

Report on Review of Interim Financial Information of
CentroCredit Bank
for the six months ended 30 June 2020

August 2020

Translation from the original Russian version

**Report on Review of Interim Financial Information
CentroCredit Bank**

Translation from the original Russian version

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Report on Review of Interim Financial Information

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To the shareholders and the Board of Directors of
CentroCredit Bank

Introduction

We have reviewed the accompanying interim condensed financial statements of CentroCredit Bank, which comprise the interim statement of financial position as at 30 June 2020, the interim statement of profit or loss, the interim statement of comprehensive income, the interim statement of changes in equity and the interim statement of cash flows for the six months then ended and selected explanatory notes (the “interim financial information”). Management of CentroCredit Bank is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

MARIJA IGNATJEVA
Partner
Ernst & Young LLC

27 August 2020

Details of the audited entity

Name: CentroCredit Bank
Record made in the State Register of Legal Entities on 16 September 2002, State Registration Number 1027739198387.
Address: Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, building 1.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

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CentroCredit Bank

Interim condensed financial statements

Interim statement of financial position

as at 30 June 2020

(thousands of Russian rubles)

	<i>Note</i>	30 June 2020 (unaudited)	31 December 2019
Assets			
Cash and accounts with the Bank of Russia	4	2,493,236	4,256,666
Financial assets at fair value through profit or loss	5	24,204,751	29,546,375
Financial assets at fair value through profit or loss pledged under repurchase agreements	5	49,812,056	52,096,668
Amounts due from credit institutions	6	2,736,002	4,696,344
Loans to customers	7	16,765,997	13,590,841
Property and equipment and right-of-use assets		248,793	282,828
Other assets		794,259	982,472
Total assets		97,055,094	105,452,194
Liabilities			
Amounts due to credit institutions	10	41,154,453	35,680,797
Amounts due to customers	11	15,066,703	27,628,651
Debt securities issued	12	806,949	763,303
Other provisions	9	886,325	724,208
Current income tax liabilities		41,008	106,802
Deferred income tax liabilities	8	851,910	1,519,968
Other liabilities		681,154	639,211
Total liabilities		59,488,502	67,062,940
Equity			
Share capital	13	6,946,140	6,946,140
Revaluation reserve for securities at fair value through other comprehensive income	13	(8)	(9)
Retained earnings		30,620,460	31,443,123
Total equity		37,566,592	38,389,254
Total equity and liabilities		97,055,094	105,452,194

Signed and authorized for release on behalf of the Management Board of the Bank

L.V. Zimina

Chairman of the Management Board

O.Yu. Pavlova

Chief Accountant – Head of the Accounting and Reporting Department

27 August 2020

The accompanying notes 1-21 are an integral part of these interim condensed financial statements.

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CentroCredit Bank

Interim condensed financial statements

Interim statement of profit or loss for the six months ended 30 June 2020

(thousands of Russian rubles)

	<i>Note</i>	Six months ended 30 June (unaudited)	
		2020	2019
Interest income calculated using the effective interest rate		1,282,813	1,710,478
Other interest income		1,881,688	1,921,070
Interest expense		(1,367,752)	(2,084,383)
Net interest income		1,796,749	1,547,165
Credit loss income/(expense)	9	1,672,991	(3,388,798)
Net interest income/(expense) after credit loss expense		3,469,740	(1,841,633)
Fee and commission income		305,418	281,674
Fee and commission expense		(56,637)	(33,202)
Net (losses)/gains from financial instruments at fair value through profit or loss	15	(4,205,957)	9,758,900
Net gains/(losses) from precious metals		9,724	(26,214)
Net (losses)/gains from foreign currencies:		(638,808)	161,772
- Dealing		(116,708)	(96,716)
- Translation differences		(522,100)	258,488
Dividends received		508,191	1,337,047
Other income		126,939	52,609
Non-interest (expense)/income		(3,951,130)	11,532,586
Personnel expenses		(360,780)	(369,720)
Depreciation and amortization		(54,500)	(48,960)
Other operating expenses		(248,007)	(295,243)
Non-interest (expense)		(663,287)	(713,923)
Profit before income tax expense		(1,144,677)	8,977,030
Income tax benefit/(expense)	8	322,014	(860,801)
(Loss)/profit for the period		(822,663)	8,116,229

The accompanying notes 1-21 are an integral part of these interim condensed financial statements.

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CentroCredit Bank

Interim condensed financial statements

Interim statement of comprehensive income

for the six months ended 30 June 2020

(thousands of Russian rubles)

	<i>Note</i>	<i>Six months ended 30 June (unaudited)</i>	
		<i>2020</i>	<i>2019</i>
Profit for the period		(822,663)	8,116,229
Other comprehensive income/(loss)			
Change in revaluation reserve for securities at fair value through other comprehensive income	13	1	(9)
Other comprehensive income/(loss), net of tax		1	(9)
Total comprehensive (loss)/income for the period		(822,662)	8,116,220

The accompanying notes 1-21 are an integral part of these interim condensed financial statements.

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CentroCredit Bank

Interim condensed financial statements

Interim statement of changes in equity

for the six months ended 30 June 2020

(thousands of Russian rubles)

	Share capital	Revaluation reserve for securities at fair value through other comprehensive income	Retained earnings	Total equity
1 January 2019	6,946,140	–	19,458,531	26,404,671
Profit for the period	–	–	8,116,229	8,116,229
Other comprehensive (loss) for the period (Note 13)	–	(9)	–	(9)
Total comprehensive income for the period	–	(9)	8,116,229	8,116,220
Dividends to shareholders of the Bank (Note 13)	–	–	(2,082,942)	(2,082,942)
30 June 2019 (unaudited)	6,946,140	(9)	25,491,818	32,437,949
1 January 2020	6,946,140	(9)	31,443,123	38,389,254
(Loss) for the period	–	–	(822,663)	(822,663)
Other comprehensive income for the period (Note 13)	–	1	–	1
Total comprehensive (loss) for the period	–	1	(822,663)	(822,662)
30 June 2020 (unaudited)	6,946,140	(8)	30,620,460	37,566,592

The accompanying notes 1-21 are an integral part of these interim condensed financial statements.

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CentroCredit Bank

Interim condensed financial statements

Interim statement of cash flows for the six months ended 30 June 2020

(thousands of Russian rubles)

	Note	<i>Six months ended 30 June (unaudited)</i>	
		2020	2019
Cash flows from operating activities			
Interest received		2,798,552	2,995,665
Interest paid		(1,276,919)	(1,693,932)
Fees and commissions received		306,193	281,674
Fees and commissions paid		(56,991)	(33,202)
Gains less losses from financial assets at fair value through profit or loss		(1,779,947)	1,329,601
Gains less losses from precious metals		21,121	7,170
Realized gains less losses from dealing in foreign currencies		(116,708)	(96,716)
Dividends received		580,815	584,581
Other income received		45,928	37,000
Personnel expenses paid		(335,391)	(352,850)
Other operating expenses paid		(168,486)	(173,771)
Cash flows from operating activities before changes in operating assets and liabilities		18,167	2,885,220
<i>Net (increase)/decrease in operating assets</i>			
Obligatory reserve with the Bank of Russia		25,469	(61,729)
Financial assets at fair value through profit or loss		5,904,327	(3,768,592)
Amounts due from credit institutions		2,181	1,084
Loans to customers		(1,715,677)	(3,757,237)
Other assets		45,415	(226,938)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		5,232,530	(852,409)
Amounts due to customers		(14,059,254)	7,999,414
Debt securities issued		(1,168)	54,804
Other liabilities		19,269	581,180
Net cash flows (used in) / from operating activities before income tax		(4,528,741)	2,854,797
Income tax paid		(324,456)	(291,152)
Net cash (used in) / from operating activities		(4,853,197)	2,563,645
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(28,011)	(11,079)
Proceeds from sale of property and equipment and intangible assets		–	11,564
Purchase of investment property		–	(32,502)
Proceeds from sale of investment property		–	–
Net cash (used in) investing activities		(28,011)	(32,017)
Cash flows from financing activities			
Dividends paid to shareholders of the Bank		–	(2,083,050)
Total cash outflow from lease liabilities		(30,176)	(22,185)
Net cash (used in) financing activities		(30,176)	(2,105,235)
Effect of exchange rates changes on cash and cash equivalents		1,210,617	(331,434)
Effect of changes in expected credit losses on cash and cash equivalents		5,774	(5,394)
Net (decrease)/increase in cash and cash equivalents		(3,694,993)	89,565
Cash and cash equivalents, beginning	4	8,660,161	10,482,956
Cash and cash equivalents, ending	4	4,965,168	10,572,521

The accompanying notes 1-21 are an integral part of these interim condensed financial statements.

Translation from the original Russian version

Selected explanatory notes to the interim condensed financial statements
for the six months ended 30 June 2020

CentroCredit Bank

(thousands of Russian rubles)

1. Principal activities

CentroCredit Bank (the "Bank") was formed in 1989. In 2015, the Bank changed its legal form from closed joint-stock company to joint-stock company in order to bring its incorporation documents in line with Chapter 4 of the Civil Code of the Russian Federation as required by Federal Law No. 99-FZ *On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation, and on Recognizing Some Provisions of Russian Legislative Acts to be Void* dated 5 May 2014.

The Bank operates under a general banking license issued by the Central Bank of Russia (the "CBR" or the "Bank of Russia") on 17 December 2014, as well as the CBR license for operations with precious metals (issued on 17 December 2014). The Bank also holds the following licenses related to its principal activity:

- ▶ License of a professional participant of the securities market for dealer activities No. 177-06344-010000 dated 19 September 2003;
- ▶ License of a professional participant of the securities market for broker activities No. 177-06333-100000 dated 19 September 2003;
- ▶ License of a professional participant of the securities market for custody services No. 177-06413-000100 dated 26 September 2003;
- ▶ License No. 15590 N issued by the Center for Licensing, Certification and Protection of State Secrets of the Federal Security Service of Russia dated 18 November 2016.

The Bank accepts deposits from legal entities and individuals and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's main office is in Moscow. The Bank has 4 additional offices, 8 internal structural divisions and a representative office in London (United Kingdom). The Bank's registered legal address is Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, bld. 1.

Starting 11 November 2004, the Bank is a member of the deposit insurance system. The system operates under federal laws and regulations and is governed by the State Corporation Deposit Insurance Agency. Insurance covers the Bank's liabilities to individual depositors for the amount up to 1,400 thousand of Russian rubles for each individual in case of business failure or revocation of the CBR banking license.

As at 30 June 2020 and 31 December 2019, the Bank employed 464 and 466 people, respectively.

As at 30 June 2020 and 31 December 2019, the Bank's shareholders were as follows:

Shareholder	30 June 2020, % (unaudited)	31 December 2019, %
CENTRORIVER HOLDINGS LTD	64.23	64.23
Trial LLC	13.81	13.81
Andrey Igorevich Tarasov	11.96	11.96
Ilya Yuryevich Korbashov	9.96	9.96
Other	0.04	0.04
Total	100.00	100.00

As at 30 June 2020 and 31 December 2019, the Bank's ultimate controlling party is Andrey Igorevich Tarasov.

Andrey Igorevich Tarasov, the Bank's shareholder, is Chairman of the Board of Directors. Ilya Yuryevich Korbashov, the Bank's shareholder, is a member of the Board of Directors.

2. Basis of preparation

General

These interim condensed financial statements for the six months ended 30 June 2020 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* based on the assumption that the Bank will operate as a going concern in the foreseeable future. The Bank's management does not intend to liquidate the Bank or cease its operations. Under the going concern assumption, assets and liabilities are recorded on the basis that the Bank will be able to realize its assets and discharge its liabilities in the normal course of business.

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CentroCredit Bank

Selected explanatory notes to the interim condensed financial statements
for the six months ended 30 June 2020

(thousands of Russian rubles)

2. Basis of preparation (continued)

General (continued)

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2019.

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS. These financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated.

These financial statements will be disclosed at the Bank's web site (www.ccb.ru) not later than 30 days from the deadline for its presentation to the participants (shareholders, founders) or owners of the entity's assets in accordance with Part 7 of Article 4 of Law No. 208-FZ *On the Consolidated Financial Statements*.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2019.

The Bank adopted several amendments that have become effective since 1 January 2020, but they do not have any effect on the interim condensed financial statements of the Bank.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 7, IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Bank.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

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CentroCredit Bank

Selected explanatory notes to the interim condensed financial statements
for the six months ended 30 June 2020

(thousands of Russian rubles)

3. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant judgments and estimates used are as follows:

Effect of COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic in early 2020, many governments, including the Russian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of enterprises and other organizations and lockdown of certain area. These measures have affected the global supply chain, demand for goods and services, as well as the scale of business activity in general. It is expected that the pandemic itself, as well as measures taken to minimize its consequences, may influence businesses in a wide range of industries. Since March 2020, stock, currency and commodity markets have shown extreme volatility, including a drop in oil prices and the depreciation of the Russian ruble against the US dollar and the euro.

In 2020, support measures were introduced by the Government and the Bank of Russia to counter the economic downturn caused by the COVID-19 pandemic. These measures include, inter alia, subsidized lending to affected industries and individuals, repayment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and assist customers in avoiding liquidity shortages as a result of the implementation of the COVID-19 containment measures.

The Bank continues to assess the effect of the pandemic and the changes in micro- and macroeconomic conditions on its business, financial position and financial performance.

When measuring expected credit losses, the Bank considers reasonable and supportable information on current and expected future economic conditions. As such, the Bank regularly updates macroeconomic scenarios and models used to measure key components, which are considered when determining expected credit losses.

Due to reasonable risk management policies, the Bank complies with all regulatory requirements of the Bank of Russia, including a sufficient level of equity and liquidity cushion. The Bank's management monitors the situation and takes preventive measures to mitigate possible negative effects on the Bank's financial performance and business.

The Bank maintained the standard approach to making macroeconomic projections over a 3-year horizon broken down by quarter taking into account several possible development scenarios.

To the extent that information was available as at 30 June 2020, the Bank reflected a change in ECL (Note 9) and a change in the fair value of financial instruments (Note 16).

Fair values of financial instruments

As described in Note 16, the Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments (loans at fair value through profit or loss). Note 16 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. Management of the Bank believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Impairment losses from financial assets

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL/impairment losses and assessing a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- ▶ The Bank's internal credit grading model, which assigns PDs to individual grades;
- ▶ The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- ▶ The segmentation of financial assets when their ECL are assessed on a collective basis;
- ▶ Development of ECL models, including various formulae and the choice of inputs;

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Selected explanatory notes to the interim condensed financial statements
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(thousands of Russian rubles)

3. Significant accounting judgments and estimates (continued)

Impairment losses from financial assets (continued)

- ▶ Determination of interrelations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings to derive economic inputs for ECL calculation models.

Deferred tax asset recognition

A deferred tax asset is the amount of income tax which may be offset against future income taxes and is recorded in the statement of financial position. A deferred income tax asset is recorded to the extent that the realization of the related tax benefit is probable. According to the Bank's management, it cannot be deemed highly probable that taxable profit will be available in the future.

4. Cash and accounts with the Bank of Russia

Cash comprises:

	30 June 2020 (unaudited)	31 December 2019
Accounts with the Bank of Russia	1,295,587	2,891,677
Cash on hand	1,197,649	1,364,989
Cash and accounts with the Bank of Russia	2,493,236	4,256,666

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the Bank of Russia, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such a deposit is significantly restricted by the statutory legislation.

As at 30 June 2020 and 31 December 2019, the obligatory reserve with the Bank of Russia amounted to RUB 214,185 thousand and RUB 239,654 thousand, respectively.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	30 June 2020 (unaudited)	31 December 2019
Current and clearing accounts with credit institutions (Note 6)	1,862,378	4,393,337
Cash and accounts with the Bank of Russia	2,493,236	4,256,666
Time deposits with credit institutions up to 90 days (Note 6)	237,834	321,909
Reverse repurchase agreements with credit institutions up to 90 days (Note 6)	650,000	–
Less allowance for ECL	(5,817)	(11,591)
	5,237,631	8,960,321
Less:		
Obligatory reserve with the Bank of Russia	(214,185)	(239,654)
Encumbered current and clearing accounts with credit institutions	(58,278)	(60,506)
Cash and cash equivalents	4,965,168	8,660,161

All balances of cash and cash equivalents are taken to Stage 1.

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Selected explanatory notes to the interim condensed financial statements
for the six months ended 30 June 2020

CentroCredit Bank

(thousands of Russian rubles)

5. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	30 June 2020 (unaudited)	31 December 2019
Debt securities		
Russian state bonds	13,265,414	13,289,194
Corporate bonds	–	486,302
	13,265,414	13,775,496
Equity securities		
Corporate shares	10,063,846	14,722,086
Shares of resident banks	601,819	760,438
Depository receipts for corporate shares	269,755	282,835
	10,935,420	15,765,359
Derivative financial assets	3,917	5,520
Financial assets at fair value through profit or loss	24,204,751	29,546,375

Financial assets at fair value through profit or loss pledged under repurchase agreements comprise:

	30 June 2020 (unaudited)	31 December 2019
Debt securities		
Russian state bonds	38,271,317	38,144,304
	38,271,317	38,144,304
Equity securities		
Corporate shares	7,786,404	9,852,048
Depository receipts for corporate shares	3,282,360	2,501,410
Shares of resident banks	471,975	1,598,906
	11,540,739	13,952,364
Financial assets at fair value through profit or loss pledged under repurchase agreements	49,812,056	52,096,668

Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	30 June 2020 (unaudited)			31 December 2019		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Futures – foreign	142,500	–	–	483,612	–	–
Futures – domestic	–	–	–	371,434	–	–
Equity contracts						
Forwards (equity securities) – domestic	118	69	–	–	–	–
Credit derivative financial instruments						
Credit default swaps – foreign	7,705,756	3,848	–	6,420,851	5,520	–
Contracts for derivatives						
RTS Index futures – domestic	–	–	–	3,547,818	–	–
Contracts for precious metals						
Precious metal forwards – domestic	1,418,380	–	1,647	–	–	–
Total derivative assets/liabilities		3,917	1,647		5,520	–

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CentroCredit Bank

Selected explanatory notes to the interim condensed financial statements
for the six months ended 30 June 2020

(thousands of Russian rubles)

5. Financial assets at fair value through profit or loss (continued)

Derivative financial instruments (continued)

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As at 30 June 2020 and 31 December 2019, the Bank has positions in the following types of derivatives:

Forwards and futures

Forwards and futures are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The fair value of standardized exchange-traded contracts providing for the daily transfer of the variation margin, is determined as the amount of claims for (obligation to pay) a variation margin at the end of the operating day.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2020 (unaudited)	31 December 2019
Current and clearing accounts with credit institutions	1,862,378	4,393,337
Time deposits with credit institutions up to 90 days	237,834	321,909
Reverse repurchase agreements with credit institutions up to 90 days	650,000	–
	2,750,212	4,715,246
Less allowance for ECL	(14,210)	(18,902)
Amounts due from credit institutions	2,736,002	4,696,344

As at 30 June 2020, the Bank placed RUB 1,252,128 thousand (31 December 2019: RUB 3,269,214 thousand) and RUB 377,437 thousand (31 December 2019: RUB 672,262 thousand) on current and clearing accounts with NCI NCC (JSC) and OECD banks, respectively.

As at 30 June 2020, time deposits with credit institutions included RUB 237,834 thousand (31 December 2019: RUB 321,909 thousand) placed with an OECD bank.

As at 30 June 2020, the Bank entered into reverse repurchase agreements with a Russian credit institution (31 December 2019: the Bank did not enter into reverse repurchase agreements). These transactions are collateralized by clearing participation certificates for RUB 650,000 thousand.

Movements in allowances for ECL as at 30 June 2020 are presented in the table below:

	Stage 1	Stage 2	Stage 3	Total
ECL at 1 January 2020	11,778	–	7,124	18,902
Assets recognized during the period	11,288	–	–	11,288
Assets disposed or redeemed (except for write-offs)	(17,623)	–	(623)	(18,246)
Changes in models and inputs used for ECL calculations	2,266	–	–	2,266
30 June 2020 (unaudited)	7,709	–	6,501	14,210

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6. Amounts due from credit institutions (continued)

Movements in allowances for ECL as at 30 June 2019 are presented in the table below:

	Stage 1	Stage 2	Stage 3	Total
ECL at 1 January 2019	18,521	–	7,195	25,716
Assets recognized during the period	14,378	–	–	14,378
Assets disposed or redeemed (except for write-offs)	(9,833)	–	–	(9,833)
Changes in models and inputs used for ECL calculations	836	–	–	836
30 June 2019 (unaudited)	23,902	–	7,195	31,097

7. Loans to customers

Loans to customers comprise:

	30 June 2020 (unaudited)	31 December 2019
Loans to legal entities	23,151,600	20,903,800
Loans to individuals	4,031,775	4,014,115
Net investment in finance leases	1,359,319	1,315,446
Reverse repurchase agreements	–	1,231,339
Total loans to customers	28,542,694	27,464,700
Less allowance for ECL	(13,365,911)	(15,203,367)
Loans to customers at amortized cost	15,176,783	12,261,333
Loans to customers at FVPL	1,589,214	1,329,508
Loans to customers	16,765,997	13,590,841

Information on fair value measurement of loans to customers at FVPL is presented in Note 16.

Movements in allowances for ECL on loans to legal entities as at 30 June 2020 are presented below.

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
ECL at 1 January 2020	3,568,896	4,671,634	1,970,089	–	10,210,619
New assets, including under available credit facilities	724,628	115,431	–	–	840,059
Assets disposed or redeemed (except for write-offs)	(342,283)	(134,294)	768	–	(475,809)
Transfers to Stage 1	115,093	(115,093)	–	–	–
Transfers to Stage 2	(1,397,496)	1,397,496	–	–	–
Transfers to Stage 3	–	(543,600)	543,600	–	–
Effect on period-end ECL due to transfers between stages during the period	(73,739)	373,897	362,400	–	662,558
Unwinding of discount (recognized in interest income)	–	–	3,870	–	3,870
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	(282,840)	95,807	(12,086)	–	(199,119)
Translation differences	–	–	(1,968)	–	(1,968)
30 June 2020 (unaudited)	2,312,259	5,861,278	2,866,673	–	11,040,210

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7. Loans to customers (continued)

Movements in allowances for ECL on loans to individuals as at 30 June 2020 are presented below.

<i>Loans to individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL at 1 January 2020	1,488,467	1,596,036	365,299	–	3,449,802
New assets, including under available credit facilities	31,013	39,887	–	–	70,900
Assets disposed or redeemed (except for write-offs)	(32,620)	(30,732)	(2,715)	–	(66,067)
Assets sold during the period	–	–	(35,358)	–	(35,358)
Transfers to Stage 2	(114)	114	–	–	–
Effect on period-end ECL due to transfers between stages during the period	–	27	–	–	27
Unwinding of discount (recognized in interest income)	–	–	11,913	–	11,913
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	(550,977)	(826,939)	–	–	(1,377,916)
Translation differences	32	–	12,776	–	12,808
30 June 2020 (unaudited)	935,801	778,393	351,915	–	2,066,109

Movements in allowances for ECL on net investment in finance leases as at 30 June 2020 are presented below.

<i>Net investment in finance leases</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL at 1 January 2020	2,029	1,171,515	–	–	1,173,544
Assets recognized during the period	111	143,548	–	–	143,659
Assets disposed or redeemed (except for write-offs)	(239)	(107,234)	–	–	(107,473)
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	27	(950,165)	–	–	(950,138)
30 June 2020 (unaudited)	1,928	257,664	–	–	259,592

Movements in allowances for ECL on loans provided under reverse repurchase agreements as at 30 June 2020 are presented in the table below.

<i>Loans provided under reverse repurchase agreements</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL at 1 January 2020	369,402	–	–	–	369,402
Assets recognized during the period	–	–	–	–	–
Assets disposed or redeemed (except for write-offs)	(369,402)	–	–	–	(369,402)
30 June 2020 (unaudited)	–	–	–	–	–

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7. Loans to customers (continued)

Movements in allowances for ECL on loans to legal entities as at 30 June 2019 are presented in the table below.

<i>Loans to legal entities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL at 1 January 2019	1,005,216	6,706,326	2,936,220	–	10,647,762
New assets, including under available credit facilities	1,523,145	181,788	–	–	1,704,933
Assets disposed or redeemed (except for write-offs)	(472,209)	(589,307)	(123,178)	–	(1,184,694)
Transfers to Stage 1	271,957	(271,957)	–	–	–
Transfers to Stage 2	(166,093)	166,093	–	–	–
Transfers to Stage 3	–	(97,154)	97,154	–	–
Effect on period-end ECL due to transfers between stages during the period	(43,064)	191,424	76,751	–	225,111
Unwinding of discount (recognized in interest income)	–	–	80,967	–	80,967
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	9,417	242,582	(9,046)	–	242,953
30 June 2019 (unaudited)	2,128,369	6,529,795	3,058,868	–	11,717,032

Movements in allowances for ECL on loans to individuals as at 30 June 2019 are presented in the table below.

<i>Loans to individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL at 1 January 2019	1,666,839	205,787	462,977	–	2,335,603
New assets, including under available credit facilities	1,334	8,576	–	–	9,910
Assets disposed or redeemed (except for write-offs)	(552)	(17,494)	(2,087)	–	(20,133)
Transfers to Stage 2	(1,496,347)	1,496,513	(166)	–	–
Transfers to Stage 3	(395)	(15,540)	15,935	–	–
Effect on period-end ECL due to transfers between stages during the period	–	374,045	87,489	–	461,534
Unwinding of discount (recognized in interest income)	–	–	16,354	–	16,354
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	–	47,139	(3,185)	–	43,954
Translation differences	–	–	(10,281)	–	(10,281)
30 June 2019 (unaudited)	170,879	2,099,026	567,036	–	2,836,941

Movements in allowances for ECL on loans provided under reverse repurchase agreements as at 30 June 2019 are presented in the table below.

<i>Loans provided under reverse repurchase agreements</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL at 1 January 2019	139,948	–	–	–	139,948
Assets recognized during the period	2,452,378	–	–	–	2,452,378
Assets disposed or redeemed (except for write-offs)	(139,948)	–	–	–	(139,948)
30 June 2019 (unaudited)	2,452,378	–	–	–	2,452,378

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7. Loans to customers (continued)

Movements in allowances for ECL on net investment in finance leases as at 30 June 2019 are presented in the table below.

Net investment in finance leases	Stage 1	Stage 2	Stage 3	POCI	Total
ECL at 1 January 2019	–	1,195,423	–	–	1,195,423
Assets recognized during the period	–	32,696	–	–	32,696
Assets disposed or redeemed (except for write-offs)	–	(29,385)	–	–	(29,385)
Changes in models and inputs used for ECL calculations, including due to modification not resulting in derecognition	–	(9,516)	–	–	(9,516)
30 June 2019 (unaudited)	–	1,189,218	–	–	1,189,218

Restructured and modified loans

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been revised to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below shows Stage 2 and Stage 3 assets that were renegotiated during the period and, as a result, are recognized as restructured loans, and the associated losses incurred by the Bank due to the modification.

	30 June 2020 (unaudited)	30 June 2019 (unaudited)
Loans to customers modified during the period		
Amortized cost before modification	4,497,102	1,951,252
Net modification (loss)	(28,465)	(119,422)
Loans to customers modified since initial recognition		
Gross carrying amount at 30 June of loans to customers for which impairment allowance calculation was changed to 12-month ECL measurement	–	241,103

8. Taxation

The corporate income tax expense comprises:

	For the six months ended	
	30 June 2020 (unaudited)	30 June 2019 (unaudited)
Current tax charge	346,044	350,334
Deferred tax charge/(credit) – origination and reversal of temporary differences	(668,058)	510,467
Income tax (benefit)/expense	(322,014)	860,801

As at 30 June 2020, a significant decrease in deferred income in the amount of RUB 556,688 thousand was due to a decrease in value of securities at fair value through profit or loss.

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9. Credit loss expense and other impairment and provisions

The table below shows ECL charges on financial instruments recorded in the statement of profit or loss for the six months ended 30 June 2020.

<i>(unaudited)</i>	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Simplified approach</i>	<i>Total</i>
Cash and accounts with the Bank of Russia	4	–	–	–	–	–	–
Amounts due from credit institutions	6	(4,069)	–	(623)	–	–	(4,692)
Loans to customers	7	(2,178,806)	(541,850)	902,775	–	–	(1,817,881)
Other financial assets	9	–	–	–	–	(12,535)	(12,535)
Financial guarantees	14	(168,440)	320,662	–	–	–	152,222
Loan commitments	14	47,502	(44,433)	–	–	–	3,069
Other provisions	9	–	–	–	–	6,826	6,826
Total credit loss expense		<u>(2,303,813)</u>	<u>(265,621)</u>	<u>902,152</u>	<u>–</u>	<u>(5,709)</u>	<u>(1,672,991)</u>

The credit loss expense includes profit from impairment in the amount of RUB 1,279,741 thousand, as the Bank excluded economic relationships with a bankrupt company when calculating ECL on loans to legal entities.

The allowance for ECL on assets is deducted from the carrying amount of the respective assets. Provisions for financial guarantees, loan commitments and other provisions are recorded in other provisions in the statement of financial position.

Movements in other provisions for the six months ended 30 June 2020 are as follows:

	<i>Financial guarantees and loan commitments</i>	<i>Other financial assets</i>	<i>Total</i>
ECL at 1 January 2020	707,965	16,243	724,208
Charge	155,291	6,826	162,117
30 June 2020 (unaudited)	<u>863,256</u>	<u>23,069</u>	<u>886,325</u>

Movements in ECL on other financial assets for the six months ended 30 June 2020 are as follows:

	<i>30 June 2020 (unaudited)</i>
ECL at 1 January 2020	57,883
(Reversal)	(12,535)
Write-off against allowance	(29)
30 June 2020 (unaudited)	<u>45,319</u>

The table below shows ECL charges on financial instruments recorded in the statement of profit or loss for the six months ended 30 June 2019.

<i>(unaudited)</i>	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Simplified approach</i>	<i>Total</i>
Cash and accounts with the Bank of Russia	4	–	–	–	–	–	–
Amounts due from credit institutions	6	5,381	–	–	–	–	5,381
Loans to customers	7	1,939,623	1,710,503	129,386	–	–	3,779,512
Other financial assets	9	–	–	–	–	33,725	33,725
Financial guarantees	14	(308,167)	(131,854)	–	–	–	(440,021)
Loan commitments	14	28,249	(18,048)	–	–	–	10,201
Total credit loss expense		<u>1,665,086</u>	<u>1,560,601</u>	<u>129,386</u>	<u>–</u>	<u>33,725</u>	<u>3,388,798</u>

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9. Credit loss expense and other impairment and provisions (continued)

The allowance for ECL on assets is deducted from the carrying amount of the respective assets. Provisions for financial guarantees and loan commitments are recorded in other provisions in the statement of financial position.

Movements in ECL on other financial assets for the six months ended 30 June 2019 are as follows:

	30 June 2019 (unaudited)
ECL at 1 January 2019	34,060
Charge	33,725
Write-off against allowance	(243)
30 June 2019 (unaudited)	67,542

10. Amounts due to credit institutions

As at 30 June 2020, amounts due to credit institutions included cash received under repurchase agreements/securities lending agreements with Russian credit institutions in the amount of RUB 41,154,453 thousand maturing on 13 July 2020 (31 December 2019: RUB 35,680,797 thousand maturing on 13 January 2020).

The carrying amount and fair value of securities pledged under repurchase agreements are disclosed in Note 17.

11. Amounts due to customers

Amounts due to customers comprise:

	30 June 2020 (unaudited)	31 December 2019
Current accounts	6,179,190	7,920,203
Repurchase agreements	3,958,804	10,879,466
Time deposits	3,243,656	3,759,631
Brokerage accounts	1,685,053	5,069,351
Amounts due to customers	15,066,703	27,628,651

As at 30 June 2020, amounts due to customers decreased by RUB 12,561,948 thousand compared with the beginning of the current year, which was mainly due to a smaller number of repurchase transactions with legal entities. Amounts received under repurchase agreements with credit institutions increased by RUB 5,473,656 thousand.

As at 30 June 2020, amounts due to customers of RUB 8,474,004 thousand, or 56.2%, were due to ten largest customers (31 December 2019: RUB 20,541,955 thousand, or 74.4%).

Included in time deposits are deposits of individuals in the amount of RUB 2,702,575 thousand (31 December 2019: RUB 2,818,977 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a time deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

The carrying amount and fair value of securities pledged under repurchase agreements are disclosed in Note 17.

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12. Debt securities issued

Debt securities issued comprise:

	30 June 2020 (unaudited)	31 December 2019
Savings certificates	603,231	583,969
Promissory notes	203,718	179,334
Debt securities issued	806,949	763,303

Interest-bearing promissory notes and savings certificates issued by the Bank as at 30 June 2020 bear annual interest rates ranging from 1.0% to 13.2% (31 December 2019: from 1.3% to 13.2%) and mature through 18 April 2028 (31 December 2018: through 18 April 2028).

13. Equity

The authorized, issued and fully paid share capital comprises:

	Number of shares		Nominal amount		Inflation adjustment	Total
	Preferred	Ordinary	Preferred	Ordinary		
At 31 December 2019	48	17,168,974	5	6,695,900	250,235	6,946,140
At 30 June 2020	48	17,168,974	5	6,695,900	250,235	6,946,140

The share capital of the Bank was contributed by the shareholders in Russian rubles and they are entitled to dividends and any capital distribution in Russian rubles.

At the shareholders' meeting held in October 2019, the Bank declared and paid dividends for the nine months of 2019 in the amount of RUB 809,003 thousand from the profit for the nine months of 2019 (RUB 47.12 per ordinary share and RUB 11.78 per preferred share).

At the shareholders' meeting held in July 2019, the Bank declared and paid dividends for the first half of 2019 in the amount of RUB 850,208 thousand from the profit for the first half of 2019 (RUB 49.52 per ordinary share and RUB 12.38 per preferred share).

At the shareholders' meeting held in April 2019, the Bank declared and paid dividends for 2018 from retained earnings from prior years totaling RUB 2,082,942 thousand (RUB 121.32 per ordinary share and RUB 30.33 per preferred share).

As at 30 June 2020, the revaluation reserve for securities at fair value through other comprehensive income of RUB 8 thousand was included in equity (31 December 2019: RUB 9 thousand). Securities at fair value through other comprehensive income are recorded in other assets in the statement of financial position.

14. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively affected by sanctions imposed on Russia by a number of countries. Ruble interest rates remain high. The combination of the above resulted in reduced access to capital, a higher cost of capital, and increased uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

As the COVID-19 outbreak continues, there remains uncertainty about further developments of the pandemic and its duration, as well as the extent of the possible economic recovery in the nearest future. The government continues to take responsive measures, and their effects are still evolving. Therefore, the Bank's management continues its ongoing assessment of increased risks, consequences of the pandemic and measures taken by the government.

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14. Commitments and contingencies (continued)

Legal

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

Taxation

Major part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and in performing tax reviews. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Tax reviews of the accuracy of tax calculation and payment conducted by the tax authorities may cover three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances, reviews may cover longer periods.

As at 30 June 2020, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Credit-related commitments

The Bank's credit-related commitments comprise the following:

	30 June 2020 (unaudited)	31 December 2019
Guarantees	7,548,767	8,289,699
Loan commitments	1,422,063	2,380,315
	8,970,830	10,670,014
Less allowance for ECL	(863,256)	(707,965)
Credit-related commitments	8,107,574	9,962,049

Movements in allowances for ECL on financial guarantees for the six months ended 30 June 2020 are as follows:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
ECL at 1 January 2020	289,545	244,569	–	534,114
New guarantees, including under previously concluded framework agreements	280,895	165,616	–	446,511
Guarantees derecognized or expired (except for write-offs)	(251,459)	(227,454)	–	(478,913)
Transfers to Stage 1	12,818	(12,818)	–	–
Transfers to Stage 2	(207,731)	207,731	–	–
Effect on period-end ECL due to transfers between stages during the period	–	188,162	–	188,162
Changes in models and inputs used for ECL calculations	(2,499)	(575)	–	(3,074)
Translation differences	(464)	–	–	(464)
30 June 2020 (unaudited)	121,105	565,231	–	686,336

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14. Commitments and contingencies (continued)

Credit-related commitments (continued)

Movements in allowances for ECL on loan commitments for the six months ended 30 June 2020 are as follows:

<i>Loan commitments</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL at 1 January 2020	34,295	139,556	–	173,851
New commitments, including under previously extended credit lines	434,490	86,146	–	520,636
Commitments derecognized or expired (except for write-offs)	(767,463)	292,703	–	(474,760)
Transfers to Stage 1	6	(6)	–	–
Transfers to Stage 2	423,677	(423,677)	–	–
Effect on period-end ECL due to transfers between stages during the period	(1,708)	16,833	–	15,125
Changes in models and inputs used for ECL calculations	(41,705)	(16,432)	–	(58,137)
Changes in models and inputs Translation differences	205	–	–	205
30 June 2020 (unaudited)	81,797	95,123	–	176,920

Movements in allowances for ECL on financial guarantees as at 30 June 2019 are as follows:

<i>Financial guarantees</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL at 1 January 2019	454,924	305,538	–	760,462
New guarantees, including under previously concluded framework agreements	146,205	93,638	–	239,843
Guarantees derecognized or expired (except for write-offs)	(252,296)	(274,748)	–	(527,044)
Transfers to Stage 1	3,900	(3,900)	–	–
Transfers to Stage 2	(64,708)	64,708	–	–
Effect on period-end ECL due to transfers between stages during the period	(2,721)	3,249	–	528
Changes in models and inputs used for ECL calculations	(138,547)	(14,801)	–	(153,348)
30 June 2019 (unaudited)	146,757	173,684	–	320,441

Movements in allowances for ECL on loan commitments as at 30 June 2019 are as follows:

<i>Loan commitments</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL at 1 January 2019	30,306	105,444	–	135,750
New commitments, including under previously extended credit lines	99,688	8,818	–	108,506
Commitments derecognized or expired (except for write-offs)	(71,477)	(14,540)	–	(86,017)
Transfers to Stage 1	24,728	(24,728)	–	–
Transfers to Stage 2	(102)	102	–	–
Effect on period-end ECL due to transfers between stages during the period	(18,088)	26	–	(18,062)
Changes in models and inputs used for ECL calculations	(6,500)	12,274	–	5,774
30 June 2019 (unaudited)	58,555	87,396	–	145,951

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15. Net (losses)/gains from financial instruments at fair value through profit or loss

Net (losses)/gains from financial instruments at fair value through profit or loss comprise:

	<i>For the six months ended</i>	
	30 June 2020 (unaudited)	30 June 2019 (unaudited)
Securities at fair value through profit or loss	(2,565,779)	7,542,460
Derivative financial instruments	(1,052,694)	1,368,845
Loans to customers at FVPL	(587,484)	847,595
Net (losses)/gains from financial instruments at fair value through profit or loss	(4,205,957)	9,758,900

For the six months ended 30 June 2020, net losses from financial instruments at fair value through profit or loss amounted to RUB 4,205,957 thousand against profit of RUB 9,758,900 thousand during the same period of 2019, which was mainly due to macroeconomic instability amidst the global shock from the coronavirus pandemic. In early 2020, foreign currency exchange rates changed significantly, quotes at the financial markets declined, oil and gas prices dropped and industrial production slowed down.

Management is taking all necessary measures to ensure sustainability of the Bank's operations. However, the future effects of the current economic situation are difficult to predict, and management's current expectations and estimates could differ from actual results.

16. Fair value measurement

Fair value measurement procedures

Classification of fair value measurements is based on the fair value hierarchy (Level 1, 2 or 3). The levels correlate to the possibility of direct measurement of fair value using market data and reflect the materiality of the inputs used for the fair value measurement.

- ▶ Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets which are available to the Bank at the measurement date;
- ▶ Level 2 inputs are inputs other than Level 1 quoted prices, that are observable on the market either directly or indirectly; and
- ▶ Level 3 inputs are unobservable inputs for the asset or liability.

To measure fair values, the Bank maximizes the use of observable inputs and minimizes the use of unobservable inputs.

Fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

30 June 2020 (unaudited)	Recurring fair value measurement			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss:				
Russian state bonds	73,954,456	62,351	–	74,016,807
Equity securities	51,536,731	–	–	51,536,731
Derivative financial instruments, including:	22,417,725	58,434	–	22,476,159
- Credit default swaps – foreign	–	3,917	–	3,917
- Forwards (equity securities) – domestic	–	3,848	–	3,848
Loans to customers at FVPL	–	69	–	69
Investment property	–	–	1,589,214	1,589,214
	–	–	515,600	515,600
Financial liabilities				
Other liabilities (derivative financial instruments)	–	1,647	–	1,647
- Forwards (precious metals) – domestic	–	1,647	–	1,647

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16. Fair value measurement (continued)

Fair value hierarchy (continued)

31 December 2019	Recurring fair value measurement			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss:				
Russian state bonds	81,588,130	54,913	–	81,643,043
Corporate bonds	51,433,498	–	–	51,433,498
Equity securities	486,302	–	–	486,302
Derivative financial instruments, including:	29,668,330	49,393	–	29,717,723
- Credit default swaps – foreign	–	5,520	–	5,520
Loans to customers at FVPL	–	–	1,329,508	1,329,508
Investment property	–	–	524,400	524,400

Recurring fair value measurement

The following is a description of the procedure for measuring items, which are measured at fair value on a regular basis, using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation model with market observable inputs are mainly credit default swaps. The valuation model incorporates various inputs, including forward and spot rates, the fair value of the underlying asset as well as interest rate curves.

Financial assets at fair value through profit or loss

Securities valued using a valuation or pricing model primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and unobservable data. The unobservable inputs include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Loans at fair value through profit or loss

The fair value of loans is measured based on discounted future cash flows adjusted for the borrower's credit risk. The models rely on unobservable inputs, e.g., the discount rate.

A 1% increase in the discount rate results in the decrease in the fair value of loans by RUB 21,540 thousand. A 1% decrease in the discount rate results in the increase in the fair value of loans by RUB 22,149 thousand. The discount rates applicable range from 7.79% to 6.27%.

Investment property

The Bank engages an independent appraiser to measure fair values of investment properties. For this purpose, the appraiser used the market approach and the income approach.

The market approach is based on prices of market transactions significantly adjusted for differences in the nature, location or condition of a specific property. The basis of the income approach is to determine expected proceeds from the subject property.

Significant unobservable inputs in determining the fair value of real estate items

As at 31 December 2019, significant unobservable inputs used to determine the fair value of real estate property (infrastructure facilities) located in Moscow region included average prices of offers to sell similar properties ranging from RUB 35,800 to RUB 44,200 per sq. m., including VAT. A 10% increase in prices of offers results in an increase in the fair value of real estate property by RUB 53,700 thousand. A 10% decrease in prices of offers results in a decrease in the fair value of real estate property by RUB 53,700 thousand.

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16. Fair value measurement (continued)

Fair value hierarchy (continued)

As at 31 December 2019, significant unobservable inputs used to determine the fair value of real estate property located in Moscow region included average prices of offers to sell similar properties ranging from RUB 111,111 to RUB 131,579 per sq. m. A 10% increase in prices of offers results in an increase in the fair value of real estate property by RUB 4,520 thousand. A 10% decrease in prices of offers results in a decrease in the fair value of real estate property by RUB 4,520 thousand.

Movements in Level 3 financial instruments at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities, which are recorded at fair value:

	1 January 2020	Total gains/(losses) recorded in profit or loss	Total gains/(losses) recorded in other comprehen- sive income	Additions	Redemptions/ Disposals	Other movements	30 June 2020 (unaudited)
Financial assets							
Loans to customers at FVPL	1,329,508	(587,484)	–	854,690	(7,500)	–	1,589,214
Investment property	524,400	(8,800)	–	–	–	–	515,600
Total Level 3 financial assets	1,853,908	(596,284)	–	854,690	(7,500)	–	2,104,814

	31 December 2018	Total gains/(losses) recorded in profit or loss	Total gains/(losses) recorded in other comprehen- sive income	Additions	Redemptions/ Disposals	Other movements	31 December 2019
Financial assets							
Loans to customers at FVPL	1,459,437	338,481	–	840,262	(1,308,672)	–	1,329,508
Investment property	523,700	(31,800)	–	32,500	–	–	524,400
Total Level 3 financial assets	1,983,137	306,681	–	872,762	(1,308,672)	–	1,853,908

Gains or losses from Level 3 financial instruments included in profit or loss for the period comprise:

	Six months ended 30 June 2020 (unaudited)			Year ended 31 December 2019		
	Realized gains/(losses)	Unrealized gains/(losses)	Total	Realized gains/(losses)	Unrealized gains/(losses)	Total
Total gains or losses recorded in profit or loss for the period	(8,800)	(587,484)	(596,284)	(68,954)	375,635	306,681

Transfers between Level 1 and Level 2

The tables below show transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets recorded at fair value.

	Transfers from Level 1 to Level 2	
	30 June 2020 (unaudited)	31 December 2019
Financial assets		
Financial assets at fair value through profit or loss	150,389	27,305

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16. Fair value measurement (continued)

Movements in Level 3 financial instruments at fair value (continued)

The above financial instruments were transferred from Level 2 to Level 1 as they ceased to be actively traded during the period and fair values were consequently obtained through valuation techniques using observable market inputs.

	<i>Transfers from Level 2 to Level 1</i>	
	30 June 2020 (unaudited)	31 December 2019
Financial assets		
Financial assets at fair value through profit or loss	223,003	1,300,446

The above financial instruments were transferred from Level 1 to Level 2 as they became actively traded during the reporting period and their fair values were consequently determined using quoted prices in an active market.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2020 (unaudited)			31 December 2019		
	Carrying amount	Fair value	Unrecognized gain/(loss)	Carrying amount	Fair value	Unrecognized gain/(loss)
Financial assets						
Cash and accounts with the Bank of Russia	2,493,236	2,493,236	–	4,256,666	4,256,666	–
Amounts due from credit institutions	2,736,002	2,736,002	–	4,696,344	4,696,344	–
Loans to customers	15,176,783	15,126,219	(50,564)	12,261,333	12,096,897	(164,436)
Other financial assets	206,495	206,495	–	378,270	378,270	–
Financial liabilities						
Amounts due to credit institutions	41,154,453	41,154,453	–	35,680,797	35,680,797	–
Amounts due to customers	15,066,703	15,063,339	3,364	27,628,651	27,623,298	5,353
Debt securities issued	806,949	716,927	90,022	763,303	782,322	(19,019)
Other financial liabilities	329,742	329,742	–	330,499	330,499	–
Total unrecognized change in fair value			42,822			(178,102)

17. Transferred financial assets that are not derecognized

The table below provides a summary of the financial assets transferred by the Bank under repurchase agreements in such a way that all the transferred financial assets do not qualify for derecognition.

30 June 2020 (unaudited)	Transferred financial asset	Financial assets at fair value through profit or loss			Total
		Government debt securities	Other debt securities	Other securities	
Carrying amount of assets	Repurchase agreements	38,271,317	–	11,540,739	49,812,056
Total		38,271,317	–	11,540,739	49,812,056
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	35,451,854	–	5,602,586	41,054,440
	Repurchase agreements with legal entities	–	–	3,958,804	3,958,804
Total		35,451,854	–	9,561,390	45,013,244

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17. Transferred financial assets that are not derecognized (continued)

31 December 2019	Transferred financial asset	Financial assets at fair value through profit or loss			Total
		Government debt securities	Other debt securities	Other securities	
Carrying amount of assets	Repurchase agreements	38,144,304	–	13,952,364	52,096,668
Total		38,144,304	–	13,952,364	52,096,668
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	28,379,225	–	7,301,572	35,680,797
	Repurchase agreements with legal entities	5,975,592	–	4,903,874	10,879,466
Total		34,354,817	–	12,205,446	46,560,263

Securities sold under repurchase agreements are transferred to a third party and the Bank receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral.

The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

Likewise, the Bank may sell or repledge securities received as loans or purchased under reverse repurchase agreements but is obliged to return the securities, and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Bank, which instead records a separate asset for any possible cash collateral given.

Liabilities under repurchase agreements collateralized by clearing participation certificates are presented in line “Amounts due to credit institutions” of the statement of financial position as at 30 June 2020 in the amount of RUB 100,013 thousand (31 December 2019: none).

The carrying amount and fair value of securities sold under repurchase agreements was RUB 49,812,056 thousand as at 30 June 2020 (31 December 2019: RUB 52,096,668 thousand) and included financial assets at fair value through profit or loss.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 30 June 2020 as amounts due to credit institutions of RUB 41,054,440 thousand (31 December 2019: RUB 35,680,797 thousand) and as amounts due to customers of RUB 3,958,804 thousand (31 December 2019: RUB 10,879,466 thousand).

18. Offsetting of financial instruments

The tables below show the effect of enforceable master netting agreements and similar agreements that do not result in an offset in the statement of financial position.

At 30 June 2020 (unaudited)	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Financial assets pledged under repurchase agreements	49,812,056	–	49,812,056	(45,013,244)	–	4,798,812
Total	49,812,056	–	49,812,056	(45,013,244)	–	4,798,812
Financial liabilities						
Payables under repurchase agreements	45,013,244	–	45,013,244	(45,013,244)	–	–
Total	45,013,244	–	45,013,244	(45,013,244)	–	–

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18. Offsetting of financial instruments (continued)

<i>At 31 December 2019</i>	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets recognized in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Cash collateral received</i>	
Financial assets						
Financial assets pledged under repurchase agreements	52,096,668	–	52,096,668	(46,560,263)	–	5,536,405
Total	52,096,668	–	52,096,668	(46,560,263)	–	5,536,405
Financial liabilities						
Payables under repurchase agreements	46,560,263	–	46,560,263	(46,560,263)	–	–
Total	46,560,263	–	46,560,263	(46,560,263)	–	–

19. Related party disclosures

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

The results of transactions with the Bank's related parties have no impact on the Bank's financial stability, as they account for a minor share in total transactions conducted by the Bank. Transactions with related parties are executed on the same terms, conditions and amounts as transactions with other counterparties.

The Bank had an interest in a number of related party transactions.

Those transactions were approved by the Bank's authorized bodies (Board of Directors, general shareholders' meeting) in accordance with Russian laws. Planned transactions that the Bank has an interest in are subject to approval by the general shareholders' meeting before conclusion.

Related parties include:

- ▶ Shareholders of the Bank;
- ▶ Key management personnel of the Bank, i.e. persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including the Chairman of the Management Board, members of the Management Board, Board of Directors, Credit Committee, and other risk-taking employees;
- ▶ Other related parties, including close relatives of the shareholders and key management personnel, and companies under the control or common control of parties related to the Bank or close relatives thereof.

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19. Related party disclosures (continued)

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	30 June 2020 <i>(unaudited)</i>			
	<i>Shareholders</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Total</i>
Loans outstanding at 1 January 2020	–	9,768	747,194	756,962
Loans issued during the period	–	5,500	15,000	20,500
Loans repaid during the period	–	(5,000)	–	(5,000)
Other movements	–	–	(61,200)	(61,200)
Loans outstanding at 30 June 2020	–	10,268	700,994	711,262
Less allowance for impairment	–	(188)	(399,049)	(399,237)
Loans outstanding at 30 June 2020, net of allowance	<u>–</u>	<u>10,080</u>	<u>301,945</u>	<u>312,025</u>
Other assets	16	18	769	803
Deposits at 1 January 2020	–	188,328	11,376	199,704
Deposits received during the year	–	778,883	32,763	811,646
Deposits repaid during the year	–	(781,003)	(36,163)	(817,166)
Other movements	–	37,610	244	37,854
Deposits at 30 June 2020	<u>–</u>	<u>223,818</u>	<u>8,220</u>	<u>232,038</u>
Settlement and current accounts at 30 June 2020	13,004	197,619	54,169	264,792
Debt securities issued	205,981	137,052	–	343,033
Other provisions	–	128	–	128
Other liabilities	857	125,675	135	126,667
Loan commitments	–	7,500	–	7,500
	31 December 2019			
	<i>Shareholders</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Total</i>
Loans outstanding at 1 January 2019	–	6,518	449,897	456,415
Loans issued during the period	–	7,000	1,601,290	1,608,290
Loans repaid during the period	–	(3,750)	(987,344)	(991,094)
Other movements	–	–	(316,649)	(316,649)
Loans outstanding at 31 December 2019	–	9,768	747,194	756,962
Less allowance for ECL at 31 December 2019	–	(180)	(390,967)	(391,147)
Loans outstanding at 31 December 2019, net of allowance for ECL	<u>–</u>	<u>9,588</u>	<u>356,227</u>	<u>365,815</u>
Other assets	–	705	181	886
Deposits at 1 January 2019	–	406,077	8,313	414,390
Deposits received during the period	1,000,000	799,654	126,919	1,926,573
Deposits repaid during the period	(1,000,000)	(985,434)	(123,564)	(2,108,998)
Other movements	–	(31,969)	(292)	(32,261)
Deposits at 31 December 2019	<u>–</u>	<u>188,328</u>	<u>11,376</u>	<u>199,704</u>
Settlement and current accounts at 31 December 2019	23,540	194,632	94,745	312,917
Debt securities issued	202,503	131,333	–	333,836
Other provisions	–	255	–	255
Other liabilities	607	109,902	21	110,530
Loan commitments	–	15,000	681,300	696,300

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19. Related party disclosures (continued)

Income and expenses arising from related party transactions are as follows:

	<i>Six months ended</i>							
	<i>30 June 2020</i>				<i>30 June 2019</i>			
	<i>(unaudited)</i>				<i>(unaudited)</i>			
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Total</i>		<i>Key management personnel</i>	<i>Other related parties</i>	<i>Total</i>	
	<i>Shareholders</i>			<i>Shareholders</i>				
Interest income	–	403	44,335	44,738	–	260	28,109	28,369
Interest expense	(8,299)	(9,097)	(251)	(17,647)	(53,412)	(10,106)	(496)	(64,014)
Credit loss (expense)	–	118	(8,274)	(8,156)	–	527	(32,076)	(31,549)
Net (losses) from financial instruments at fair value through profit or loss	–	–	(84,759)	(84,759)	–	–	–	–
Net (losses)/gains from foreign currencies	(166,911)	(121,578)	(284)	(288,773)	32,522	42,739	1,555	76,816
Fee and commission income	50,363	11,906	182	62,451	32,817	8,468	135	41,420
Other income	56	3,693	11,498	15,247	76	79	11,946	12,101
Other operating expenses	(709)	(239)	(2,315)	(3,263)	(1,430)	(779)	(4,058)	(6,267)

Compensation to key management personnel comprises the following:

	<i>Six months ended</i>	
	<i>30 June 2020</i>	<i>30 June 2019</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Salaries and other short-term benefits	27,313	28,759
Long-term employee benefits	10,198	10,697
Mandatory pension contributions	5,365	5,084
Social security costs	1,897	1,926
Total compensation to key management personnel	44,773	46,466

20. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

Capital management is performed in accordance with the *Risks and Capital Management Strategy* in the course of internal capital adequacy assessment procedures (ICAAP).

In the course of ICAAP, the Bank determines risk appetite as a set of quantitative and qualitative indicators to monitor the exposure to assumed risks, capital adequacy and to ensure continuous operation of the Bank as follows:

- ▶ *Prudential capital adequacy ratios*, liquidity ratios and other limits established by the Bank of Russia with regard to risk and capital adequacy management;
- ▶ The *ratio of capital* required to cover all significant risks to *available capital*;
- ▶ The *capital adequacy ratio* required to be assigned a target credit rating;
- ▶ The *amount of capital* required to cover *unexpected losses*.

As part of drafting and subsequently implementing the Bank's Development Strategy, the Bank aims to minimize the difference between planned capital and required capital.

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20. Capital adequacy (continued)

The Bank regularly reconciles the aggregate required capital to actual capital. In case of actual capital inadequacy, measures are promptly taken to mitigate assumed risks/increase the Bank's capital.

The Bank's capital and capital adequacy ratio are calculated in accordance with Regulation No. 646-P of the Bank of Russia *On the Methodology for Determining the Amount of Equity (Capital) of Credit Institutions (Basel III)* and Instruction No. 199-I of the Bank of Russia *On Prudential Ratios of Banks*.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the capital management objectives, policies and processes from the previous years.

Capital adequacy ratio

The Bank regularly monitors capital adequacy to comply with the minimum capital adequacy ratios set up by the regulations issued by the Bank of Russia:

- ▶ Common equity adequacy ratio – not less than 4.5%;
- ▶ Core capital adequacy ratio – not less than 6.0%;
- ▶ Equity (capital) adequacy ratio – not less than 8.0%.

The following table shows the composition of the Bank's capital computed in accordance with the normative acts of the CBR which are based on Basel III requirements:

	30 June 2020	31 December 2019
Common equity	31,798,405	19,459,367
Core capital	31,798,405	19,459,367
Additional capital	–	14,572,920
Total capital	31,798,405	34,032,287
Risk-weighted assets	123,288,849	125,650,204
Common equity adequacy ratio	25.8%	15.5%
Core capital adequacy ratio	25.8%	15.5%
Equity (capital) adequacy ratio	25.8%	27.1%

During the six months ended 30 June 2020 and the year ended 31 December 2019, the Bank's capital adequacy ratios were in compliance with the external requirements.

21. Events after the reporting date

At the shareholders' meeting held in August 2020, the Bank declared dividends for the six months of 2020 to be paid using part of the retained earnings for prior years, totaling RUB 1,311,024 thousand (RUB 76.36 per ordinary share and RUB 19.09 per preferred share).