 1 May 2019 inclusively, market risk remained at around 6 thousand roubles and was recognised as low and insignificant. Since 1 June 2019 due to the fact that the Bank's own portfolio of securities did not contain securities that are subject to market risk calculation, the Bank did not calculate market risk.

At the end of 31 December 2019, equity securities received under reverse repurchase agreements and transferred under direct repurchase agreements for a period exceeding the term of reverse repo transactions were included in the calculation of market risk.

30. Risk Management (continued)

Currency risk

Currency risk is the risk of the Bank incurring losses due to an adverse change in the exchange rates of foreign currencies and / or precious metals at positions opened by the Bank in foreign currencies and / or precious metals.

During 2019, AFP limits approved by the ALCO decision were complied with.

The depreciation of the Russian rouble, as indicated in the following table, in relation to the following currencies as of the end of 31 December 2019 and the end of 31 December 2018 would cause an increase (decrease) in capital and profit / loss by the amount shown in the table.

This analysis is based on changes in exchange rates, which, from the Bank's point of view, are reasonably possible at the end of the reporting period.

The analysis assumes that all other variables, including interest rates, remain unchanged.

	31 December 2019	31 December 2018
10% increase in the US dollar against RUB	40 594	6 395
10% increase in the euro against RUB	4 058	(7 834)

The growth of the rouble against the above listed currencies as of 31 December 2019 would have the opposite effect, provided that all other variables remained unchanged.

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30. Risk Management (continued)

The table below presents a general analysis of the Bank's currency risk at the reporting date December 31, 2019:

	Roubles	US Dollars	Euros	Other currencies	Total
Assets					
Cash and cash equivalents	62 493	58 037	237 144	2 485	360 159
Mandatory cash balances with the Bank of Russia	24 424	-	-	-	24 424
Due from financial instruments	1	530 137	239 249	53	769 440
Derivative financial assets	509	-	-	-	509
Financial assets at fair value through other comprehensive income	549 425	59 789	87 780	-	696 994
Accounts receivable under repo agreements	2 176 438	1 075 520	40 564	-	3 292 522
Loans to customers	5 779	-	-	-	5 779
Deferred tax asset	4 878	-	-	-	4 878
Property, plant and equipment and assets in the form of right of use	88 055	-	-	-	88 055
Intangible assets	14 271	-	-	-	14 271
Other assets	14 618	-	-	-	14 618
Total assets	**2 941 576**	**1 723 483**	**604 401**	**2 189**	**5 271 649**
Liabilities					
Derivative financial liabilities and obligations to deliver securities	39 184	-	-	-	39 184
Due to banks and other financial institutions	14 022	62	-	-	14 084
Accounts payable under repo agreements	1 148 663	869 625	7 107	-	2 025 395
Customer accounts	933 034	1 140 831	11 120	8 798	2 093 783
Current income tax payable	11 028	-	-	-	11 028
Other liabilities	19 574	9 181	32	-	28 787
Total liabilities	**2 165 505**	**2 019 699**	**18 259**	**8 798**	**4 212 261**
The effect of derivative financial instruments expressed in foreign currencies	**249 171**	**333 120**	**(582 453)**	**-**	**(162)**
Net balance sheet items	**1 025 242**	**36 904**	**3 689**	**(6 609)**	**1 059 226**

30. Risk Management (continued)

The table below provides general analysis of the Bank's currency risk as at the reporting date, 31 December 2018:

	Roubles	US dollars	Euros	Other currencies	Total
Assets					
Cash and cash equivalents	138 758	183 069	18 773	75	340 674
Mandatory cash balances with the bank of Russia	22 239	-	-	-	22 239
Accounts receivable under repo agreements	1 197 308	356 093	348 524	-	1 901 925
Financial assets at fair value through profit or loss	58 717	26	-	-	58 743
Derivative financial assets	3 549	-	-	-	3 549
Due from financial institutions	132	151 830	251 337	-	403 299
Loans to customers	13 189	-	-	-	13 189
Financial assets at fair value through other comprehensive income	1 321 434	162 041	101 856	-	1 585 332
Current income tax receivables	4 385	-	-	-	4 385
Deferred tax asset	2 656	-	-	-	2 656
Property, plant and equipment and assets in the form of right of use	86 332	-	-	-	86 332
Intangible assets	11 177	-	-	-	11 177
Other assets	14 903	-	-	-	14 903
Total assets	**2 874 779**	**853 059**	**720 490**	**75**	**4 448 403**
Liabilities					
Derivative financial liabilities and obligations to deliver securities	2 542	-	-	-	2 542
Due to banks and other financial institutions	821	10 421	-	-	11 242
Accounts payable under repo agreements	470 084	-	-	-	470 084
Customer accounts	1 324 183	1 360 691	12 421	-	2 697 296
Other liabilities	18 868	127 410	47	-	146 325
Total liabilities	**1 816 498**	**1 498 522**	**12 468**	**-**	**3 327 489**
The effect of derivative financial instruments expressed in foreign currency	**64 501**	**651 278**	**(715 145)**	**-**	**634**
Net balance sheet items	**1 122 782**	**5 814**	**(7 122)**	**75**	**1 121 548**

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30. Risk Management (continued)

Liquidity Risk

Liquidity risk is the risk caused by the credit institution's inability to fund increases in assets and meet liabilities as they come due, without incurring losses in amounts unacceptable for the financial stability.

The Bank maintains the required liquidity level in order to ensure the continuing availability of cash required to settle all liabilities as they mature by maintaining diversified and stable structure of financing sources consisting of debt securities, long-term and short-term loans from other banks, deposits from major corporate customers and individuals as well as diversified highly liquid asset portfolio in order to be able to react quickly and without sudden fluctuations to unforeseeable liquidity requirements.

The liquidity risk factors, the basic principles, and the risk management process are set out in the Bank's internal document.

The main external factors determining the Bank's liquidity include:

- Sudden changes in the economic and political situation in the country;
- Banking system stability;
- Condition of money and securities market.

The internal factors affecting the Bank's liquidity include:

- Maturity mismatch of assets and liabilities;
- Income and expense imbalances;
- High uncertainty of future payments;
- Risk of borrowers' insolvency.

Liquidity risk management procedures, liquidity assessment and management methods, reporting and information exchange procedures in the course of liquidity risk management are described in the Bank's internal document.

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

30. Risk Management (continued)

	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	360 159	-	-	-	360 159
Mandatory cash balances with the Bank of Russia	24 424	-	-	-	24 424
Due from financial institutions	769 440	-	-	-	769 440
Financial assets at fair value through other comprehensive income	1 710	96 894	4 237	594 153	696 994
Derivative financial assets	509	-	-	-	509
Deferred tax asset	3 292 522	-	-	-	3 292 522
Property, plant and equipment and assets in the form of right of use	-	-	56	5 723	5 779
Intangible assets	-	-	-	4 878	4 878
Other assets	-	-	-	88 055	88 055
Total assets	-	-	-	14 271	14 271
Loans to customers	14 618	-	-	-	14 618
Deferred tax asset	**4 463 382**	**96 894**	**4 293**	**707 080**	**5 271 649**
LIABILITIES					
Due to banks and other financial institutions	14 084	-	-	-	14 084
Derivative financial liabilities and obligations to deliver securities	39 184	-	-	-	39 184
Accounts payable under repo agreements	2 025 395	-	-	-	2 025 395
Customer accounts	1 562 199	1 514	27 314	502 756	2 093 783
Current income tax payable	-	11 028	-	-	11 028
Other liabilities	28 787	-	-	-	28 787
Total liabilities	**3 669 649**	**12 542**	**27 314**	**502 756**	**4 212 261**
Net balance sheet item as at 31 December 2019	**793 733**	**84 352**	**(23 021)**	**204 324**	
Net balance sheet item on accumulated basis as at 31 December 2019	**793 733**	**878 085**	**855 064**	**1 059 388**	

The carrying amount of financial instruments broken down by expected maturity term as at 31 December 2018 is presented in the table below:

30. Risk Management (continued)

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	With unlimited period / No interest risk
ASSETS					
Cash and cash equivalents	340 674	-	-	-	340 674
Mandatory cash balances with the Bank of Russia	22 239	-	-	-	22 239
Financial assets at fair value through profit or loss	58 743	-	-	-	58 743
Due from financial institutions	403 299	-	-	-	403 299
Accounts receivable under repo agreements	1 443 848	458 077	-	-	1 901 925
Loans to customers	-	264	128	12 796	13 189
Financial assets at fair value through other comprehensive income	1 171 791	-	-	-	1 171 791
Financial assets pledged under repurchase agreements	413 541	-	-	-	413 541
Derivative financial instruments	3 549	-	-	-	3 549
Current income tax receivable	4 385	-	-	-	4 385
Deferred tax asset	2 656	-	-	-	2 656
Property, plant and equipment and assets in the form of right of use	-	-	-	86 332	86 332
Intangible assets	-	-	-	11 177	11 177
Other assets	14 903	-	-	-	14 903
Total assets	**3 879 628**	**458 341**	**128**	**110 305**	**4 448 403**
LIABILITIES					
Derivative financial liabilities and obligations to deliver securities	2 542	-	-	-	2 542
Accounts payable under repo agreements	470 084	-	-	-	470 084
Due to banks and other financial institutions	11 242	-	-	-	11 242
Customer accounts	2 183 119	11 846	2 330	500 001	2 697 296
Deferred tax liability	-	-	-	-	-
Other liabilities	146 325	-	-	-	146 325
Total liabilities	**2 813 312**	**11 846**	**2 330**	**500 001**	**3 327 489**
Net balance sheet item as at 31 December 2019	**1 066 316**	**446 496**	**(2 202)**	**(389 696)**	
Net balance sheet item on accumulated basis as at 31 December 2019	**1 066 316**	**1 512 811**	**1 510 609**	**1 120 913**	

As part of the analysis of liquidity for a different time horizon (short-term, current, long-term liquidity), the Bank evaluates liquidity using scenarios of negative developments due to changes in market parameters, financial position of counterparties (borrowers, lenders), and other circumstances that may provide impact on the liquidity of the Bank.

31. Capital Management

The Bank's capital management is aimed at:

1) Adherence to the legal capital requirements set by the Bank of Russia,
2) Ensuring the Bank's ability to operate as a going concern.

The Bank also monitors the level of capital adequacy calculated in accordance with the Basel Accord on an on-going basis to maintain it at or above 8%.

31. Capital Management (continued)

During the periods ended 31 December 2019 and 31 December 2018 the Bank observed the capital adequacy ratio established by the Bank of Russia.

The Bank shall observe the minimum capital level requirements, including capital adequacy ratio calculated on the basis of the Basel Capital Accords as stipulated by the International Convergence of Capital Measurement and Capital Standards (accepted in July 1988 and as amended in April 2005) and the Supplement to the Basel Capital Accords introducing market risk consideration (as amended in November 2005), usually referred to as Basel III. Below you will find the structure of the Bank's capital calculated on the basis of the Basel Capital Accords:

	31 December 2019	**31 December 2018**
Equity		
Tier 1 capital		
Share capital	702 762	702 762
Share premium	685 811	685 811
Revaluation reserve of assets at fair value through other comprehensive income	12 189	(16 821)
Retained earnings	(341 374)	(250 838)
Tier 2 capital	-	-
Components that reduce equity		
Intangible assets	(14 271)	(11 177)
Total equity	**1 045 117**	**1 109 737**

32. Fair Value of Financial Instruments

Fair value is the amount for which a financial instrument 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. Professional judgments are however required to interpret market data to determine the fair value. Notwithstanding 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 quotes may be outdated or reflect the cost of sales at low prices and therefore not reflect the fair value of financial instruments. Management uses all available market data when assessing the fair value of financial instruments.

Financial Instruments at Fair Value

Securities and loans to customers whose fair value changes are recognised in profit or loss, including securities classified as repurchase receivables, derivative financial instruments and financial assets at fair value through other comprehensive income, carried in the balance sheet at fair value. The fair value is based on the quoted market prices. Cash and cash equivalents are recognised at amortised cost which approximates their current fair value.

Due from Financial Institutions at Amortised Cost and at Fair Value Through Profit or Loss

In the management's opinion, the fair value of due from financial institutions did not significantly differ from their carrying amount. It is explained by the existent practice when interest rate is restated in order to reflect current market conditions. Therefore, interest rate for balances is based on rates similar to market ones.

32. Fair Value of Financial Instruments (continued)

Loans to Customers at Amortised Cost or at Fair Value Through Profit or Loss

The fair value of floating rate instruments is normally their carrying amount. In case of significant changes in the market environment, the Bank can review interest rates on fixed rate loans to customers and deposits with other banks. As a consequence, interest rates on loans made prior to the reporting date do not significantly differ from effective interest rates in the loan market for new instruments with similar credit risks and remaining maturities. If the Bank estimates that rates on loans made in earlier periods significantly differ from effective interest rates for similar instruments at the reporting date, the estimated fair value of such loans shall be determined. The measurement is based on expected cash flows discounted at effective interest rates in the loan market for new instruments with similar credit risks and remaining maturities. The discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty.

Liabilities at Amortised Cost

The fair value of liabilities at amortised cost is based on the quoted market prices, if available. The estimated fair value of fixed rate instruments with a stated maturity, for which quoted market prices are not available, is based on expected cash flows discounted at interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand of after a notice period (demandable liabilities) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Derivatives

All derivative financial instruments are accounted for at fair value as assets if fair value of such instruments is positive or as liabilities if their fair value is negative.

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments depending on valuation techniques:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: techniques in which all inputs that significantly affect fair value are directly or indirectly observable in the open market;
- Level 3: methodologies that use inputs that significantly affect fair value and are not based on observable market data.

The table below provides an analysis of assets carried at fair value in the context of assessment hierarchy at the end of 31 December 2019:

	Level 1	Level 2	Level 3	Total
Fair value financial assets				
Derivative financial instruments	-	509	-	509
Forwards and swaps	-	435	-	435
Securities contracts	-	74	-	74
Financial assets at fair value through other comprehensive income	627 247	-	-	627 247
Corporate bonds	*258 669*	-	-	258 669
Bonds of credit organisations	*188 523*	-	-	188 523
Corporate Eurobonds	*131 428*	-	-	131 428
Bond loans of the Russian Federation and the Bank of Russia	*48 627*	-	-	48 627
Financial assets pledged under repo agreements	69 747	-	-	69 747
Corporate Eurobonds	*3 103*	-	-	3 103
Bonds of credit organisations	-	-	-	-
Bond loans of the Russian Federation	*66 644*	-	-	66 644
Total financial assets at fair value	**696 994**	**509**	**-**	**697 503**

32. Fair value of financial instruments (continued)

The table below presents an analysis of assets carried at fair value in the context of assessment hierarchy at the end of 31 December 2018:

	Level 1	Level 2	Level 3	Total
Fair value financial instruments				
Financial assets at fair value through profit or loss	-	-	58 743	58 743
Derivative financial assets	-	3 549	-	3 549
Forwards and swaps	-	3 155	-	3 155
Securities contracts	-	394	-	394
Financial assets at fair value through other comprehensive income	1 171 791	-	-	1 171 791
Corporate bonds	*257 535*	-	-	257 535
Bonds of credit organisations	*190 932*	-	-	190 932
Corporate Eurobonds	*209 985*	-	-	209 985
Bond loans of the Russian Federation and the Bank of Russia	*513 339*	-	-	513 339
Financial assets pledged under repo agreements	413 541	-	-	413 541
Corporate Eurobonds	-	-	-	-
Bonds of credit organizations	*5 485*	-	-	5 485
Bond loans of the Russian Federation	*408 056*	-	-	408 056
Total financial assets at fair value	**1 585 332**	**3 549**	**58 743**	**1 647 624**

The table below provides an analysis of the fair value of financial assets for which fair value is disclosed separately, by level of assessment hierarchy at the end of 31 December 2019:

	Carrying value	Level 1	Level 2	Level 3	Fair value Total
Financial assets measured at amortised cost					
Cash and cash equivalents	360 159	37 566	322 593	-	360 159
Mandatory reserves in the Central Bank of the Russian Federation	24 424	-	24 424	-	24 424
Due from financial institutions	769 440	-	769 440	-	769 440
Accounts receivable under repo agreements	3 292 522	-	3 292 522	-	3 292 522
Loans to customers	5 779	-	-	5 779	5 779
Other assets	14 618	-	-	14 618	14 618
Total financial assets measured at amortised cost	**4 466 942**	**37566**	**4 408 979**	**20 397**	**4 466 942**

The table below provides an analysis of the fair value of financial assets for which fair value is disclosed separately, by level of assessment hierarchy at the end of 31 December 2018:

32. Fair value of financial instruments (continued)

	Carrying value	Level 1	Level 2	Level 3	Fair value Total
Financial assets measured at amortised cost					
Cash and cash equivalents	340 674	25 017	315 657	-	340 674
Mandatory reserves in the Central Bank of the Russian Federation	22 239	-	22 239	-	22 239
Due from financial institutions	403 299	-	403 299	-	403 299
Accounts receivable under repo agreements	1 901 925	-	1 901 925	-	1 901 925
Loans to customers	13 189	-	-	13 189	13 189
Other assets	14 903	-	-	14 903	14 903
Total financial assets measured at amortised cost	**2 696 229**	**25 017**	**2 643 120**	**28 092**	**2 696 229**

The table below provides an analysis of financial liabilities carried at fair value in the context of assessment hierarchy at the end of 31 December 2019:

	Level 1	Level 2	Level 3	Total
Fair value financial liabilities				
Derivative financial liabilities and obligations to deliver securities	38 512	672	-	39 184
Forwards and swaps	*-*	*672*	-	*672*
Securities obligations	*38 512*	*-*	-	*38 512*
Total financial liabilities at fair value	**38 512**	**672**	**-**	**39 184**

The table below provides an analysis of financial liabilities carried at fair value in the context of assessment hierarchy at the end of 31 December 2018:

	Level 1	Level 2	Level 3	Total
Fair value financial liabilities				
Derivative financial liabilities and obligations to deliver securities	-	2 542	-	2 542
Forwards and swaps	-	*2 521*	-	*2 521*
Securities contracts	-	*21*	-	*21*
Total financial liabilities at fair value	**-**	**2 542**	**-**	**2 542**

The table below provides an analysis of the fair value of financial liabilities for which fair value is disclosed separately, by level of assessment hierarchy at the end of 31 December 2019:

32. Fair value of financial instruments (continued)

	Carrying value	Level 1	Level 2	Level 3	Fair value Total
Financial liabilities measured at amortised cost					
Due to banks and other financial	14 084	-	14 084	-	14 084
Accounts payable under repo agreements	2 025 395	-	-	-	2 025 395
Customer accounts	1 591 078	-	1 557 386	33 692	1 591 078
Fixed-term deposits	*33 692*	-	-	*33 692*	*33 692*
Current and brokerage accounts	*1 557 386*	-	*1 557 386*	-	*1 557 386*
Subordinated debt	502 705	-	-	502 705	502 705
Other liabilities	28 787	-	-	28 787	28 787
Total financial liabilities at amortised cost	**4 162 049**	-	**3 596 865**	**565 184**	**4 162 049**

The table below provides an analysis of the fair value of financial liabilities for which fair value is disclosed separately, by level of assessment hierarchy at the end of 31 December 2018:

	Carrying value	Level 1	Level 2	Level 3	Fair value Total
Financial liabilities measured at amortised cost					
Due to banks and other financial institutions	11 242	-	11 242	-	11 242
Accounts payable under repurchase agreements	470 084	-	470 084	-	470 084
Customer accounts	2 187 803	-	2 084 282	103 522	2 187 803
Fixed-term deposits	*103 522*	-	-	*103 522*	*103 522*
Current and brokerage accounts	*2 084 282*	-	*2 084 282*	-	*2 084 282*
Subordinated debt	509 493	-	-	509 493	509 493
Other liabilities	146 325	-	-	146 325	146 325
Total financial liabilities at amortised cost	**3 324 947**	-	**2 565 608**	**759 340**	**3 324 947**

33. 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 to exercise significant influence on the other party in making financial and operating decisions as stated in IAS 24 "Related Party Disclosures". When considering each possible related party relationship, attention is paid to the substance of such relationship, not merely its legal form.

The most significant (by the scope of transactions) related parties of the Bank are the principal shareholders and the key management personnel.

Below are the data on related party transactions grouped by item of the statement of financial position and by contingent liability as at 31 December 2019, by item of income and expenses for the period ended 31 December 2019.

33. Related Party Transactions (continued)

	Principal shareholders	Key management personnel	Other related parties
Assets			
Due from financial institutions	-	-	156 988
Accounts receivable under repo agreements	-	-	25 539
Loans to customers	-	1 734	-
Other assets	31	-	3 919
Total assets	**31**	**1 734**	**186 445**
Liabilities			
Due to banks and other financial institutions	-	-	14 084
Accounts payable under repo agreements	-	-	3 141
Customer accounts other than individual accounts	4 124	-	313 179
Individual accounts	-	785	46
Other liabilities	3	-	97
Subordinated debt	502 705	-	-
Total liabilities	**506 832**	**785**	**330 547**

	Principal shareholders	Key management personnel	Other related parties
Interest income		970	54
Interest expense	(37 109)	(15)	(1 109)
Income less expenses from transactions with financial assets	-	-	116 734
Income less expenses from transactions with foreign currencies	213	53	(167)
Fee and commission income	7 503	28	40 999
Fee and commission expense	-	-	(76 585)
Other operating income	260	-	5
Operating expenses	(8 048)	(15)	(1 034)

Below are the data on related party transactions grouped by item of the statement of financial position and by contingent liability as at 31 December 2018, by item of income and expenses for the period ended 31 December 2018.

	Principal shareholders	Key management personnel	Other related parties
Assets			
Financial assets at fair value through profit or loss	-	-	58 709
Due from financial institutions	-	-	10 250
Loans to customers	-	8 618	-
Other assets	106	-	-
Total assets	**106**	**8 618**	**68 959**
Liabilities			
Due to banks and other financial institutions	-	-	11 242
Customer accounts other than individual accounts	38 506	-	712 669
Individual accounts	-	418	45
Other liabilities	441	-	58
Subordinated debt	509 493	-	-
Total liabilities	**548 440**	**418**	**724 014**

33. Related Party Transactions (continued)

	Principal shareholders	Key management personnel	Other related parties
Interest income	-	1 297	177
Interest expense	(37 106)	-	(1 456)
Change in provision for expected credit losses on interest bearing assets	-	238	11 101
Income less expenses from transactions with financial assets / liabilities	-	-	1
Income less expenses from transactions with foreign currencies and derivative financial instruments	340	3	(2 354)
Fee and commission income	9 650	62	5 281
Fee and commission expenses	-	-	(13 530)
Change in other provisions and change in estimated liabilities	36	11 646	-
Other operating income	287	-	3
Operating expenses	(7 567)	-	(618)

The Bank's key management personnel consist of the members of the Board of Directors and Management Board of the Bank. Below is the information on the remuneration paid to the key management personnel for the period ended 31 December 2019 and for the period ended 31 December 2018.

	2019	2018
Bank's key management personnel payments	29 097	22 099

33. Events after the reporting date

The year of 2020 has been characterised by the onset of the global economic crisis triggered by the Covid-19 pandemic and the fall in world oil prices. According to the forecasts of leading international analysts, the global economy can achieve the worst results since the 2008 financial crisis.

It is not yet possible to accurately determine the full depth of influence on the economy of the Russian Federation, since significant economic and financial indicators will be available later due to their characteristic time delay. Nevertheless, many business entities have already felt the impact of these factors. Decrease in external demand, problems with suppliers of components from abroad, volatility of final demand, availability of financial resources - all this affects the decisions made by banks and companies. The Government and the Bank of Russia are introducing a package of support measures to minimize the consequences of these factors for the population and the economy. The Bank's management also takes all necessary measures to maintain a stable financial position of the Bank, taking into account emerging risks.

Signed 24 April 2020

I. B. Ionova
Chairman of the Management Board

N. G. Popova
Chief Accountant