

Interstate Bank

Interim Condensed Financial Statements

for the six-month period ended 30 June 2021

Moscow | 2021

*Translation from the original in Russian.
The original Interim Condensed Financial Statements in Russian
are available on the Interstate Bank website at www.isbnk.org
or may be provided upon request.*

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Interim Statement of Comprehensive Income

	Note	30 June 2021 (unaudited)	30 June 2020 (unaudited)
Interest income	5	406,112	394,445
Interest expenses	5	(4,239)	(2,647)
Net interest income		401,873	391,798
Change in allowance for expected credit losses on interest-bearing assets		241	125
Net interest income after allowance for expected credit losses		402,114	391,923
Gains less losses arising from transactions with financial assets		15,100	(86)
Gains less losses arising from operations with foreign currency and derivative financial instruments		9,885	7,227
Net result arising from revaluation of foreign currency		(2,601)	4,174
Fee and commission income	6	1,930	1,543
Fee and commission expense	6	(2,034)	(1,808)
Other operating income		638	1,135
Operating expenses	7	(212,881)	(210,962)
Profit before tax		212,151	193,146
Income tax		(1,075)	(523)
NET PROFIT		211,076	192,623
Other comprehensive income			
Change in the fair value of financial assets through other comprehensive income		(297,355)	56,461
Total other comprehensive income		(297,355)	56,461
COMPREHENSIVE INCOME		(86,279)	249,084

Signed on 23 July 2021.

President

N.V. Gavrilov

Chief Accountant

L. K. Razdevilova

Notes 1-15 constitute an integral part of these financial statements.

Interim Statement of Financial Position

	Note	30 June 2021 (unaudited)	31 December 2020
<i>ASSETS</i>			
Cash and cash equivalents	8	789,895	462,676
Due from financial institutions	9	20,310,840	9,602,015
Loans and advances to customers		1,859	4,236
Financial assets at fair value through other comprehensive income	10	6,966,643	6,701,918
Fixed assets and intangible assets		45,505	45,527
Right-of-use assets		7,685	6,548
Other assets		27,208	20,458
Total assets		28,149,635	16,843,378
<i>LIABILITIES</i>			
Due to financial institutions	11	16,107,647	1,415,720
Due to customers	12	5,086,599	8,385,582
Lease liabilities		7,412	6,601
Other liabilities		28,611	14,568
Total liabilities		21,230,269	9,822,471
<i>EQUITY</i>			
Authorized capital / Paid-in shares	13	212,086	212,086
Shares in authorized capital reacquired from members	13	(1,100)	(1,100)
Revaluation reserve for financial assets at fair value through other comprehensive income		(3,425)	293,930
Other equity instruments		2,052,230	2,052,230
Retained earnings		4,659,575	4,463,761
Total equity		6,919,366	7,020,907
Total liabilities and equity		28,149,635	16,843,378

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Chief Accountant

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Interim Statement of Changes in Equity

	Authorized capital / Paid-in shares	Shares in authorized capital reacquired from members	Revaluation reserve for financial assets at fair value through other comprehensive income	Other equity instruments	Retained earnings	Total equity
Balance as of 1 January 2020	212,086	(1,100)	283,622	2,052,230	4,137,163	6,684,001
Comprehensive income for the six-month period ended 30 June 2020 (unaudited)	-	-	56,461	-	192,623	249,084
Amounts paid on perpetual subordinated debt (unaudited)	-	-	-	-	(15,304)	(15,304)
Balance as of 30 June 2020 (unaudited)	212,086	(1,100)	340,083	2,052,230	4,314,482	6,917,781
Balance as of 1 January 2021	212,086	(1,100)	293,930	2,052,230	4,463,761	7,020,907
Comprehensive income for the six-month period ended 30 June 2021 (unaudited)	-	-	(297,355)	-	211,076	(86,279)
Amounts paid on perpetual subordinated debt (unaudited)	-	-	-	-	(15,262)	(15,262)
Balance as of 30 June 2021 (unaudited)	212,086	(1,100)	(3,425)	2,052,230	4,659,575	6,919,366

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Interim Statement of Cash Flows

	30 June 2021 (unaudited)	30 June 2020 (unaudited)
<i>Cash flows from operating activities</i>		
Interest received	418,112	407,367
Interest paid	(4,064)	(2,539)
Fees and commissions received	1,930	1,543
Fees and commissions paid	(2,034)	(1,808)
Gains arising from operations with foreign currency and derivative financial instruments	9,885	7,227
Other operating income	336	290
Operating expenses paid	(207,716)	(198,981)
Interest expenses paid on the lease liabilities	(175)	(108)
Cash flows received from operating activities before changes in operating assets and liabilities	216,274	212,991
Net (increase) / decrease in due from financial institutions	(10,701,223)	1,190,733
Net (increase) / decrease in loans and advances to customers	2,377	1,398
Net (increase) / decrease in other assets	(6,748)	1,340
Net increase / (decrease) in due to financial institutions	14,691,927	726,645
Net increase / (decrease) in due to customers	(3,298,983)	(1,522,383)
Net increase / (decrease) in other liabilities	(783)	(693)
Net cash received from operating activities	902,841	610,031
<i>Cash flows from investing activities</i>		
Purchase of financial assets at fair value through other comprehensive income	(1,857,530)	(895,125)
Proceeds from disposal of financial assets at fair value through other comprehensive income	1,290,113	690,059
Dividends received from investment securities	300	300
Purchase of fixed assets and intangible assets	(5,004)	(5,033)
Proceeds from disposal of fixed assets	1,034	440
Net cash (used in) investing activities	(571,087)	(209,359)
<i>Cash flows from financing activities</i>		
Repayment of lease liabilities	(1,932)	(1,512)
Net cash (used in) financing activities	(1,932)	(1,512)
Effect of exchange rate changes on cash and cash equivalents	(2,603)	4,174
Net increase in cash and cash equivalents	327,219	403,334
Cash and cash equivalents at the beginning of the reporting period	462,676	514,318
Cash and cash equivalents at the end of the reporting period	789,895	917,652

Signed on 23 July 2021.

President

N.V. Gavrilov

Chief Accountant

L. K. Razdevilova

Notes 1-15 constitute an integral part of these financial statements.

Notes to Financial Statements

1 Principal Activities

The Interstate Bank (hereinafter: the Bank) was established in 1993.

The Bank is an international settlement and financial institution existing and operating in accordance with the provisions of the international public law. The Bank engages in operations in the territory of the states that are parties to the Agreement on Foundation of the Interstate Bank dated 22 January 1993 (hereinafter: the Agreement), on the basis of agreements with the governments and central (national) banks of such states.

The Bank's members are the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, and Turkmenistan.

Pursuant to the Agreement, the Bank's main functions are:

- arrangement of multilateral interstate settlements in trade and other operations;
- provision of assistance for effective and reliable functioning of payment systems in all member states;
- provision of short-term loans to central (national) banks;
- research and analysis of the economies of the states that are parties to the Agreement, elaboration of recommendations and proposals for the central (national) banks regarding the coordination of their monetary and foreign exchange policies;
- other banking operations consistent with the Bank's objectives and goals arising out of the Agreement and the Bank's Charter.

The Bank operates in the Russian Federation in accordance with the Agreement between the Government of the Russian Federation and the Interstate Bank on the Terms of the Interstate Bank presence in the territory of the Russian Federation dated 30 July 1996 and in accordance with the Agreement between the Bank and the Central Bank of the Russian Federation "On the Procedure for and Rules of Conducting by the Interstate Bank of Banking Activities in the Territory of the Russian Federation" dated 2 December 1996. Pursuant to the said Agreements, the Bank is exempt from taxes, duties and other mandatory charges payable in the territory of the Russian Federation and is authorized to engage in banking activities in the Russian Federation without a license from the Bank of Russia. In accordance with the Agreement between the Bank and the Central Bank of the Russian Federation "On the Procedure for and Rules of Conducting by the Interstate Bank of Banking Activities in the Territory of the Russian Federation" dated 2 December 1996, the Bank is exempt from certain requirements of the federal laws of the Russian Federation "On the Central Bank of the Russian Federation (Bank of Russia)" and "On Banks and Banking Activity", in particular, to provisions regarding bank regulation and banking supervision.

In accordance with the Agreement between the Bank and the Bank of Russia dated 2 December 1996 the Bank is authorized to sell and buy government securities and precious metals, engage in deposit banking, issue guarantees and sureties, make transactions with financial instruments, open accounts with Russian and foreign financial institutions and conduct other banking operations.

The Bank has no branches in the Russian Federation or abroad. The Bank has representative offices in the Republic of Armenia, the Republic of Belarus, and the Kyrgyz Republic.

The main types of banking transactions conducted by the Bank are as follows: settlement transactions, foreign exchange operations, transactions with securities.

The supreme governing body is the Bank's Council chaired by Ms. Ksenia Yudaeva, First Deputy Governor of the Bank of Russia.

The Bank's principal place of business is Moscow.

The Bank's headquarters are at: 15, Shukhova St. Moscow 115162, Russian Federation.

The credit ratings assigned to the Bank are as follows: BB+ with a stable outlook from Fitch Ratings; BBB+ with a stable outlook under international scale and AA(RU) with a stable outlook under national scale from ACRA.

2 The Bank's Economic Environment

Being an international organization, the Bank operates primarily in the Russian Federation.

Since the beginning of 2020, the COVID-19 pandemic had spread all over the world affecting global economy.

Following the above, since March 2020 the economic environment in the Russian Federation has experienced significant changes, namely:

- drop in the manufacturing output and activity reduction in many industries as a result of limitations introduced by the government in response to the COVID-19 pandemic;
- implementation of the government support measures for individuals and business due to the COVID-19 pandemic outbreak;
- high volatility and reduction of oil prices and stock market indices;
- a substantial decline of activity in the stock and derivative markets;
- high volatility of the foreign exchange market.

The above changes in the economic environment did not have significant impact on the Bank's operations and financial position as at the reporting date. The Management is taking all necessary measures to ensure sustainability of the Bank's business.

3 Basis of Preparation

These interim condensed financial statements of the Bank have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting* and cover the six-month period ended 30 June 2021. No audit has been conducted on these interim condensed financial statements.

The Bank maintains accounting procedures in the currency of the Russian Federation and keeps accounting records in accordance with the requirements of Russian law. These interim condensed financial statements have been prepared on the basis of the said accounting records, subject to adjustments necessary to bring them in line with all the material aspects of the IFRS and IAS.

The financial statements are presented in the Russian Federation currency (RUB), which is the Bank's functional currency and the presentation currency. Unless otherwise stated, figures in the financial statements are provided in thousands of Russian rubles.

4 Principles of Accounting Policies

The accounting policies and methods of computation used in preparing these interim condensed financial statements are consistent with the accounting policies and methods used and described in the Bank's annual financial statements for the year ended 31 December 2020, except for the changes related to the adoption of new and/or revised standards and interpretations as of 1 January 2021 or any other specified date.

IFRS 17 Insurance Contracts (effective for annual reporting periods beginning on or after 1 January 2023 (originally - 1 January 2021)). The new standard establishes the principles of recognition, valuation, presentation and disclosure of insurance policies and replaces IFRS 4 *Insurance Contracts*. This standard provides for a general model modified under insurance contracts with direct participation components described as variable premium contracts.

The general model is presented in simplified form, subject to certain criteria, through the valuation of liabilities for the remaining insurance coverage, employing the insurance premium distribution approach. The general model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows, and will separately measure the value of such uncertainty; the model considers market interest rates and the impact of insurance holder options and guarantees. Profit from insurance policy sales is deferred to future periods in a separate liability component on day one and aggregated into groups of insurance contracts; it is then recognized systematically in the profit and loss statement during the period in which insurers provide insurance coverage, adjusting for changes in assumptions regarding future insurance coverage.

The standard is applied retrospectively, except where this is not feasible, whereby a modified retrospective or fair value approach is applied.

Amendments to IFRS 17 Insurance Contracts and an amendment to IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. Amendment to IFRS 4 relates to the extension of the temporary exemption from applying IFRS 9.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after a date to be determined by the IASB, early adoption is permitted). The amendments clarify that profit or loss shall be recognized in full should the assets transferred to an associate or joint venture constitute a business as defined in IFRS 3 *Business Combinations*. Profit or loss from sale or contribution of assets that do not constitute a business shall be recognized only within the limits of the investor's non-ownership interest in the associate or joint venture.

Classifications of Liabilities as Current or Non-Current -Amendments to IAS 1 Presentation of Financial Statements (effective for annual reporting periods beginning on or after 1 January 2023). These amendments make changes to the definition of current and non-current liabilities.

Basic principles provided in these amendments are as follows:

- Liabilities are classified as non-current if the entity has a right to defer settlement for at least twelve months after the reporting date. The focus is on the entity's rights to defer settlement rather than the lender's rights to demand repayment of the debt.
- Liabilities are classified on the basis of existing right rather than actual intentions and expectations of the management as to whether they will exercise this right.
- The right to defer only exists if the entity complies with certain conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date if a waiver of that condition is obtained from the lender after the end of the reporting period.
- 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. The standards contain additional provisions on convertible instruments.

4 Principles of Accounting Policies (continued)

The amendments to IAS 1 issued in January 2020 were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year.

Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments) (effective for reporting periods beginning on or after 1 January 2023).

The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements.

Amendments to IAS 12 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023).

The amendments clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.

Annual Improvements to IFRSs 2018-2020 (effective for annual reporting periods beginning on or after 1 January 2022).

Annual Improvements are amendments that clarify the wording or eliminate minor inconsistencies, omissions and contradictions between the requirements in the standards.

Amendments to IFRS 9 Financial Instruments (“10 per cent test” for derecognition of financial liabilities)

In determining whether to derecognise a financial liability that has been modified or exchanged, an entity assesses whether the terms are substantially different, applying criteria of 10 per cent.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendments extend the exemption permitted by paragraph D16(a) of IFRS 1 to measure cumulative translation differences in the financial statements of a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent.

Thus, a subsidiary that elects to apply paragraph D16(a) of IFRS 1 *First-time Adoption of International Financial Reporting Standards* will measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRSs. This exemption is provided so that a subsidiary would not have to keep two parallel sets of accounting records based on different dates of transition to IFRSs. This proposed amendment would also apply to an associate or joint venture that elects to apply the mentioned exemption of IFRS 1.

Amendments to IAS 41 Agriculture (taxation in fair value measurements)

The amendment removes the requirement in paragraph 22 of IAS 41 *Agriculture* to exclude cash flows for taxation when measuring fair value applying IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Unless otherwise stated above the Bank does not expect these new and revised standards and interpretations to have any material impact on the Bank’s financial statements.

5 Interest Income and Expenses

Interest income and expenses were as follows.

	For the 6 months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
<i>Interest income on assets measured at amortized cost</i>		
Due from financial institutions	173,795	159,078
Loans to customers	49	131
Total interest income on financial assets measured at amortized cost	173,844	159,209
<i>Interest income on assets at fair value through other comprehensive income</i>		
On financial assets held for profit or for sale	232,268	235,236
Total interest income on financial assets at fair value through other comprehensive income	232,268	235,236
Total interest income	406,112	394,445
<i>Interest expenses on liabilities at amortized cost</i>		
Due to financial institutions	(4,064)	(2,539)
Lease liabilities	(175)	(108)
Total interest expenses on liabilities at amortized cost	(4,239)	(2,647)
Total interest expenses	(4,239)	(2,647)
Net interest income	401,873	391,798

6 Fee and Commission Income and Expenses

Fee and commission income and expenses were as follows.

	For the 6 months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
<i>Fee and commission income</i>		
Cash and settlement transactions	1,659	1,308
Other fee and commission income	271	235
Total fee and commission income	1,930	1,543
<i>Fee and commission expense</i>		
Money transfer services, including services of payment and settlement systems	(53)	(21)
Cash and settlement services and account maintenance	(1,063)	(720)
Custody services	(849)	(935)
Transactions with foreign currency	(1)	(1)
Other fee and commission expenses	(68)	(131)
Total fee and commission expenses	(2,034)	(1,808)
Total fee and commission income and expenses	(104)	(265)

7 Operating Expenses

Operating expenses were as follows.

	For the 6 months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Staff costs	167,693	164,625
Depreciation	3,994	4,564
Right-of-use asset depreciation	1,609	1,561
Intellectual property license fees	912	538
Communications services	6,707	6,962
Expenses related to fixed assets (maintenance, repairs, disposal)	6,789	4,157
Professional services	8,761	12,076
Advertising and marketing	20	19
Hospitality expenses	277	135
Travel expenses	447	614
Security expenses	4,261	4,106
Data processing payment electronic systems	3,535	3,981
Inventory write-off	2,032	1,757
Insurance	910	1,079
Membership fees	1,657	2,344
Other operating expenses	3,277	2,444
Total operating expenses	212,881	210,962

8 Cash and Cash Equivalents

	30 June 2021 (unaudited)	31 December 2020
Cash	87,747	83,481
Cash balances with the Bank of Russia	145,260	39,948
Balances in correspondent accounts	556,888	339,247
Total cash and cash equivalents	789,895	462,676

Balances in correspondent accounts are recorded at amortized cost calculated in accordance with IFRS 9.

Balances in correspondent accounts as at 30 June 2021 include mainly the balances on accounts with the central (national) banks of member states.

9 Due from Financial Institutions

Funds due from financial institutions are represented by loans (deposits) provided by the Bank to counterparty banks.

	30 June 2021 (unaudited)	31 December 2020
Interbank term loans and deposits	20,281,123	9,559,549
Other funds due from financial institutions	29,757	42,747
Total due from financial institutions before allowance for expected credit losses	20,310,880	9,602,296
Allowance for expected credit losses	(40)	(281)
Total due from financial institutions	20,310,840	9,602,015

Funds due from financial institutions are not secured.

Below is information about the credit quality of due from financial institutions at 30 June 2021 (unaudited).

	Interbank term loans and deposits	Other funds due from financial institutions	Total due from financial institutions
<i>Due from financial institutions:</i>			
- (with the top 20 Russian banks)	19,000,000	17,950	19,017,950
- (with other Russian banks)	808,206	-	808,206
- (with other banks)	472,917	11,807	484,724
Total due from financial institutions before allowance for expected credit losses	20,281,123	29,757	20,310,880
Allowance for expected credit losses	(28)	(12)	(40)
Total due from financial institutions	20,281,095	29,745	20,310,840

Below is information about the credit quality of due from financial institutions at 31 December 2020.

	Interbank term loans and deposits	Other funds due from financial institutions	Total due from financial institutions
<i>Due from financial institutions:</i>			
- (with the top 20 Russian banks)	8,000,565	19,983	8,020,548
- (with other Russian banks)	1,120,282	-	1,120,282
- (with other banks)	438,702	22,764	461,466
Total due from financial institutions before allowance for expected credit losses	9,559,549	42,747	9,602,296
Allowance for expected credit losses	(243)	(38)	(281)
Total due from financial institutions	9,559,306	42,709	9,602,015

The Bank did not place any funds at below-market rates in 2020 and 2021.

10 Financial Assets at Fair Value through Other Comprehensive Income

	30 June 2021 (unaudited)	31 December 2020
<i>Debt financial assets</i>		
Federal bonds of the Russian Federation (OFZ)	2,148,055	2,425,426
Debt securities of other issuers	4,818,588	4,276,492
Total financial assets at fair value through other comprehensive income before allowance for expected credit losses	6,966,643	6,701,918
Allowance for expected credit losses	-	-
Total financial assets at fair value through other comprehensive income	6,966,643	6,701,918

In 2021, the Bank did not invest any funds in financial assets at fair value through other comprehensive income at below-market rates.

The portfolio of federal bonds of the Russian Federation (OFZ) as of 30 June 2021 includes nine issues (2020: nine issues) with the total nominal value of 2,104,910 thousand rubles (2020: 2,248,141 thousand rubles).

As of 30 June 2021, the coupon rate on these bonds is between 4.64% and 7.95%, payable two to four times a year (2020: between 4.79% and 7.95%).

The portfolio of debt securities from other issuers includes bonds issued by Russian and foreign residents with the long-term credit rating of at least BB+ according to Standard and Poor's and (or) at least a similar rating according to Fitch Ratings, with the total nominal value of 4,777,013 thousand rubles (2020: 4,069,385 thousand rubles).

As of 30 June 2021, the coupon rate on these bonds is between 5.7% and 9.15%, payable two to four times a year (2020: 6.0% to 9.15%).

11 Due to Financial Institutions

	30 June 2021 (unaudited)	31 December 2020
Correspondent accounts of other banks	16,107,647	1,415,720
Total due to financial institutions	16,107,647	1,415,720

During 2021, the Bank did not receive any funds from financial institutions at above-market rates.

12 Due to Customers

	30 June 2021 (unaudited)	31 December 2020
<i>Accounts of legal entities</i>		
Current and settlement accounts	5,066,945	8,358,760
Total accounts of legal entities	5,066,945	8,358,760
<i>Accounts of individuals</i>		
Current and demand accounts	19,654	26,822
Total accounts of individuals	19,654	26,822
Total due to customers	5,086,599	8,385,582

12 Due to Customers (continued)

A breakdown of due to customers by industry is given below:

	30 June 2021 (unaudited)		31 December 2020	
	Amount	%	Amount	%
International and public organizations	4,920,237	96.7%	8,295,920	98.9%
Manufacturing	130,000	2.6%	30,736	0.4%
Individuals	19,654	0.4%	26,822	0.3%
Trade and services	16,640	0.3%	13,831	0.2%
Oil, gas and chemical enterprises	53	0.0%	62	0.0%
Finance and investments	10	0.0%	9	0.0%
Transport	4	0.0%	18,186	0.2%
Other	1	0.0%	16	0.0%
Total due to customers	5,086,599	100.0%	8,385,582	100.0%

In 2020 and 2021 the Bank did not receive any funds from customer at above-market rates.

13 Authorized Capital

	30 June 2021 (unaudited)			31 December 2020		
	Nominal value	Inflation-adjusted value	Acquisition cost	Nominal value	Inflation-adjusted value	Acquisition cost
Shares	20,000	212,086		20,000	212,086	
Shares in authorized capital repurchased from members			(1,100)			(1,100)
Total authorized capital	20,000	212,086	(1,100)	20,000	212,086	(1,100)

The Bank was founded by the parties to the Agreement on Foundation of the Interstate Bank signed on 22 January 1993 by the heads of the following member states: the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, Turkmenistan, the Republic of Uzbekistan, and Ukraine.

Votes in the Council of the Bank, its supreme governing body, are distributed among the Bank's members as follows:

Russian Federation – 50% of the total votes; other members – in proportion to the share of each state in the total mutual foreign trade turnover for 1990.

14 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price of a financial instrument quoted on the market.

The estimated fair value of financial instruments was calculated by the Bank based on existing market data (if available) and appropriate valuation techniques. However, professional judgment needs to be used when interpreting market data to determine fair value. Although the Russian Federation has been assigned investment ratings, the country's economy is still characterized by certain specifics typical of developing countries, and its economic conditions continue to restrict the volume of trading on financial markets. Market quotations can be outdated or can reflect sales at low prices and thus cannot be indicative of the fair value of financial instruments. When determining the fair value of financial instruments, the management uses all available market data.

Financial instruments measured at fair value

As of 30 June 2021, fair value is calculated on the basis of observable quoted active market prices (Level 1) except financial assets for amount of 799 492 thousand rubles (2020: 512,075 thousand rubles), for which fair value is calculated on the basis of observable quoted non-active market prices (Level 2).

Financial instruments not measured at fair value but for which the fair value is disclosed

The management believes that, as of 30 June 2021, the fair value of each class of financial assets and liabilities recognized at amortized cost (cash and cash equivalents, due from financial institutions, loans and advances to customers, due to financial institutions, and due to customers) did not differ materially from their respective carrying amounts.

15 Effect of Estimates and Judgements on Recognized Assets and Liabilities

The Bank makes estimates in judgements that affect recognized amounts of assets and liabilities in the next financial year. Estimates and judgments are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses of loans and receivables

The Bank regularly reviews its loan portfolios to assess impairment. In determining whether impairment losses need to be recognized in the statement of profit and loss, the Bank makes professional judgements as to whether there is any objective evidence that the estimated future cash flows for the loan portfolio will decrease before such a decrease can be identified with an individual loan in that portfolio. Such evidence may include data indicating changes in the creditworthiness of the Bank's borrower and national or local economic conditions causing a reduction in the value of the Bank's assets. The Bank uses estimates based both on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used to estimate the amounts and timing of cash flows are reviewed regularly in order to reduce the difference between loss estimates and actual impairment losses.

Initial recognition of related party transactions

In the course of its operations, the Bank enters into related party transactions. In accordance with IFRS 9, financial instruments must be initially recognized at fair value. If there is no active market for such transactions, professional judgments are used in order to determine whether transactions are priced at market or non-market interest rates. The judgment is based on pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Going concern principle

The Bank has prepared these interim condensed financial statements on a going concern basis considering the impact of the COVID-19 pandemic on its financial position.

The Bank believes that significant uncertainty due to the COVID-19 pandemic and increased volatility of Russian and global markets might influence its going concern assessment. Due to unanticipated further change in the situation it is currently impossible to assess the quantitative impact of such developments on the Bank's financial position with reliability and accuracy.

To assess the above impact the Bank used revised data for its financial plans adjusting original forecasts.

When making its judgements, the Bank considered the support measures introduced both by the Government and the Central Bank of Russia and which are effective as of the reporting date.

The Bank believes that it will be able to continue as a going concern despite the significant estimation uncertainty.

15 Effect of Estimates and Judgements on Recognized Assets and Liabilities (continued)

Critical Judgments and Estimates

The management makes certain judgements, estimates and assumptions that affect the amounts of assets, liabilities, income and expenses recognised in the interim condensed financial statements.

The judgements, estimates and assumptions in the interim condensed financial statements, including the most significant areas of estimation uncertainty were adjusted due to the changes in the economic environment.

The actual results could differ from judgements, estimates and assumptions, made by the management and may not coincide with the estimated results.

