SBI Bank LLC

Interim Condensed Financial Statements
For The First Half of the Year Ended 30 June 2019
(unaudited)

SBI Bank LLC

Contents

SBI Bank LLC

Statement of Management's Responsibilities for the Preparation and Approval of the Interim Condensed Financial Statements for the First Half of the Year Ended 30 June 2019
(in thousands of Russian rubles)

The management of SBI Bank Limited Liability Company (hereinafter – the "Bank") is responsible for the preparation of the interim condensed financial statements that present fairly the financial position of the Bank as at 30 June 2019, the results of its operations, cash flows and changes in equity for the first half of the year ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IAS 34;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation ("RF");
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

29 August 2019

Karyakin Andrei Dmitrievich Chairman of the Management Board, Member of the Management Board	Sytenko Vadim Gennadievich Chief Accountant

Общество с ограниченной ответственностью Эс-Би-Ай Банк ОГРН 1037739028678 Москва
SBI Bank Strategic Business Innovator

AO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
deloitte.ru

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To: The Sole Participant of SBI Bank Limited Liability Company

Introduction

We have reviewed the accompanying interim condensed statement of financial position of JSC OTP Bank (the "Bank") as at 30 June 2019 and the related interim condensed statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed financial statements in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed financial statements 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 the interim condensed 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.

Conclusion

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

Material Uncertainty Related to Going Concern

The accompanying financial statements have been prepared based on the assumption that the Bank will continue as a going concern. Note 2 to the financial statements contains information on recurring losses from the Bank's operating activities for the first half of the year ended 30 June 2019 in the amount of RUB 393 521 thousand. The Bank's ability to continue as a going concern in the foreseeable future depends significantly on the support of the sole participant and its ability to carry out activities aimed at improving the Bank's financial position and ensuring the ability to continue as a going concern. The sole participant's and management's plans regarding these circumstances are also disclosed in Note 2 to the financial statements. The financial statements do not include any adjustments that might have resulted from the uncertainty. Our conclusion is not modified in respect of this matter.

Ekaterina Vladimirovna Ponomarenko
Engagement partner

29 August 2019

The Entity: SBI Bank Limited Liability Company

State registration certificate No. 035.102, issued on 30 December 1994.

Primary state registration number: 1037739028678

Address: 125315, Russia, Moscow, 72 Leningradsky av., bld.2, bld.4.

Audit firm: AO Deloitte & Touche CIS

State registration certificate No. 018.482 issued by the Moscow Registration Chamber on 30 October 1992.

Primary state registration number: 1027700425444

Certificate of registration in the Unified State Register of Legal Entities series 77 No. 004840299, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39 on 13 November 2002.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

SBI Bank LLC

Interim Condensed Statement of Financial Position
as at 30 June 2019
(in thousands of Russian rubles)

	Notes	30 June 2019 (unaudited)	31 December 2018
ASSETS			
Cash and cash equivalents	5	1 664 709	3 067 486
Mandatory cash balance with the Central Bank of the RF		24 788	24 833
Due from financial institutions	6	550 778	1 457 273
Loans to customers	7	4 354 827	1 245 085
Investment assets	8	686 114	575 054
Other assets	9	141 495	75 429
Property and equipment and intangible assets	10	425 749	62 244
Non-current assets held for sale	11	485 148	485 148
Total assets		**8 333 608**	**6 992 552**
LIABILITIES			
Due to other banks	12	220	601 779
Customer accounts	13	2 808 669	1 848 502
Subordinated loan	14	1 068 917	1 065 921
Other liabilities	15	465 530	106 865
Total liabilities		**4 343 336**	**3 623 067**
EQUITY			
Share capital	16	1 519 000	1 300 000
Share premium	16	4 112 300	3 331 300
Accumulated losses		(1 650 072)	(1 256 551)
Reserve funds	17	9 044	(5 264)
Total equity	16	**3 990 272**	**3 369 485**
Total liabilities and equity		**8 333 608**	**6 992 552**

29 August 2019

Karyakin Andrei Dmitrievich
Chairman of the Management Board,
Member of the Management Board

Sytenko Vadim Gennadievich
Chief Accountant

Общество с ограниченной ответственностью Эс-Би-Ай Банк ОГРН 1037739028678 Москва SBI Bank Strategic Business Innovator

The notes on pages 9-47 form an integral part of these interim condensed financial statements.

SBI Bank LLC

Interim Condensed Statement of Profit or Loss
for the First Half of the Year Ended 30 June 2019
(in thousands of Russian rubles)

	Notes	First half of the year ended 30 June 2019 (unaudited)	First half of the year ended 30 June 2018 (unaudited)
Interest income	19	317 998	174 559
Interest expenses	19	(94 014)	(51 266)
(Recognition)/recovery of impairment losses on interest-bearing assets	5, 6, 7, 8	(96 892)	25 317
Net interest income		**127 092**	**148 610**
Fee and commission income		36 474	14 830
Fee and commission expenses		(34 645)	(6 679)
Net gain/(loss) from derecognition of financial assets		3 021	(8)
Net gain on foreign exchange operations		32 839	15 075
Gain/(loss) on foreign currency translation		(11 890)	16 951
Other provisions	8, 21	(41 228)	(15 039)
Impairment of non-current assets held for sale		-	(157 157)
Other net income		533	273
Net non-interest expenses		**(14 896)**	**(131 754)**
Operating income		**112 196**	**16 856**
Operating expenses	20	(505 594)	(232 434)
Loss before tax		**(393 398)**	**(215 578)**
Income tax	18	(123)	(225)
Net loss for the period		**(393 521)**	**(215 803)**

29 August 2019

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Interim Condensed Statement of Other Comprehensive Income for the First Half of the Year Ended 30 June 2019
(in thousands of Russian rubles)

	Notes	First half of the year ended 30 June 2019 (unaudited)	First half of the year ended 30 June 2018 (unaudited)
Net loss for the period		**(393 521)**	**(215 803)**
Other comprehensive income			
Movement in investment revaluation reserve for debt instruments at FVTOCI	17	12 815	(3 110)
Movement in credit risk of financial instruments designated at FVTOCI	17	1 493	4 830
Total other comprehensive income		**14 308**	**1 720**
Total comprehensive loss for the period		**(379 213)**	**(214 083)**

29 August 2019

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SBI Bank LLC

Interim Condensed Statement of Changes in Equity
for the First Half of the Year Ended 30 June Ended 30 June 2019
(in thousands of Russian rubles)

	Share capital	Share premium	Reserve funds: Investment revaluation reserve	Reserve funds: Credit risk on financial assets measured at FVTOCI	Other reserves	(Accumulated loss)/ retained earnings	Total
1 January 2018 (as previously reported)	**1 067 132**	**1 383 300**	**-**	**-**	**696 000**	**(1 805 359)**	**1 341 073**
Effect of change in accounting policy for IFRS 9 adoption	-	-	889	41	-	236 462	**237 392**
As restated	**1 067 132**	**1 383 300**	**889**	**41**	**696 000**	**(1 568 897)**	**1 578 465**
Increase in share capital	300 000	1 948 000	-	-	-	-	**2 248 000**
Cover of loss of the current period	-	-	-	-	(696 000)	696 000	**-**
Elimination of share capital inflation	(67 132)	-	-	-	-	67 132	**-**
Loss for the period (unaudited)	-	-	-	-	-	(215 803)	**(215 803)**
Other comprehensive income for the period, net of income tax							
Fair value movements of debt instruments at FVTOCI (unaudited)	-	-	(3 110)	-	-	-	**(3 110)**
Provision for impairment losses of investment assets (unaudited)	-	-	-	4 830	-	-	**4 830**
Total other comprehensive income for the period (unaudited)	**-**	**-**	**(3 110)**	**4 830**	**-**	**-**	**1 720**
30 June 2018 (unaudited)	**1 300 000**	**3 331 300**	**(2 221)**	**4 871**	**-**	**(1 021 568)**	**3 612 382**
1 January 2019	**1 300 000**	**3 331 300**	**(7 909)**	**2 645**	**-**	**(1 256 551)**	**3 369 485**
Increase in share capital (unaudited)	219 000	781 000	-	-	-	-	**1 000 000**
Loss for the period (unaudited)	-	-	-	-	-	(393 521)	**(393 521)**
Other comprehensive income for the period, net of income tax							
Fair value movements of debt instruments at FVTOCI (unaudited)	-	-	12 815	-	-	-	**12 815**
Provision for impairment losses of investment assets (unaudited)	-	-	-	1 493	-	-	**1 493**
Total other comprehensive income for the period (unaudited)	**-**	**-**	**12 815**	**1 493**	**-**	**-**	**14 308**
As at 30 June 2019 (unaudited)	**1 519 000**	**4 112 300**	**4 906**	**4 138**	**-**	**(1 650 072)**	**3 990 272**

29 August 2019

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SBI Bank LLC

Interim Condensed Statement of Cash Flows
for the First Half of the Year Ended 30 June Ended 30 June 2019
(in thousands of Russian rubles)

	Notes	First half of the year ended 30 June 2019 (unaudited)	First half of the year ended 30 June 2018 (unaudited)
Cash flows from operating activities			
Interest received		312 024	192 311
Interest paid		(70 015)	(24 342)
Receipts from/(payment for) financial assets at FVTPL		172	(9)
Receipts from trading in foreign currencies		31 441	15 075
Fees and commissions received		57 977	14 830
Fees and commissions paid		(34 645)	(6 679)
Other operating income received		116	367
Administrative and other operating expenses paid		(449 424)	(227 187)
Income tax paid		(165)	(225)
Cash flows (used in) operating activities before changes in operating assets and liabilities		**(152 519)**	**(35 859)**
Changes in operating assets and liabilities			
Net decrease/(increase) in cash balances with the Central Bank of the RF		45	8 426
Net decrease/(increase) in trading assets		-	50 923
Net (decrease)/increase in deposits with banks		897 361	(7 940)
Net decrease/(increase) in loans to customers		(3 200 977)	226 495
Net decrease/(increase) in other assets		(74 529)	(40 274)
Net decrease/(increase) in deposits of other banks		(601 201)	81
Net decrease/(increase) in customer accounts		1 019 970	(721 774)
Net (decrease)/increase in other liabilities		(19 813)	1 004
Net cash (used in) operating activities		**(2 131 663)**	**(518 918)**
Cash flows from investing activities			
Purchase of investments securities		(258 598)	(445 579)
Proceeds from disposal and redemption of investments securities		139 091	-
Purchase of property and equipment and intangible assets		(64 508)	(8 472)
Net cash (used in) investing activities		**(184 015)**	**(454 051)**
Cash flows from financing activities			
Contributions to share capital		1 000 000	300 000
Other shareholder's contributions		-	1 948 000
Subordinated loan received		-	1 037 600
Total cash outflows on lease commitments		(47 845)	-
Net cash (from) financing activities		**952 155**	**3 285 600**
Effect of exchange rate changes on cash balances		(39 964)	27 501
Net (decrease) / increase in cash and cash equivalents		**(1 403 487)**	**2 340 132**
Cash and cash equivalents, beginning of the period	5	3 067 486	2 305 959
Cash and cash equivalents, end of the period	5	1 663 999	4 646 091

29 August 2019

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(in thousands of Russian rubles, unless otherwise indicated)

1. Organization

SBI Bank Limited Liability Company (prior to 6 March 2018 – Limited Liability Company Commercial Bank "YAR Bank") (hereinafter – the "Bank") is a limited liability company registered in the Russian Federation in 1994. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under general license number 3185.

The Bank's principal business activity is corporate and investment and retail banking operations within the Russian Federation. Corporate and investment and banking operations include raising loans, granting commercial loans, foreign exchange transactions, bank guarantees and securities transactions. The Bank is covered by the federal government's deposit insurance scheme introduced by Russian Federal Law No. 177-FZ *Insurance of Individual's Bank Deposits in the Russian Federation* dated 23 December 2003. The state deposit insurance scheme guarantees reimbursement of 100% for insured deposit not exceeding RUB 1 400 thousand for each individual in case of revocation of the banking license and moratorium on payments declared by the CBR.

The Bank's legal and business address as at the reporting date is: 125315, Russian Federation, Moscow, 72 Leningradsky av., bldg. 4, bldg. 2 (for transactions with valuables).

As at 30 June 2019 and 31 December 2018 the Bank had the following participants:

	30 June 2019	**31 December 2018**
SBI Holdings, Inc.	100 %	100 %
Total	**100 %**	**100 %**

SBI Holdings, Inc. is the sole participant of SBI Bank LLC with 100% stake.

SBI Holdings, Inc. is a large financial group specializing in the implementation and development of Internet technologies, which operates in such areas as asset management, brokerage operations, investment banking, financial services, real estate operations, development of system software solutions.

SBI Holdings, Inc. is a large international corporation with offices and representative offices in many countries of the world, mainly in Asia (Singapore, Malaysia, Hong Kong, China, South Korea, etc.). The company is headquartered in Japan.

The Bank does not have any branches. The Bank's financial statements are available on the Bank's website (www.SBIbankLLC.ru).

(in thousands of Russian rubles, unless otherwise indicated)

2. Basis of preparation

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

These interim condensed financial statements are unaudited.

These interim condensed financial statements do not include all the information and disclosures required in the annual financial statements. Therefore these interim condensed financial statements should be read in conjunction with the Bank's annual financial statements as at 31 December 2018.

The Bank omitted disclosures, which would substantially duplicate the information contained in its audited annual financial statements for 2018 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts, which have not changed significantly in amount or composition.

As the Bank's performance is closely related and responsive to changes in market conditions, the performance of the Bank for an interim period is not necessarily indicative of the performance that can be expected for the year.

Income tax expense is recognized in these interim condensed financial statements based on the management's best estimates of the weighted average effective income tax rate expected for the full financial year. Expenses incurred unevenly during the financial year should be projected or carried over for interim reporting purposes only where it is possible to project or carry over such expenses as at the end of the financial year.

These financial statements are presented in thousand of Russian Rubles ("RUB thousand"), unless otherwise indicated.

Foreign currencies (in particular, USD and EUR) are important for bank transactions carried out in the Russian Federation. RUB/USD and RUB/EUR exchange rates used by the Bank to recalculate balances denominated in respective foreign currency were as follows:

	30 June 2019	**31 December 2018**
Closing exchange rates		
1 US Dollar ("USD")	63.0452	69.4706
1 EUR	71.6635	79.4605

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue to operate for the foreseeable future.

During the first half of the year ended 30 June 2019 the Bank operated in accordance with the updated Strategy approved for the 2019-2023 period and adopted by the Board of Directors on 21 February 2019 (approved by the Minutes of the Board of Directors No. 02/19 of 21 February 2019).

In July 2019, ACRA affirmed the rating at BBB- (RU), with Stable outlook. Therefore, the Bank is still capable to operate on the market of bank guarantees, including "express guarantees" issued under Federal Law No. 44-FZ *On the Contract System for State and Municipal Procurement of Goods, Work, and Services* of 5 April 2013; No. 223-FZ *On Purchasing Goods, Work, and Services by Certain Types of Legal Entities* of 18 July 2011.

The Bank's loss as at the end of 1H 2019 was RUB 393 521 thousand.

The Bank's planned indicators as at the end of 1H 2019 were achieved.

2. Basis of preparation (continued)

Taking into account the results of a comprehensive analysis of the development of business areas and service functions, including information technologies, the Bank decided to update the Bank's Development Strategy in terms of revising the Bank's scenario parameters, updating strategic goals and objectives, adjusting financial and non-financial indicators, and clarifying the mechanisms for implementing the Strategy on the planning horizon of 2019-2023.

The Bank's development strategy for 2019–2023, as a general commercial bank providing a full range of financial services, implies the dynamic development of corporate business focused on supporting medium and small businesses, servicing large businesses and developing retail businesses, using direct and distance interaction channels, innovative client services implemented in cooperation with financial technologies companies.

However, the strategy provides for planned unprofitable activities for the period from 2019 to 2020 and the assistance of the participant (raising additional investments and funding) with the achievement of a break-even at the end of 2020, which certifies to a significant uncertainty with regard to the Bank's going concern.

In 2019 SBI Holdings, Inc. decided on an additional capital contribution of RUB 1 000 million, as well as on the conversion of a subordinated loan into capital in amount of RUB 1 037 million.

On 31 May 2019 SBI Holdings, Inc. contributed RUB 219 000 thousand to the Bank's share capital and RUB 781 000 thousand to the share premium increase. On 8 July 2019 SBI Holdings, Inc. converted a subordinated loan into the Bank's share capital in the amount of RUB 227 000 thousand and into the share premium in the amount of RUB 810 600 thousand. As at the date of signing these financial statements all the changes in the share capital were registered.

When planning the development of corporate business for 2019 – 2023, the Bank focuses on attracting customers from small and medium-sized businesses (SMEs) and rendering comprehensive services to them, as well as large businesses, including comprehensive service of Russian-Japanese business companies.

While working with corporate clients of the SME segment, the Bank first of all focuses on:

- Creating a modern high-tech digital bank for small and medium-sized businesses.
- Customer service throughout the Russian Federation through remote channels (primarily the Internet and Mobile platforms).
- The primary focus is on the cities with a population of more than 100 thousand people.
- Ensuring the work of remote client services in 24x7 mode.
- Formation of a general product range, which includes both the Bank's own "express products" and partners' products.

Attracting customers of small and medium-sized businesses will be carried out through remote channels (including the Internet), as well as through partnerships with electronic trading platforms, marketplaces, agents and brokers. Taking into account these factors, the growth of the retail business in 2019 is assumed to be of a smooth nature, as long as the terms of services, suggested by the Bank are brought to the current market level. At the same time, locomotive offers will be "family" cards, accounts and deposits, which are the leading products in the package offer for a retail consumer within the "Family Bank". Also in 2019 a smooth growth of the retail loan portfolio is planned.
The Bank's retail business development model is focused on creating a digital platform that enables customers to use classic banking products, payment services and commission services.

The main task facing the Bank for the period 2019-2023 is the formation of a full-fledged package of classic banking and transactional products, infrastructure of attraction, maintenance, interactive cooperation with customers. The main channel for promotion of banking products for individuals will be remote digital channels.

2. Basis of preparation (continued)

The Bank plans to achieve strategic goals based on a balanced structure of assets and liabilities operations, complying with regulatory and supervisory requirements, the legislation of the Russian Federation and the Bank's effective risk management system. As for placement of funds, the main activities will include increasing profitability and growing the loan portfolio, provided that the acceptable level of credit risks is not exceeded. The Bank will use conservative approaches to lending, due to the high level of uncertainty in the external environment, as well as the possible tightening of regulatory requirements for the reliability of credit institutions.

3. Significant accounting policies

In preparation of these interim condensed financial statements the Bank followed the same accounting, presentation and calculation guidelines as in preparation of its financial statements for the year ended 31 December 2018, except for the below new standards applied as of 1 January 2019. The nature and impact of these amendments are disclosed below. The Bank did not early adopt any other standards, interpretations or amendments that have been issued but are not yet effective.

The following abbreviations have been used in these financial statements:

- FVTOCI refers to fair value through other comprehensive income;
- FVTPL refers to fair value through profit or loss;
- ECL refers to expected credit losses.

New and revised IFRSs in issue but not yet effective:

- IFRS 17 *Insurance Contracts*, effective as of 1 January 2021.
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, the effective date will be defined by the IASB.
- Amendments to IFRS 3 *Definition of Business*, effective as of 1 January 2020.
- Amendments to IAS 1 and IAS 8 *Definition of Materiality*, effective as of 1 January 2020.

Standards and interpretations effective from 1 January 2019:

- IFRS 16 *Leases;*
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation;*
- Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures*;
- Annual Improvements to IFRSs 2015-2017 Cycle; Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 *Remeasurement at a Plan Amendment, Curtailment or Settlement*;
- IFRIC 23 *Uncertainty Over Income Tax Treatments.*

The Bank's management considered the above mentioned standards and interpretations. However, except for IFRS 16 *Leases*, they did not have any material impact on the Bank's financial statements.

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

IFRS 16 *Leases*. This standard establishes principles for recognition, measurement, disclosure, presentation, and disclosure of information regarding lease contracts. All lease contracts provide for the right to use an asset by a lessee as from the effective date of a lease contract, as well as for payment liability, if lease payments are made during a certain period. Thus, this standard does not classify leases as operating or finance leases (as opposed to IAS 17) and introduces a single, on-balance lease sheet accounting model for lessees. The Bank applied this Standard using a modified retrospective approach without recalculation of comparatives. The Bank recognized the right-of-use assets in the amount of RUB 349 075 thousand and a respective lease liability as at 1 January 2019. The reconciliation of operating lease liabilities with lease liability recognized in accordance with IFRS 16 included:

	1 January 2019 (unaudited)
Operating lease liabilities as at 31 December 2018 disclosed in the Bank's financial statements	544 640
Practical exception: variable lease payments	(129 833)
Future lease payments accepted for IFRS 16 purposes	**414 807**
Effect of discounting	(65 732)
Lease liabilities under IFRS 16	**349 075**
Right-of-use assets under IFRS 16	**349 075**

Right-of-use assets and lease liabilities. As at 1 January 2019, lease is recognized as a right-of-use asset and a relevant liability as at the date when the asset becomes available for use by the Bank. Each lease payment is allocated between the liability and finance expenses. Finance expenses are included in profit or loss during the lease term in order to ensure constant periodic interest rate for the remaining lease liability for each period. Depreciation of the right-of-use asset is accrued based on a straight-line method during the useful life of the asset or a lease term, depending on which is shorter.

The right-of-use assets are included in *Property and equipment and intangible assets* line item of the statement of financial position; lease liabilities are included in *Other liabilities* line item of the same statement. Finance expenses are included in *Interest expenses, calculated based on the effective interest method, related to financial liabilities not measured at FVTPL* in a separate statement of profit and loss; depreciation of the right-of-use assets is disclosed in *Other operating expenses* line item of the separate statement of profit and loss. Total cash outflows on lease commitments are disclosed in *Cash from financing activities* section in a separate statement of cash flows.

Lease assets and liabilities are initially measured at present value. Lease liabilities include net present value of the following lease payments:

- fixed payments (including direct fixed payments) less any lease incentives receivable under revocable and irrevocable operating lease;
- variable lease payments that depend on a price index or an interest rate;
- amounts that, as expected, will be paid by lessees under residual value guarantees;
- the exercise price of a purchase option if a lessee is reasonably certain to exercise that option; and
- payments of penalties for early termination of the lease, if the lease term reflects the lessee exercising an option to early terminate the lease.

3. Significant accounting policies (continued)

The right-of-use assets are measured at initial cost that includes the following components:

- Initial cost of lease liability;
- Any lease payments made before or at the lease commencement date less any received lease incentives;
- Any initial direct costs incurred by a lessee; and
- Estimates costs for restoration and dismantling.

Lease payments are discounted at the interest rate implicit in the lease. Should there be no such a rate, the Bank will use the incremental borrowing rate which is a rate that a lessee will have to pay in order to raise funds needed to obtain an asset of similar value under similar terms and conditions and economic environment.

Payments for low value assets are recognized on a straight-line basis as expenses included in profit or loss.

4. Critical accounting judgments and key sources of estimation uncertainty

When preparing these interim condensed financial statements in accordance with IAS 34, the management is required to make judgments, estimates and assumptions that have an impact on application of policies and on reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and are used as a basis to make judgments with regard to the carrying value of assets and liabilities, as well as on the information about current circumstances and transactions available to the management; actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing this interim condensed financial information, the significant judgements made by management in applying the Bank’s accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Bank’s annual financial statements for 2018 prepared in accordance with IFRS, except the new accounting standards.

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank’s continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of relevant assets.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Significant increase in credit risk. ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to Note 25 for more details.

Establishing groups of assets with similar credit risk characteristics. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Further details about the characteristics considered within the relevant judgment are given in Note 25. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used. The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 25 for more details on ECL and Note 23 for more details on fair value measurement.

Key sources of estimation uncertainty. The following are key estimations that the management has used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 25 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward-looking information.
- Probability of default (PD). PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 25 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. Refer to Note 23 for more details on fair value measurement.

(in thousands of Russian rubles, unless otherwise indicated)

5. Cash and cash equivalents

	30 June 2019 (unaudited)	**31 December 2018**	**30 June 2018 (unaudited)**
Balances with the Central Bank of the Russian Federation	1 010 919	2 785 241	4 364 545
Correspondent accounts and time deposits with original maturities up to 30 days	552 241	164 810	198 456
Cash on hand	101 599	117 462	83 090
Total cash and cash equivalents before provision	**1 664 759**	**3 067 513**	**4 646 091**
Less impairment allowance	(50)	(27)	(111)
Total cash and cash equivalents	**1 664 709**	**3 067 486**	**4 645 980**
Allowance for expected credit losses	50	-	111
Accrued interest on cash and cash equivalents	(760)	-	-
Cash and cash equivalents for the purposes of the statement of cash flows	**1 663 999**	**3 067 486**	**4 646 091**

As at 31 December 2018, balances with the CBR include cash placed with the CBR with maturity of up to 9 January 2019 of RUB 2 725 000 thousand at the rate of 6.75% to 7.71% per annum, as well as accrued interest and amount on the correspondent account totaling RUB 60 241 thousand.

As at 30 June 2019, balances with the CBR include cash placed with the CBR with maturity of up to 3 July 2019 of RUB 900 000 thousand at the rate of 7.45% per annum, as well as accrued interest and amount on the correspondent account totaling RUB 110 919 thousand.

As at 30 June 2019, correspondent accounts and term deposits with original maturities up to 30 days include USD cash placed with Raiffeisenbank JSC until 1 July 2019 at 2.1% per annum and EUR cash placed with Sovkombank PJSC until 1 July 2019 at 0.1% per annum. As at 31 December 2018, correspondent accounts and term deposits with original maturities up to 30 days include only cash balances on correspondent accounts.

Movements in the ECL allowance for the first half of the year ended 30 June 2019 and 2018 comprised the following:

	First half of the year ended 30 June 2019 (unaudited)	**First half of the year ended 30 June 2018 (unaudited)**
Allowance for ECL as at the beginning of the reporting period	**27**	**43**
Allowances during the reporting period	23	68
Allowance for ECL as at the end of the reporting period	**50**	**111**

Note 25 provides for disclosure of changes in the impairment allowance, including the effect of the change in the carrying value of the financial instrument for the amount of the allowance for the first half of the year ended 30 June 2019 and 2018.

(in thousands of Russian rubles, unless otherwise indicated)

6. Due from financial institutions

	30 June 2019 (unaudited)	31 December 2018
Accounts receivable under repurchase agreements	522 611	1 230 230
Accounts for settlements with plastic cards	24 724	20 145
Time deposits with banks exceeding 30 days	-	202 630
Other accounts with financial institutions	3 739	4 540
Total due from financial institutions before allowance	**551 074**	**1 457 545**
Less impairment allowance	(296)	(272)
Total due from financial institutions	**550 778**	**1 457 273**

Accounts receivable under repurchase agreements include receivables from transactions with the Central Counterparty National Clearing Centre CJSC (CCP NCC) maturing on 1 July 2019 at the rate of 7.36% to 7.75% per annum. Fair value of securities received under repurchase transactions was RUB 550 487 thousand (2018: RUB 1 357 331 thousand). Securities received under repurchase transactions were federal loan bonds (OFZ) of RUB 128 912 thousand and corporate bonds of RUB 421 575 thousand (2018: OFZ of RUB 233 519 thousand and subfederal bonds of RUB 1 123 812 thousand).

Movements in the ECL allowance for the first half of the year ended 30 June 2019 and 2018 comprised the following:

	First half of the year ended 30 June 2019 (unaudited)	First half of the year ended 30 June 2018 (unaudited)
Allowance for ECL as at the beginning of the reporting period	**272**	**612 172**
Charge of/(reversal of) the allowance during the reporting period	24	(178)
Debt transfer from loans to financial institutions to loans to customers	-	(611 610)
Allowance for ECL as at the end of the reporting period	**296**	**384**

Note 25 provides for disclosure of changes in the impairment allowance, including the effect of the change in the carrying value of the financial instrument for the amount of the allowance for the first half of the year ended 30 June 2019 and 2018.

(in thousands of Russian rubles, unless otherwise indicated)

7. Loans to customers

As at 30 June 2019, loans to customers comprised of 90% corporate customers and 10% retail customers. All the loans were accounted for at amortized cost.

	30 June 2019 (unaudited)	31 December 2018
Corporate loans	5 839 087	3 016 539
Retail loans	633 771	275 496
Total gross loans to customers	**6 472 858**	**3 292 035**
Less impairment allowance	(2 118 031)	(2 046 950)
Total loans to customers	**4 354 827**	**1 245 085**

In the reporting period the Bank restructured an individual loan receivable for the total amount of RUB 3 000 thousand, and created a 100% provision for it. As at 30 June 2019, loan receivable include loans under revised terms and conditions (including novation) for the total amount of RUB 1 858 955 thousand. A 100% provision was created for that loan receivable.

As at 31 December 2018, loans to customers which terms were renegotiated include loans of RUB 1 866 512 thousand (including novation).

Movements in the ECL allowance for the first half of the year ended 30 June 2019 and 2018 comprised the following:

	First half of the year ended 30 June 2019 (unaudited)	First half of the year ended 30 June 2018 (unaudited)
Allowance for ECL as at the beginning of the reporting period	**2 046 950**	**1 495 721**
Charge/(reversal) of the allowance during the reporting period	95 352	(30 037)
Debt transfer from loans to financial institutions to loans to customers	-	611 610
Assets written off during the reporting period as uncollectible	(24 271)	-
Allowance for ECL as at the end of the reporting period	**2 118 031**	**2 077 294**

Note 25 provides for disclosure of changes in the impairment allowance, including the effect of the change in the carrying value of the financial instrument for the amount of the allowance for the first half of the year ended 30 June 2019 and 2018.

(in thousands of Russian rubles, unless otherwise indicated)

8. Investment assets

Investment assets line item includes financial instruments, in particular equity securities recognized at FVTOCI. As at 30 June 2019, investment assets comprised the following debt instruments:

	30 June 2019 (unaudited)	31 December 2018
Corporate bonds	403 565	391 681
Bonds issued by credit institutions	108 896	-
Corporate Eurobonds	75 896	119 415
Credit institution Eurobonds	74 966	-
Federal Loan Bonds (OFZ)	22 791	22 387
Sovereign eurobonds	-	41 571
Total investment assets	**686 114**	**575 054**

As at 30 June 2019, corporate bonds are interest-bearing securities denominated in RUB issued by large Russian companies and publicly traded in the Russian market. Those bonds have maturity from December 2020 to September 2026, the coupon rates are from 8.15% to 13.1% per annum in RUB depending on the issue.

As at 30 June 2019, corporate eurobonds are interest-bearing securities denominated in EUR. Eurobonds mature in May 2021, the coupon rate is 3.37% per annum. As at 31 December 2018, corporate eurobonds are interest-bearing securities denominated in EUR and USD. Eurobonds in USD mature in July 2021, the coupon rate is 5.95% per annum. Eurobonds in EUR mature in May 2021, the coupon rate is 3.37% per annum.

Credit institution eurobonds are interest-bearing securities as at 30 June 2019, denominated in EUR, maturing in February 2024, and bearing the coupon rate of 5.15% per annum in EUR.

As at 30 June 2019, credit institution bonds are interest-bearing securities denominated in RUB issued by large Russian banks and publicly traded in the Russian market. Bonds mature in March 2029 (inclusive), bearing the coupon rate of 9.25% per annum.

As at 30 June 2019 and 31 December 2018, Federal Loan Bonds (OFZ) are interest-bearing bonds denominated in RUB, maturing in August 2021 with the coupon rate of 7.5% per annum.

As at 31 December 2018, sovereign eurobonds are interest-bearing securities denominated in USD issued by the Ministry of Finance of the Russian Federation. Eurobonds mature on 27 May 2026, the coupon rate is from 4.75% per annum. As at 30 June 2019, the above securities were sold.

Movements in the ECL allowance for the first half of the year ended 30 June 2019 and 2018 comprised the following:

	First half of the year ended 30 June 2019 (unaudited)	First half of the year ended 30 June 2018 (unaudited)
Allowance for ECL as at the beginning of the reporting period	**2 645**	**41**
Charge of the allowance during the reporting period	1 493	4 830
Allowance for ECL as at the end of the reporting period	**4 138**	**4 871**

Note 25 provides for disclosure of changes in the impairment allowance, including the effect of the change in the carrying value of the financial instrument for the amount of the allowance for the first half of the year ended 30 June 2019 and 2018.

(in thousands of Russian rubles, unless otherwise indicated)

9. Other assets

Other assets comprised the following:

	30 June 2019 (unaudited)	31 December 2018
Other financial assets		
Outstanding settlements	32 026	2 974
Security deposits	23 758	-
Other non-financial assets		
Advances paid	83 468	55 789
Commission for banking services	2 708	-
Advances to employees	600	27
Others	1 548	16 639
Total other assets before allowance	**144 108**	**75 429**
Less impairment allowance	(2 613)	**-**
Total other assets	**141 495**	**75 429**

As at the reporting date, the Bank created an allowance of RUB 2 613 thousand for estimated credit losses related to security deposits. The Bank allocated this asset to the Stage 1. Movements in allowance are attributable to the change in relevant credit risk.

10. Property and equipment and intangible assets

	Office and computer equipment	Other property and equipment	Lease	Software licenses	Total
Initial cost					
31 December 2018	**30 312**	**13 909**	**-**	**91 413**	**135 634**
Additions	11 634	1 374	349 075	51 500	413 583
Disposals	-	-	-	-	-
30 June 2019 (unaudited)	**41 946**	**15 283**	**349 075**	**142 913**	**549 217**
Accumulated depreciation/ amortization and impairment					
31 December 2018	**(29 315)**	**(11 848)**	**-**	**(32 227)**	**(73 390)**
Depreciation charge	(383)	(1 140)	(38 502)	(10 053)	(50 078)
Disposals	-	-	-	-	-
30 June 2019 (unaudited)	**(29 698)**	**(12 988)**	**(38 502)**	**(42 280)**	**(123 468)**
Net book value					
31 December 2018	**997**	**2 061**	**-**	**59 186**	**62 244**
30 June 2019 (unaudited)	**12 248**	**2 295**	**310 573**	**100 633**	**425 749**

As at 30 June 2019 and 31 December 2018, property and equipment included fully depreciated items of RUB 41 251 thousand and RUB 33 766 thousand, respectively.

(in thousands of Russian rubles, unless otherwise indicated)

11. Non-current assets held for sale

As at 30 June 2019 (unaudited):

31 December 2018	**485 148**
Property received	-
Property sold	-
Impairment	-
30 June 2019 (unaudited)	**485 148**

As at 30 June 2018 (unaudited):

31 December 2017	**642 958**
Impairment	(157 157)
30 June 2018 (unaudited)	**485 801**

The real estate properties held for sale were recorded at fair value in the amount of the borrower's (debtor's) terminated obligations under the lending agreements.

The Bank's management approved a sales plan and the Bank started the process of active marketing of repossessed assets in order to sell them within 12 months starting from the date of their classification into the category of the assets received through repossession of collateral.

The Bank takes active measures to sell these assets and has a firm intention to sell them in the foreseeable future.

The Bank uses the valuation performed by independent appraisers as the fair value of its properties based on the analysis of the real estate market situation and prospects for its development. The valuation was performed in September 2018 using the market approach. During first half of the year ended 30 June 2018 the reason for recognizing impairment of non-current assets held for sale was the independent appraiser's report prepared in the period from December 2017 to March 2018.

In the period from the reporting date to the date of the authorization of these financial statements, the Bank did not sell any non-current assets.

12. Due to other banks

	30 June 2019 (unaudited)	31 December 2018
Accounts for settlements with plastic cards	220	292
Accounts receivable under repurchase agreements	-	600 386
Settlements on treasury transactions	-	1 101
Total due to other banks	**220**	**601 779**

As at 31 December 2018, the amount due to other banks included funds received under repurchase agreements of RUB 600 386 thousand. Fair value of securities pledged as collateral under repurchase agreements was RUB 667 552 thousand.

(in thousands of Russian rubles, unless otherwise indicated)

13. Customer accounts

Customer accounts comprised the following:

	30 June 2019 (unaudited)	31 December 2018
Legal entities		
- Current/settlement accounts	992 778	619 230
- Term deposits	383 947	371 492
Individuals		
- Term deposits	1 174 261	255 600
- Current/demand accounts	257 683	602 180
Total customer accounts	**2 808 669**	**1 848 502**

Economic sector concentrations within customer accounts are as follows:

	30 June 2019 (unaudited)		31 December 2018	
	Amount	%	Amount	%
Individuals	1 431 944	50.98%	857 781	46.40%
Trade and services	1 029 512	36.65%	645 918	34.94%
Finance and investments	154 632	5.51%	181 931	9.84%
Manufacturing	98 516	3.51%	52 089	2.82%
Construction	50 554	1.80%	25 443	1.38%
Non-profit entities	27 169	0.97%	9 929	0.54%
Transportation	8 672	0.31%	7 480	0.40%
Publishing	1 977	0.07%	32 755	1.77%
Charity	657	0.02%	798	0.04%
Timber and woodworking industry	-	0.00%	477	0.03%
Communication and telecommunications	-	0.00%	4	0.00%
Other	5 036	0.18%	33 897	1.83%
Total customer accounts	**2 808 669**	**100%**	**1 848 502**	**100%**

14. Subordinated loan

During the first half of the year ended 30 June 2018, the Bank attracted from the participant a subordinated loan in the amount of RUB 1 037 600 thousand until 2023. The subordinated loan has a floating interest rate of MosPrime 6M + 0.35%. As at 30 June 2019, the interest rate was 8.44% (as at 30 June 2018 – 7.7%). The proceeds were used to strengthen the Bank’s capital (Basel III). Accrued interest as at the reporting date amounted to RUB 31 317 thousand.

There were no repayments of subordinated loan during the reporting period.

On 8 July, in accordance with the resolution of the Bank’s sole participant (SBI Holdings, Inc.) and based on the CBR authorization, the Bank converted the subordinated loan into its equity in the amount of RUB 1 037 600 thousand, including RUB 227 000 thousand into the increase of the share capital and RUB 810 600 thousand into the increase of the share premium.

(in thousands of Russian rubles, unless otherwise indicated)

15. Other liabilities

	30 June 2019 (unaudited)	31 December 2018
Other financial liabilities		
Lease liability	313 883	-
Commissions received on guarantees	71 814	35 915
Provision for financial guarantee contracts	49 128	10 524
Payables to personnel on unused vacations	20 204	15 526
Settlements on other transactions	-	34 331
Other non-financial liabilities		
Tax expenses	7 172	6 020
Allowance for credit commitments	3 325	3 314
Deposit insurance liability	-	1 235
Other	4	-
Total other liabilities	**465 530**	**106 865**

16. Share capital

On 28 April 2018, the decision of the participant was to partially cover the loss received as a result of the financial activities of the Bank in 2017 with the funds from the former participant of the Bank, which were donated in 2016 in order to increase the net assets of the Bank totaling RUB 696 000 thousand.

On 25 May 2018, the general meeting of a single participant approved the increase in the authorized capital of RUB 300 000 thousand and in share premium by RUB 1 948 000 thousand.

On 17 May 2018, by the decision of the participant, it was decided to transfer the effect of hyperinflation of the authorized capital of RUB 67 132 thousand into retained earnings.

The Bank's sole participant made a decision (Minutes of the meeting No.03/19 of 10 May 2019) to increase the equity by contributing additionally RUB 1 bln.

Relevant legal procedures were completed on 16 August 2019.

17. Reserve funds

Reserve funds represent cumulative gains and losses arising on revaluation of financial assets at FVTOCI that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of, as well as cumulative losses from impairment of such assets.

	First half of the year ended 30 June 2019 (unaudited)	First half of the year ended 30 June 2018 (unaudited)
Beginning of the period	**(5 264)**	**-**
Total IFRS 9 adoption, including:	-	930
- investment revaluation reserve	-	889
- credit risk on financial assets measured at FVTOCI	-	41
- change in the investment revaluation reserve	12 815	(3 110)
- change in credit risk for financial instruments measured at FVTOCI	1 493	4 830
End of the period	**9 044**	**2 650**

(in thousands of Russian rubles, unless otherwise indicated)

18. Income tax

As at 30 June 2019, income tax expenses comprised only expenses related to tax on securities of RUB 123 thousand (as at 30 June 2018: RUB 225 thousand). In accordance with the approved Strategy (see Note 2) the Bank performs planned unprofitable activities. Income tax expenses are not incurred except for the mentioned above.

Russian legal entities must submit income tax return and pay taxes to the relevant tax authorities. In 2019, current income tax rate is 20% (in 2018: 20%). The Bank also pays 15% income tax on securities transactions (in 2018: 15%).

19. Net interest income

	First half of the year ended 30 June 2019 (unaudited)	**First half of the year ended 30 June 2018 (unaudited)**
Interest income on loans to customers	199 591	74 464
Interest income on the balances with the CBR	70 910	91 144
Interest income on investment securities	24 640	8 057
Interest income on dues from credit organizations	22 780	-
Interest income on balances with correspondent accounts	77	-
Interest income on trading assets	-	894
Total interest income	**317 998**	**174 559**
Interest expenses on subordinated loan	(44 685)	(26 924)
Interest expenses on term deposits of individuals	(27 173)	(16 370)
Interest expense on lease obligations	(12 653)	
Interest expence on Customer accounts	(6 270)	(7 824)
Interest expenses on balances with settlement/current accounts	(2 060)	-
Interest expenses on dues from credit organizations	(1 173)	(148)
Total interest expense	**(94 014)**	**(51 266)**
Net interest income	**223 984**	**123 293**

During the first half of the year ended 30 June 2019, total interest income for financial assets at amortized cost amounted to RUB 293 358 thousand (for the first half of the year ended 30 Juneof 2018: RUB 165 608 thousand). During the first half of the year ended 30 June 2019, total interest income for financial assets at fair value amounted to RUB 24 640 thousand (for the first half of the year ended 30 June of 2018: RUB 8 951 thousand).

During the first half of the year ended 30 June 2019, total interest expense for financial liabilities at amortized cost amounted to RUB 94 014 thousand (for the first half of the year ended 30 June of 2018: RUB 51 266 thousand). All the accrued interest income/expenses were calculated using the effective interest rate.

(in thousands of Russian rubles, unless otherwise indicated)

20. Operating expenses

	First half of the year ended 30 June 2019 (unaudited)	**First half of the year ended 30 June 2018 (unaudited)**
Payroll and bonuses	244 568	107 319
Telecommunications	62 778	20 418
Unified social tax	58 681	26 275
Amortization of right-of-use assets	38 502	-
Professional service	24 674	2 047
Advertising expenses	18 440	4 925
Taxes, other than income tax	15 763	9 843
Depreciation/amortization and expenses from the write-off of property and equipment and intangible assets	11 576	5 227
Write-off of inventories	7 822	2 544
Maintenance of premises	3 883	8 559
Recruitment expenses	3 618	4 602
Operating leases	2 801	28 224
Audit services	2 744	4 140
Security	2 663	2 389
Payments to the deposit insurance fund	2 158	1 295
Transportation expenses	1 259	2 083
Membership in organizations	1 172	-
Legal and notary	674	-
Travel expenses	239	562
Business entertainment expenses	90	225
Other expenses	1 489	1 757
Total operating expenses	**505 594**	**232 434**

21. Contingencies

Credit liabilities. As at 30 June 2019 and 31 December 2018, contingent liabilities comprised the following:

	30 June 2019 (unaudited)	**31 December 2018**
Guarantees	3 321 132	1 117 149
Loan commitments	656 817	318 086
Letters of credit	-	205 000
Total gross value	**3 977 949**	**1 640 235**
Less impairment allowance	(52 453)	(13 838)
Total	**3 925 496**	**1 626 397**

(in thousands of Russian rubles, unless otherwise indicated)

21. Contingencies (continued)

Movements in the ECL allowance for the first half of the year ended 30 June 2019 (unaudited) comprised the following:

	Guarantees	Loan commitments	Total
ECL allowance at 31 December 2018	**10 524**	**3 314**	**13 838**
Charge of allowance during the reporting period	38 604	11	38 615
Use of allowance	-	-	-
ECL allowance at 30 June 2019 (unaudited)	**49 128**	**3 325**	**52 453**

Movements in the ECL allowance for the first half of the year ended 30 June 2018 (unaudited) comprised the following:

	Guarantees	Loan commitments	Total
ECL allowance as at 31 December 2017	**-**	**-**	**-**
Charge of allowance during the reporting period	-	8 864	8 864
Use of allowance	-	-	-
ECL allowance at 30 June 2018 (unaudited)	**-**	**8 864**	**8 864**

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal and external professional advice the Bank's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Taxation. The Russian laws and regulations affecting business continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Bank may be challenged by the relevant regional and federal authorities. Recently, tax authorities have been taking a more assertive position in their interpretation of the tax legislation. As a result, the existing tax calculation methods may be challenged by future tax audits. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under some circumstances, reviews may cover longer periods. Based on their interpretation of the tax legislation, management of the Bank believes that all of the applicable taxes have been assessed. However, the tax authorities may interpret the laws differently, which may have a significant effect on the financial statements.

As at 30 June 2019 and 31 December 2018 the management did not accrue a provision for potential tax liabilities since the Bank's management believes that its interpretation of the relevant legislation is correct and that the Bank's tax, currency positions will be confirmed.

Operating environment. The Russian Federation displays certain characteristics of an emerging market. Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. The laws and regulations affecting businesses in the RF may change rapidly and may be subject to arbitrary interpretations. To a large extent, the future economic trends in Russia depend on fiscal and monetary policies adopted by the government, as well as developments in the legal, regulatory, and political environment.

Given that Russia produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the prices of oil and gas on the world market. Following high volatility in natural resources prices, the ruble exchange rate and interest rates in 2019 and 2018 have been relatively stable. Political tensions in the region and new packages of sanctions imposed by the US and the European Union against a number of Russian officials, businessmen and organizations continue to have a negative impact on the Russian economy. The above-mentioned events impeded access of Russian businesses to the international capital markets, led to the growth of inflation, economic slowdown and other negative economic consequences. The impact of further economic developments in Russia on future operations and financial position of the Bank is at this stage difficult to determine.

(in thousands of Russian rubles, unless otherwise indicated)

21. Contingencies (continued)

The official exchange rate of the Russian ruble established by the CBR did not fluctuated significantly during the period from 30 June 2019 to the issue date of this financial statements. Average deviation of foreign exchange rate as at the reporting date did not exceed 1%. The impact of further economic developments in Russia on future operations and financial position of the Bank is at this stage difficult to determine.

There has continued to be increased economic challenges to the Russian consumers and corporates, which have led to higher defaults in the retail and commercial banking sector. This operating environment has a significant impact on the Bank's operations and financial position. Management is taking necessary measures to ensure sustainability of the Bank's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could significantly differ from actual results.

22. Related party transactions

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

Related parties may enter into transactions that unrelated parties would not. Transactions between related parties may be on different terms, conditions and amounts than the transactions between unrelated parties. In accordance with the Bank's policy, terms and conditions for arm's-length transactions are applicable to all the related party transactions.

Details of transactions between the Bank and related parties are disclosed below:

	30 June 2019 (unaudited)		**31 December 2018**	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Loans to customers	8 859	**6 472 858**	7 719	**3 292 035**
- key management personnel	*8 859*		*7 719*	
- shareholders	-		-	
- entities under common control	-		-	
Loan impairment allowance	(66)	**(2 118 031)**	(45)	**(2 046 950)**
- key management personnel	*(66)*		*(45)*	
- shareholders	-		-	
- entities under common control	-		-	
Customer accounts	98 999	**2 808 669**	149 324	**1 848 502**
- key management personnel	*20 779*		*18 632*	
– shareholders	*75 664*		*128 538*	
- entities under common control	*2 556*		*2 154*	
Subordinated loan	-	**1 068 917**		**1 065 921**
- key management personnel	-			
- shareholders	*1 068 917*		*1 065 921*	
- entities under common control	-			
Other liabilities	2 721	**465 530**	-	**106 865**
- key management personnel	*2 721*		-	
- shareholders	-		-	
- entities under common control	-		-	
Unused credit lines	540	**656 817**	840	**318 086**
- key management personnel	*540*		*840*	
- shareholders	-		-	
- entities under common control	-		-	

(in thousands of Russian rubles, unless otherwise indicated)

22. Transactions with related parties (continued)

Included in the statement of profit or loss for the periods ended 30 June 2019 and 31 December 2018 are the following amounts, which arose due to transactions with related parties (unaudited):

	First half of the year ended 30 June 2019		**First half of the year ended 30 June 2018**	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income	503	**317 998**	149	**174 559**
- key management personnel	*503*		*100*	
- shareholders	-		-	
- entities under common control	-		*49*	
Interest expenses	(45 042)	**(94 014)**	(28 850)	**(51 226)**
- key management personnel	*(321)*		*(72)*	
- shareholders	*(44 718)*		*(26 724)*	
- entities under common control	*(3)*		*(2 054)*	
Fee and commission income	403	**36 474**	11 471	**14 830**
- key management personnel	*7*		*48*	
- shareholders	*11*		*11 276*	
- entities under common control	*385*		*147*	
Net gain/(loss) from trading in foreign currencies	7 923	**32 839**	-	**15 075**
- key management personnel	*34*		-	
- shareholders	*7 889*		-	
- entities under common control	-		-	
Operating expenses	(45 357)	**(505 593)**	(12 494)	**(232 434)**
- key management personnel	*(44 452)*		*(12 494)*	
- shareholders	*(905)*		-	
- entities under common control	-		-	

Remuneration to key management personnel (excluding social security contributions) for the first half of the year ended 30 June 2019 was RUB 41 576 thousand (for first half of the year ended 30 June 2018: RUB 11 957 thousand). Short-term liabilities on unused vacations payable to respective key management personnel of the Bank for the first half of the year ended 30 June 2019 was RUB 2 721 thousand.

23. Fair value of financial instruments

IFRS defines fair value as 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 following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. The levels correspond to the possibility of directly identifying fair value based on market data:

(i) Level 1 includes estimates on quoted prices (unadjusted) in active markets for similar assets or liabilities,
(ii) Level 2 includes estimates obtained using valuation techniques in which all significant inputs used are directly or indirectly observable for the asset or liability (for example, prices), and
(iii) Level 3 includes estimates, which are not based on observable market data (for example, based on non-observable inputs).

Management applies judgment in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(in thousands of Russian rubles, unless otherwise indicated)

23. Fair value of financial instruments (continued)

The Bank's valuation approach and fair value hierarchy categorization for financial and non-financial instruments recognized at fair value is as follows:

	30 June 2019 (unaudited)				31 December 2018			
	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3	Fair value
Financial assets								
Investment assets	686 114	-	-	**686 114**	575 054	-	-	**575 054**
Non-financial assets								
Non-current assets held for sale	-	-	485 148	**485 148**	-	-	485 148	**485 148**
Total assets carried at fair value	**686 114**	**-**	**485 148**	**1 171 262**	**575 054**	**-**	**485 148**	**1 060 202**

The Bank's valuation approach and fair value hierarchy categorization for financial instruments not recognized at fair value is as follows:

	30 June 2019 (unaudited)				31 December 2018			
	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3	Fair value
Financial assets								
Cash and cash equivalents	1 664 709	-	-	**1 664 709**	3 067 486	-	-	**3 067 486**
Mandatory cash balance with the Central Bank of the RF	24 788	-	-	**24 788**	24 833	-	-	**24 833**
Due from financial institutions	-	550 778	-	**550 778**	-	1 457 273	-	**1 457 273**
Loans to customers	-	-	4 683 760	**4 683 760**	-	-	1 398 387	**1 398 387**
Other financial assets	-	-	53 171	**53 171**	-	-	2 974	**2 974**
Total financial assets	**1 689 497**	**550 778**	**4 736 931**	**6 977 206**	**3 092 319**	**1 457 273**	**1 401 361**	**5 950 953**
Financial liabilities								
Due to other banks	-	220	-	**220**	-	601 779	-	**601 779**
Customer accounts	-	-	2 896 765	**2 896 765**	-	-	1 909 304	**1 909 304**
Subordinated loan	-	1 068 917	-	**1 068 917**	-	1 065 921	-	**1 065 921**
Other financial liabilities	-	-	455 029	**455 029**	-	-	96 296	**96 296**
Total financial liabilities	**-**	**1 069 137**	**3 351 794**	**4 420 931**	**-**	**1 667 700**	**2 005 600**	**3 673 300**

For financial assets and liabilities that are liquid or having a short-term maturity (less than 1 year) it is assumed that the fair value approximate their carrying value. This assumption is also applied to demand accounts without specific maturity.

The fair value of assets with fixed interest rates, which have no quoted prices in active markets, is based on the discounted cash flow method using existing interest rates for new instruments with similar credit risk level and similar maturity. The similar approach on fair value measurement is applied to the Bank's customer liabilities.

The Bank's management considers that the fair value of other financial assets and liabilities approximates their carrying value.

(in thousands of Russian rubles, unless otherwise indicated)

24. Capital risk management

The Bank manages its capital in order to achieve the following objectives:

(i) Comply with the capital requirements set up by the Bank of Russia;
(ii) Ensure that the Bank continues as a going concern;
(iii) Keep the capital base on the level sufficient to ensure 8% capital adequacy ratio in compliance with Basel Accord.

Other objectives of capital management are assessed annually. The Bank uses the following procedures to achieve the capital management objectives:

- Key performance indicators forecasting;
- Capital needs planning;
- Capital adequacy monitoring.

When determining the total capital requirements, the Bank uses the methodology of the Central Bank of the Russian Federation set by Instruction of the CBR No. 180-I and Regulation No. 646-P to calculate the Bank's equity (capital) adequacy ratio.

During the reporting period, the Bank had complied in full with all its externally imposed capital requirements.

As at 30 June 2019, the capital, determined according to the RAS financial statements and Instruction No. 180-I of the CBR *On Mandatory Bank Ratios*, amounts to RUB 3 654 372 thousand (31 December 2018: RUB 4 090 510 thousand). Compliance with the minimum capital adequacy ratios set by the CBR is monitored daily and monthly reports are prepared, which contain the relevant calculations checked and signed by the Chairman of the Management Board and the Chief Accountant of the Bank.

The following table provides information about the main characteristics of capital instruments for the reporting period:

Item description	**30 June 2019 (unaudited)**	**31 December 2018**
Capital adequacy ratio (H1.0), %	30.71	73.35

The Bank's capital management policy has not changed. Insignificant changes were made to ensure the compliance of all internal documents and procedures with new legislation requirements especially due to amendments to Regulation of the CBR No. 646-P *On the Method of Determining the Value of Equity (Capital) of Credit Institutions* ("Basel III") and amendments to Instruction of the CBR No.180-I.

25. Risk management policies

Risk management policies are part of the Bank's Corporate governance policies and aim at a sustainable growth of the Bank as part of its Development Strategy approved by the Bank's Board of Directors.

Risk management policies are based on the approach that ensures the Bank can continue as a going concern in the long term. Financial stability of the Bank depends on a timely analysis and materiality verification of risks identified, as well as on an efficient management of risks and related capital requirements.

There were no significant changes in the risk management policies during the reporting period.

The Bank identifies relevant risks, including potential ones, with a particular focus on material risks. This process is based on the proportionality principle whereby (i.e. internal capital adequacy assessment procedures (ICAAPs) and the risk management organization should correspond to the scale of business. This also takes into account cyclical patterns (i.e. market situation a phase of the economic cycle in which the Bank operates).

25. Risk management policies (continued)

Risks are identified and reviewed at least once a year. Where the internal and external environment of the Bank changes significantly with an impact on the risk portfolio, the Bank performs an additional risk identification and materiality assessment. Results are documented and communicated to the Board of Directors.

The Bank recognizes risks as material provided that (i) there are related ratios established by the CBR and applicable to the Bank and (ii) such risks are taken into account when calculating the regulatory capital of the Bank.

The Bank may recognize other risks as material based on an expert judgment or maximum losses for a risk compared with the regulatory capital.

The Bank establishes target risk levels categorized based on indicators applicable to regular and stress scenarios. The Bank's risk exposure is planned as part of the annual business planning.

The Bank also manages the aggregate risk level, which includes calculating indicators for the consolidated aggregate risk level based on risk assessments and risk interdependence, assessing the deviation of the risk level from the valuesestablished by internal documents, assessing conformity of the risk level to the approved risk appetite, making decisions on setting or adjusting limits or other decisions aimed at risk level streamlining.

Material risks and the aggregate risk level are assessed (monitored) at least once a quarter.

The Bank ensures that the risk management functions are independent from the units responsible for risk acceptance.

Below is the Bank's risk and capital management structure:

- The Bank's participant (General Meeting of Participants);
- The Board of Directors;
- The Management Board;
- The Chairman of the Management Board (Sole Executive Body);
- Committees (Large and Small Credit Committees, Asset and Liability Management Committee, Risk Management Committee);
- Risk management department;
- Internal audit unit;
- Internal control unit;
- Other structural units of the Bank.

A member of the Management Board responsible for overseeing the Risk management department, coordinates and supervises the departments (employees) responsible for risk management processes, as well as dedicated functions (committees) responsible for risk management.

Main (material) risks relevant to the Bank's activities include credit risk, market risk, operational risk, liquidity risk and interest rate risk.

Credit risk management. A credit risk is the risk of losses due to non-fulfillment, untimely or incomplete fulfillment of counterparty's obligations to the Bank (or other counterparties if the above results in a financial liability for the Bank) in accordance with the contractual terms. Credit risk arises as a result of issuing loans and guarantees, entering into transactions on interbank market, placing cash in correspondent accounts and custody accounts, advance payments to counterparties for service provision, as well as other amounts due from the Bank's counterparties and clients.

The Bank's credit policy is based on the 2019-2023 Development strategy of the Bank and defines key development areas related to banking operations and products involving credit risk. As regards operating activities, the Credit policy is integral to the existing business model and the Development strategy of the Bank.

25. Risk management policies (continued)

The Credit policy is based on the following key principles:

- The credit risk management complies with the CBR and other regulations;
- The Bank has in place a credit policy and other necessary internal credit risk management regulations approved by the Bank's management bodies and communicated to the responsible officers of the Bank;
- The Bank maintains an efficient risk management system providing a consistent methodology for the Bank's departments and ensuring the performance and coordination of processes aimed at an aligned credit risk identification, assessment, management and monitoring approach;
- The Bank's management bodies, including the Board of Directors, are regularly informed on the Bank's credit risk position;
- The Bank regularly reviews the credit risk management framework and makes timely updates of documents governing credit risk management to ensure compliance with applicable regulations and reflect current market environment and the Bank's management structure;
- The Bank has in place operating units responsible for credit risks acceptance and operating within established limitations, the internal regulations and statutory requirements; the Bank also has in place credit risk monitoring and control units that are independent from the operating units;
- The credit risk management framework is integrated with the common risk management system of the Bank;
- The Bank has in place an information system to collect and analyse information on credit risks, ensuring that data on requirements and liabilities is timely and accurate;
- The Bank issues loans under conditions of payment of interest, maturity and collectibility while ensuring the availability of security and adherence to loan purpose;
- The Bank has an appropriate credit risk assessment and management system based on the amount and complexity of the Bank's transactions involving credit risks;
- Entering into risk-bearing transactions is based on the analysis of a specific loan application/investment transaction and/or in line with the credit limit established based on a documented decision taken by authorized collective bodies or responsible officers within their remit for credit risk acceptance;
- To prevent conflicts of interests when making credit decisions, as well as documenting and accounting for risk-bearing transactions, the Bank ensures clear segregation of units by dividing them into initiating, expert, supporting and accounting functions;
- The Bank continues to monitor credit transactions and borrowers until the obligations have been settled;
- The Bank constantly monitors its loan portfolio as a whole;
- The Bank prices transactions to reflect operating costs, the cost of resources involved and the level of credit risk assumed, as well as to ensure profitability;
- The Bank ensures an increase of commission income from credit risk transactions;
- The Bank maintains a balanced credit portfolio structure by loan product and borrower category;
- The Bank applies credit limits, including industry-, region- and country-specific limits;
- The Bank ensures integrated customer experience based on loans as a key component, when making credit decisions, the Bank determines a customer priority based on whether the customer uses products and services other than loans, or whether the customer has significant cash balances in settlement and current accounts with the Bank, as well as based on the efficiency assessment of interacting with the customer;
- The Bank strives to meet client loan needs to a maximum extent while maintaining an acceptable level of credit risks;
- The Bank maintains high quality credit services while ensuring that its loan products remain competitive, including loan pricing;
- The Bank ensures continuity as regards the implementation of the Credit;
- For the purpose of loan operations, the Bank has in place a framework to prevent money laundering and terrorist financing;
- The Bank runs efficient internal controls to support loan transactions.

25. Risk management policies (continued)

The credit risk management consists of the following components:

- Credit risk identification;
- Analysis and assessment of credit risk by loan product/transaction/counterparty;
- Decision making system to support decisions on loans / credit transactions / limits for counterparties;
- Limits for loan products (loan portfolios), including credit limits by Borrower / Group of related borrowers for certain loan products;
- Limitation and delegation of powers for making loan decisions , entering into credit transactions and setting limits for counterparties;
- Allowances for possible losses on loans and loan equivalents;
- Setting and monitoring target/threshold limits for a credit portfolio;
- Loan collaterals;
- Preliminary and follow-up control over issuing, monitoring and administration of loan products;
- Bad asset management.

The Bank's Credit Committees and its other structural units are responsible for managing the Bank's credit risk through the following measures:

- Ensuring proper practice of managing the Bank's credit risk, including an effective internal control system, for the purpose of consistent calculating sufficient reserves in accordance with the stated policies and procedures of the Bank, IFRS and relevant regulatory guidelines.
- Identification, assessment and measurement of credit risk for the Bank, from the level of an individual instrument to the level of a portfolio.
- Development of a credit policy to protect the Bank from identified risks, including requirements for obtaining collateral from borrowers, in order to ensure reliable current assessment of the creditworthiness of borrowers and continuous monitoring of risks associated with internal limits.
- Limiting the concentration of risk in terms of asset types, counterparties, industries, geographical location, etc.
- The implementation of a reliable control system with respect to the structure of authority to approve and renew credit lines.
- Development and maintenance of internal procedures for measuring expected credit losses, including procedures for monitoring credit risk, the use of forecast information and a method for measuring expected credit losses.
- Implementation a reliable procedure for assessing and measuring credit risk for accounting purposes, which provides a solid basis for general systems, tools and data used to assess credit risk and account for expected credit losses. Providing advice, recommendations and specialists to various business units in order to implement advanced credit risk management practices within the Bank.

The internal audit department performs audits on a regular basis in order to monitor the quality of development and implementation of current controls and procedures.

Significant increase in credit risk. The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss provision based on lifetime rather than 12-month ECL.

Use of forward looking information. While evaluating for a significant increase in credit risk, as well as while measuring the volume of expected credit losses, the Bank uses forward-looking information that can be obtained without unjustified financial or labor costs. The external information used includes economic data and forecasts published by government and monetary authorities.

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

The table below presents the main macroeconomic indicators included in the economic scenarios used as at 30 June 2019 for the period from 2019 to 2023 for Russia, which is the country where the Bank operates, and therefore the country that has significant impact on expected credit losses.

	2019	2020	2021	2022	2023
USD/RUB exchange rate	63.83	66.48	62.31	62.13	63.86
Unemployment rate	4.9%	5.2%	5%	4.9%	4.9%

The Bank estimates the expected credit losses using the estimated reserve equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

An allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL (or less, if the remaining term of the financial instrument does not exceed 12 months).

ECL represent the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For undrawn loan commitments, the ECL is the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

When assessing if the borrower is unlikely to pay its credit obligation the Bank takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis.

The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

As a back-stop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss provision is measured as the lifetime ECL.

Establishing groups of assets with similar credit risk characteristics. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

25. Risk management policies (continued)

Instrument groupings based on shared risk characteristics. When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type;
- Date of initial recognition;
- Remaining term to maturity;
- Industry;
- Geographic location of the borrower;
- Income bracket of the borrower; and
- The value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Significant increase in credit risk. ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss provision based on lifetime rather than 12-month ECL.

The Bank analyzes all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. Factors taken into account in this process include macroeconomic data, such as the US dollar rate against the ruble, the unemployment rate. The Bank generates a ‘base case’ scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

<u>Measurement of ECL.</u> The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These indicators were developed using the data from internal statistical models and taking into account the forecasting information, weighted with regard to probability.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on the statistical models, and the estimation is performed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive. LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the EIR of the loan.

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. However, for financial instruments that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses with contractual notice period. For such financial instruments, the Bank measures ECL during the period the Bank is exposed to credit risk.

An analysis of the credit risk for each class of the Bank's financial assets, factoring in asset stage under IFRS 9 is presented in the tables below. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying value. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

As at 30 June 2019 (unaudited):

	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Gross value	1 664 759	-	-	1 664 759
ECL allowance	(50)	-	-	(50)
Carrying value	**1 664 709**	**-**	**-**	**1 664 709**
Due from financial institutions				
Gross value	551 074	-	-	551 074
ECL allowance	(296)	-	-	(296)
Carrying value	**550 778**	**-**	**-**	**550 778**
Loans to customers				
Gross value	4 424 446	2 899	2 045 513	6 472 858
ECL allowance	(75 382)	(1 851)	(2 040 798)	(2 118 031)
Carrying value	**4 349 064**	**1 048**	**4 715**	**4 354 827**
Investment assets				
Carrying value	686 114	-	-	686 114
ECL allowance (accounted for within equity)	(4 138)	-	-	(4 138)
Loan commitments				
Total amount of commitments	3 976 943	170	836	3 977 949
ECL allowance	(51 547)	(139)	(767)	(52 453)
Total loan commitments	**3 925 396**	**31**	**69**	**3 925 496**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

As at 31 December 2018:

	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Gross value	3 000 222	67 291	-	3 067 513
ECL allowance	(5)	(22)	-	(27)
Carrying value	**3 000 217**	**67 269**	**-**	**3 067 486**
Due from financial institutions				
Gross value	1 457 545	-	-	1 457 545
ECL allowance	(272)	-	-	(272)
Carrying value	**1 457 273**	**-**	**-**	**1 457 273**
Loans to customers				
Gross value	1 251 643	2 325	2 038 067	3 292 035
ECL allowance	(12 974)	(1 096)	(2 032 880)	(2 046 950)
Carrying value	**1 238 669**	**1 229**	**5 187**	**1 245 085**
Investment assets				
Carrying value	575 054	-	-	575 054
ECL allowance (accounted for within equity)	(2 645)	-	-	(2 645)
Loan commitments				
Total amount of commitments	1 433 958	88	1 189	1 435 235
ECL allowance	(12 703)	(64)	(1 071)	(13 838)
Total loan commitments	**1 421 255**	**24**	**118**	**1 421 397**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

The analysis of movements in gross carrying value and respective movements in the ECL allowance with respect to relevant line items of the statement of financial position for the first half of the year ended 30 June 2019 and 30 June 2018, respectively:

	30 June 2019 (unaudited)			
Cash and cash equivalents	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Movements in gross value for the first half of the year ended 30 June 2019				
Gross value as at the beginning of the period	**3 000 222**	**67 291**	**-**	**3 067 513**
Transfers to Stage 1	67 291	(67 291)	-	-
Movement due to change in credit risk	(30 813)	-	-	(30 813)
New financial assets originated or purchased	1 355 920	-	-	1 355 920
Financial assets that have been derecognized	(2 727 861)	-	-	(2 727 861)
Total gross carrying value (unaudited)	**1 664 759**	**-**	**-**	**1 664 759**
Movements in loss allowance for the first half of the year ended 30 June 2019				
Loss allowance as at the beginning of the period	**4**	**23**	**-**	**27**
Transfers to Stage 1	23	(23)	-	-
Movement due to change in credit risk	(20)	-	-	(20)
New financial assets originated or purchased	43	-	-	43
Total loss allowance (unaudited)	**50**	**-**	**-**	**50**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

	30 June 2018 (unaudited)			
Cash and cash equivalents	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Movements in gross value for the first half of the year ended 30 June 2018				
Gross value as at the beginning of the period	**2 207 874**	**98 083**	**2**	**2 305 959**
Decrease due to change in asset amount	(10 367)	(64 752)	-	(75 119)
Changes due to modifications that did not result in derecognition	2 241 439	47	-	2 241 486
New financial assets originated or purchased	174 755	-	-	174 755
Financial assets that have been derecognized	(4)	(984)	(2)	(990)
Total gross carrying value (unaudited)	**4 613 697**	**32 394**	**-**	**4 646 091**
Movements in loss allowance for the first half of the year ended 30 June 2018				
Loss allowance as at the beginning of the period	**15**	**28**	**-**	**43**
Increase due to change in asset amount	86	-	-	86
Decrease due to change in asset amount	(8)	(21)	-	(29)
New financial assets originated or purchased	12	-	-	12
Financial assets that have been derecognized	(1)	-	-	(1)
Total loss allowance (unaudited)	**104**	**7**	**-**	**111**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

	30 June 2019 (unaudited)			
Due from financial institutions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Movements in gross value for the first half of the year ended 30 June 2019				
Gross value as at the beginning of the period	**1 457 545**	**-**	**-**	**1 457 545**
Increase/(Decrease) due to change in credit risk	3 776	-	-	3 776
New financial assets originated or purchased	522 611	-	-	522 611
Financial assets that have been derecognized	(1 432 858)	-	-	(1 432 858)
Total gross carrying value (unaudited)	**551 074**	**-**	**-**	**551 074**
Movements in loss allowance for the first half of the year ended 30 June 2019				
Loss allowance as at the beginning of the period	**272**	**-**	**-**	**272**
Movement due to change in credit risk	48	-	-	48
New financial assets originated or purchased	16	-	-	16
Financial assets that have been derecognized	(40)	-	-	(40)
Total loss allowance (unaudited)	**296**	**-**	**-**	**296**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

	30 June 2018 (unaudited)			
Due from financial institutions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Movements in gross value for the first half of the year ended 30 June 2018				
Gross value as at the beginning of the period	**436**	**26 006**	**611 610**	**638 052**
Increase due to change in asset amount	35	-	-	35
Decrease due to change in asset amount	-	(8 285)	-	(8 285)
New financial assets originated or purchased	16 190	-	-	16 190
Debt transfer from loans to financial institutions to loans to customers	-	-	(611 610)	(611 610)
Total gross carrying value (unaudited)	**16 661**	**17 721**	**-**	**34 382**
Movements in loss allowance for the first half of the year ended 30 June 2018				
Loss allowance as at the beginning of the period	**-**	**562**	**611 610**	**612 172**
Decrease due to change in asset amount	-	(178)	-	(178)
Debt transfer from loans to financial institutions to loans to customers	-	-	(611 610)	(611 610)
Total loss allowance (unaudited)	**-**	**384**	**-**	**384**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

	30 June 2019 (unaudited)			
Loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Movements in gross value for the first half of the year ended 30 June 2019				
Gross value as at the beginning of the period	**1 251 641**	**2 325**	**2 038 069**	**3 292 035**
Transfers to Stage 1	1 699	(366)	(1 333)	-
Transfers to Stage 2	(2 206)	2 317	(111)	-
Transfers to Stage 3	(2 087)	(1 064)	3 151	-
Increase/(Decrease) due to change in credit risk	59 232	(454)	29 478	88 256
New financial assets originated or purchased	3 476 303	141	1 015	3 477 459
Financial assets that have been derecognized	(347 793)	-	(201)	(347 994)
Write off	(380)	-	(23 891)	(24 271)
Other movements	(11 963)	-	(664)	(12 627)
Total gross carrying value (unaudited)	**4 424 446**	**2 899**	**2 045 513**	**6 472 858**
Movements in loss allowance for the first half of the year ended 30 June 2019				
Loss allowance as at the beginning of the period	**12 974**	**1 096**	**2 032 880**	**2 046 950**
Transfers to Stage 1	509	(104)	(405)	-
Transfers to Stage 2	(443)	472	(29)	-
Transfers to Stage 3	(613)	(324)	937	-
Increase/(Decrease) due to change in credit risk	469	604	31 156	32 229
New financial assets originated or purchased	65 657	107	1 015	66 779
Financial assets that have been derecognized	(2 762)	-	(201)	(2 963)
Write off	(380)	-	(23 891)	(24 271)
Other movements	(29)	-	(664)	(693)
Total loss allowance (unaudited)	**75 382**	**1 851**	**2 040 798**	**2 118 031**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

	30 June 2018 (unaudited)			
Loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Movements in gross value for the first half of the year ended 30 June 2018				
Gross value as at the beginning of the period	**281 286**	**3 155**	**1 727 234**	**2 011 675**
Transfers to Stage 1	721	(342)	(379)	-
Transfers to Stage 2	(4 327)	4 327	-	-
Transfers to Stage 3	(6 050)	(2 459)	8 509	-
Increase due to change in asset amount	4 240	1 250	13 768	19 258
Decrease due to change in asset amount	(4 703)	(952)	(12 111)	(17 766)
New financial assets originated or purchased	272 669	23	75	272 767
Debt transfer from loans to financial institutions to loans to customers	-	-	611 610	611 610
Financial assets that have been derecognized	(225 477)	(224)	(279 270)	(504 971)
Total gross carrying value (unaudited)	**318 359**	**4 778**	**2 069 436**	**2 392 573**
Movements in loss allowance for the first half of the year ended 30 June 2018				
Loss allowance as at the beginning of the period	**14 073**	**823**	**1 480 825**	**1 495 721**
Transfers to Stage 1	294	(50)	(244)	-
Transfers to Stage 2	(103)	103	-	-
Transfers to Stage 3	(341)	(584)	925	-
Increase due to change in asset amount	1 634	2 563	34 888	39 085
Decrease due to change in asset amount	(1 253)	(4)	(21 807)	(23 064)
New financial assets originated or purchased	2 336	-	-	2 336
Debt transfer from loans to financial institutions to loans to customers	-	-	611 610	611 610
Financial assets that have been derecognized	(11 475)	(158)	(36 761)	(48 394)
Total loss allowance (unaudited)	**5 165**	**2 693**	**2 069 436**	**2 077 294**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

	30 June 2019 (unaudited)			
Investment assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Movements in gross value for the first half of the year ended 30 June 2019				
Gross value as at the beginning of the period	**575 054**	**-**	**-**	**575 054**
Increase due to change in asset amount	12 635	-	-	12 635
Decrease due to change in asset amount	(9 029)			(9 029)
New financial assets originated or purchased	183 861	-	-	183 861
Financial assets that have been derecognized	(76 407)	-	-	(76 407)
Total gross carrying value (unaudited)	**686 114**	**-**	**-**	**686 114**
Movements in loss allowance for the first half of the year ended 30 June 2019				
Loss allowance as at the beginning of the period	**2 645**	**-**	**-**	**2 645**
Increase due to change in asset amount	129	-	-	129
Decrease due to change in asset amount	(112)	-	-	(112)
New financial assets originated or purchased	1 636	-	-	1 636
Financial assets that have been derecognized	(160)	-	-	(160)
Total loss allowance (unaudited)	**4 138**	**-**	**-**	**4 138**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

	30 June 2018 (unaudited)			
Investment assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Movements in gross value for the first half of the year ended 30 June 2018				
Gross value as at the beginning of the period	**36 819**	**-**	**-**	**36 819**
Increase due to change in asset amount	1 066	-	-	1 066
New financial assets originated or purchased	445 003	-	-	445 003
Total gross carrying value (unaudited)	**482 888**	**-**	**-**	**482 888**
Movements in loss allowance for the first half of the year ended 30 June 2018				
Loss allowance as at the beginning of the period	**41**	**-**	**-**	**41**
Increase due to change in asset amount	4	-	-	4
New financial assets originated or purchased	4 826	-	-	4 826
Total loss allowance (unaudited)	**4 871**	**-**	**-**	**4 871**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

Loan commitments	30 June 2019 (unaudited) Stage 1	Stage 2	Stage 3	Total
Movements in total commitments for the first half of the year ended 30 June 2019				
Value as at the beginning of the period	**1 433 958**	**88**	**1 189**	**1 435 235**
Transfers to Stage 1	125	(41)	(84)	-
Transfers to Stage 2	(327)	336	(9)	-
Transfers to Stage 3	(192)	(29)	221	-
Movement due to change in credit risk	(188 119)	(176)	22	(188 273)
New commitments originated or purchased	2 918 990	2	-	2 918 992
Closed loan commitments	(187 493)	(9)	(503)	(188 005)
Total amount of commitments (unaudited)	**3 976 942**	**171**	**836**	**3 977 949**
Movements in loss allowance for the first half of the year ended 30 June 2019				
Loss allowance as at the beginning of the period	**12 703**	**64**	**1 071**	**13 838**
Transfers to Stage 1	106	(30)	(76)	-
Transfers to Stage 2	(25)	33	(8)	-
Transfers to Stage 3	(15)	(21)	36	-
Movement due to change in credit risk	(51)	100	176	225
New commitments originated or purchased	41 836	2	-	41 838
Closed loan commitments	(3 007)	(9)	(432)	(3 448)
Total loss allowance (unaudited)	**51 547**	**139**	**767**	**52 453**

(in thousands of Russian rubles, unless otherwise indicated)

25. Risk management policies (continued)

Loan commitments	**30 June 2018 (unaudited)**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Movements in total commitments for the first half of the year ended 30 June 2018				
Value as at the beginning of the period	**28 112**	**210**	**2 447**	**30 769**
Transfers to Stage 1	147	(46)	(101)	-
Transfers to Stage 2	(275)	275	-	-
Transfers to Stage 3	(349)	(139)	488	-
Increase due to change in commitments	5 842	64	448	6 354
Decrease due to change in commitments	(6 349)	(226)	(794)	(7 369)
New commitments originated or purchased	73 673	-	2	73 675
Closed loan commitments	1 362	-	17	1 379
Total amount of commitments (unaudited)	**102 163**	**138**	**2 507**	**104 808**
Movements in loss allowance for the first half of the year ended 30 June 2018				
Loss allowance as at the beginning of the period	**-**	**-**	**-**	**-**
Transfers to Stage 1	146	(41)	(105)	-
Transfers to Stage 2	(31)	31	-	-
Transfers to Stage 3	(52)	(120)	172	-
Increase due to change in commitments	7 039	270	3 130	10 439
Decrease due to change in commitments	(1 088)	(31)	(674)	(1 793)
New commitments originated or purchased	309	-	2	311
Closed loan commitments	(75)	-	(18)	(93)
Total loss allowance (unaudited)	**6 248**	**109**	**2 507**	**8 864**

26. Subsequent events

On 08 July 2019, SBI Holdings, Inc. converted a subordinated loan into the Bank's share capital in the amount of RUB 227 000 thousand and into the share premium in the amount of RUB 810 600 thousand. As at the reporting date the subordinated loan is accounted for as the Bank's liability. Legal procedure related to share capital increase was completed on 16 August 2019.

29 August 2019

Karyakin Andrei Dmitrievich
Chairman of the Management Board,
Member of the Management Board

Sytenko Vadim Gennadievich
Chief Accountant