# SBI Bank LLC

Financial Statements
and Independent Auditor's Report
for the Year Ended 31 December 2019

# SBI Bank LLC

## Contents

## SBI Bank LLC

### Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2019

Management is responsible for the preparation of the financial statements that present fairly the financial position of SBI Bank LLC (the "Bank") as at 31 December 2019, and the related statements of profit or loss, the other comprehensive income, changes in equity and cash flows for the year then ended, and of significant accounting policies and other notes to the financial statements (the "financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting policies and applying them consistently;
- 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 IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other violations.

The financial statements for the year ended 31 December 2019 were approved on 24 April 2020 by the Management Board of the Bank.

**On behalf of the Management Board of the Bank:**

| | |
|---|---|
| Karyakin Andrei Dmitrievich | Sytenko Vadim Gennadievich |
| Chairman of the Management Board | Chief Accountant |

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Россия

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# INDEPENDENT AUDITOR'S REPORT

To the sole participant of SBI Bank LLC:

## Opinion

We have audited the financial statements of SBI Bank LLC (the "Bank") which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, the other comprehensive income, the statement of changes in equity and statement of cash flows for 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for 2019 in accordance with International Financial Reporting Standards ("IFRSs").

## Basis for opinion

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

## Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition, we perform the following:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of the estimates calculated by the management, and related disclosures;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

According to Article 42 of Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990 (the "Federal Law") in the course of our audit of the Bank's annual financial statements for 2019 we performed procedures with respect to the Bank's compliance with the obligatory ratios as at 1 January 2020 and compliance of its internal control and risk management systems with the CBR requirements.

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

We report our findings below:

1. With respect to the Bank's compliance with the mandatory ratios: the mandatory ratios as at 1 January 2020 were within the limits established by the Central Bank of Russia. We have not performed any procedures with respect to the Bank's accounting records other than those we considered necessary to express our opinion on whether the financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, its financial performance and its cash flows for 2019 in accordance with IFRS;
2. With respect to compliance of the Bank's internal control and risk management systems with the CBR requirements:
   (a) in accordance with the requirements and recommendations of the CBRF, as at 31 December 2019 the Bank's internal audit department was functionally subordinated and accountable to the Bank's Board of Directors, and the Bank's risk management department was not subordinated or accountable to the departments undertaking the respective risks, heads of the Bank's internal audit and risk management departments meet the qualification requirements set by the CBRF;
   (b) as at 31 December 2019, the Bank's effective internal policies governing the identification and management of significant risks, including credit, operational, market, liquidity risks, and the performance of stress-testing were approved by the Bank's competent management bodies in accordance with the CBRF requirements and recommendations;
   (c) as at 31 December 2019, the Bank had a reporting system with regard to the Bank's significant credit, operational, market, liquidity risks and with regard to the Bank's capital;
   (d) frequency and sequential order of reports prepared by the Bank's risk management and internal audit departments in 2019 on management of credit, operating, market and liquidity risks were in compliance with the Bank's internal policies; these reports included results of monitoring by the Bank's risk management and internal audit departments of effectiveness of the Bank's respective methodologies and improvement recommendations;
   (e) as at 31 December 2019, the authority of the Bank's Board of Directors and the Bank's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control the efficiency and consistency of how the Bank's risk management policies were applied during 2019, the Bank's Board of Directors and the Bank's executive bodies regularly discussed reports prepared by the risk management and internal audit departments and considered proposed corrective measures.

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

Ekaterina Vladimirovna Ponomarenko,
Engagement Partner

27 April 2020

Акционерное общество «Делойт и Туш СНГ» Для аудиторских заключений и отчетов Россия, г. Москва, ул. Лесная, д. 5

Company: SBI Bank LLC

State Registration Certificate No. 035.102. issued 30 December 1994 by Moscow Registration Chamber on 08 January 2003.

Primary state registration number: 1037739028678

Certificate of Registration in the Unified State Register of Legal Entities: № 1037739028678, issued by the Moscow Federal Tax Service on 11 March 2003.

Location: 125315, Moscow, 72 Leningradsky av., bld. 2, apt. 4

Audit Firm: AO Deloitte & Touche CIS

State Registration Certificate No. 018.482 issued by 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 of 13 November 2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-Regulated organization of auditors "Commonwealth" (Association), ORNZ 12006020384.

# SBI Bank LLC

**Statement of Financial Position**
**as at 31 December 2019**
***(in thousands of Russian rubles)***

| | Notes | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 6 | 2 852 024 | 3 067 486 |
| Mandatory cash balance with the Central Bank of the RF | | 50 670 | 24 833 |
| Due from financial institutions | 7 | 525 282 | 1 457 273 |
| Loans to customers | 8, 29 | 9 120 776 | 1 245 085 |
| Investment assets | 9 | 675 525 | 575 054 |
| Property and equipment and intangible assets | 10 | 553 816 | 62 244 |
| Other assets | 11 | 80 455 | 75 429 |
| Non-current assets held for sale | 12 | 293 947 | 485 148 |
| **Total assets** | | **14 152 495** | **6 992 552** |
| **LIABILITIES** | | | |
| Due to other banks | 13 | 605 200 | 601 779 |
| Due to customers | 14, 29 | 8 824 162 | 1 848 502 |
| Subordinated loan | 15, 29 | - | 1 065 921 |
| Other liabilities | 16 | 449 632 | 106 865 |
| **Total liabilities and equity** | | **9 878 994** | **3 623 067** |
| **EQUITY** | | | |
| Share capital | | 1 746 000 | 1 300 000 |
| Share premium | | 4 922 900 | 3 331 300 |
| Reserve funds | | 20 420 | (5 264) |
| Accumulated losses | | (2 415 819) | (1 256 551) |
| **Total equity** | 17 | **4 273 501** | **3 369 485** |
| **Total liabilities and equity** | | **14 152 495** | **6 992 552** |

**On behalf of the Management Board of the Bank:**

Karyakin Andrei Dmitrievich
Chairman of the Management Board

Sytenko Vadim Gennadievich
Chief Accountant

24 April 2020

The notes on pages 11-84 form an integral part of these financial statements.

## SBI Bank LLC

**Statement of Profit and Loss**
**for the Year Ended 31 December 2019**
***(in thousands of Russian rubles)***

| | Notes | 2019 | 2018 |
|---|---|---|---|
| Interest income | | 810 957 | 438 878 |
| Interest expenses | | (231 953) | (118 875) |
| **Net interest income before impairment losses on assets** | 18, 29 | **579 004** | **320 003** |
| Impairment losses recovery/(recognition) on interest bearing assets | 6, 7, 8, 9 | (382 669) | 33 726 |
| **Net interest income after impairment losses on interest bearing assets** | | **196 335** | **353 729** |
| Fee and commission income | 19, 29 | 134 693 | 52 351 |
| Fee and commission expense | 19 | (85 527) | (17 850) |
| Net gain on operations with financial assets | 20 | 1 791 | 473 |
| Net gain on foreign exchange operations | 29 | 58 711 | 48 874 |
| Net gain/(loss) on foreign currency translation | | (18 903) | 2 466 |
| Creation of other provisions | 21 | (71 748) | (6 696) |
| Impairment of non-current assets held for sale | 12 | (191 201) | (197 810) |
| Other net income/(expenses) | | 4 855 | (7 911) |
| **Net non-interest expenses** | | **(167 329)** | **(126 103)** |
| **Operating income** | | **29 006** | **227 626** |
| Operating expenses | 22, 29 | (1 186 941) | (677 717) |
| **Loss before tax** | | **(1 157 935)** | **(450 091)** |
| Income tax | 23 | (1 333) | (695) |
| **Net loss for the period** | | **(1 159 268)** | **(450 786)** |

**On behalf of the Management Board of the Bank:**

Karyakin Andrei Dmitrievich
Chairman of the Management Board

Sytenko Vadim Gennadievich
Chief Accountant

24 April 2020

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

The notes on pages 11-84 form an integral part of these financial statements.

# SBI Bank LLC

## Statement of Other Comprehensive Income for the Year Ended 31 December 2019
***(in thousands of Russian rubles)***

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Net loss for the period** | | **(1 159 268)** | **(450 786)** |
| *Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:* | | | |
| Change of the revaluation reserve of financial assets at FVTOCI | 17 | 25 417 | (8 798) |
| Change of the credit risk on financial assets measured at FVTOCI | 17 | 267 | 2 604 |
| ***Items that may be reclassified to profit or loss*** | | ***25 684*** | ***(6 194)*** |
| **Other comprehensive income/(loss)** | | **25 684** | **(6 194)** |
| **Total comprehensive loss for the year** | | **(1 133 584)** | **(456 980)** |

**On behalf of the Management Board of the Bank:**

Karyakin Andrei Dmitrievich
Chairman of the Management Board

Sytenko Vadim Gennadievich
Chief Accountant

24 April 2020

The notes on pages 11-84 form an integral part of these financial statements.

# SBI Bank LLC

## Statement of Changes in Equity
## for 2019
## *(in thousands of Russian rubles)*

| | | | | Reserve funds | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Note** | **Share capital** | **Share premium** | **Investment revaluation reserve** | **Credit risk on financial assets measured at FVTOCI** | **Other provisions** | **(Accumulated losses)** | **Total** |
| **Balance at the beginning of the period as at 31 December 2017** | | **1 067 132** | **1 383 300** | **-** | **-** | **696 000** | **(1 805 359)** | **1 341 073** |
| Effect of changes in accounting policy when applying IFRS 9 | | - | - | 889 | 41 | - | 236 462 | **237 392** |
| **Balance at the beginning of the period after recalculation as at 1 January 2018** | | **1 067 132** | **1 383 300** | **889** | **41** | **696 000** | **(1 568 897)** | **1 578 465** |
| Share capital increase | | 300 000 | 1 948 000 | - | - | - | - | **2 248 000** |
| Cover of loss of the current period | | - | - | - | - | (696 000) | 696 000 | **-** |
| Elimination of capital inflation | | (67 132) | - | - | - | - | 67 132 | **-** |
| Profit (loss) for the period | | - | - | - | - | | (450 786) | **(450 786)** |
| **Other comprehensive income/(loss) for the period, net of income tax** | | | | | | | | |
| Fair value movements of financial assets at FVTOCI | | - | - | (8 798) | - | - | - | **(8 798)** |
| Allowance for impairment losses on financial assets at FVTOCI | | - | - | - | 2 604 | - | - | **2 604** |
| **Total other comprehensive income/(loss) for the period** | | - | - | (8 798) | 2 604 | - | - | **(6 194)** |
| **Balance as at 31 December 2018** | 17 | **1 300 000** | **3 331 300** | **(7 909)** | **2 645** | **-** | **(1 256 551)** | **3 369 485** |

# SBI Bank LLC

## Statement of Changes in Equity (continued)
**for 2019**
***(in thousands of Russian rubles)***

| | Note | Share capital | Share premium | Reserve funds: Investment revaluation reserve | Reserve funds: Credit risk on financial assets measured at FVTOCI | Other provisions | (Accumulated losses) | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 31 December 2018** | 17 | **1 300 000** | **3 331 300** | **(7 909)** | **2 645** | **-** | **(1 256 551)** | **3 369 485** |
| Share capital increase | | 446 000 | 1 591 600 | - | - | - | - | **2 037 600** |
| Loss for the period | | - | - | - | - | - | (1 159 268) | **(1 159 268)** |
| **Other comprehensive income for the period, net of income tax** | | | | | | | | |
| Fair value movements of financial assets at FVTOCI | | - | - | 25 417 | - | - | - | **25 417** |
| Allowance for impairment losses on financial assets at FVTOCI | | - | - | - | 267 | - | - | **267** |
| **Total other comprehensive income for the period** | | - | - | 25 417 | 267 | - | - | **25 684** |
| **Balance as at 31 December 2019** | 17 | **1 746 000** | **4 922 900** | **17 508** | **2 912** | **-** | **(2 415 819)** | **4 273 501** |

**On behalf of the Management Board of the Bank:**

Karyakin Andrei Dmitrievich
Chairman of the Management Board

Sytenko Vadim Gennadievich
Chief Accountant

24 April 2020

The notes on pages 11-84 form an integral part of these financial statements.

## SBI Bank LLC

**Statement of Cash Flows**
**for 2019**
***(in thousands of Russian rubles)***

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 757 374 | 417 411 |
| Interest paid | | (148 609) | (94 892) |
| Receipts from financial assets at FVTPL | | - | 473 |
| Receipts from trading in foreign currencies | | 59 826 | 48 874 |
| Fee and commission income received | | 165 614 | 88 266 |
| Fees and commissions paid | | (85 527) | (17 850) |
| Other operating income received/(expenses paid) | | 1 417 | (16 826) |
| Administrative and other operating expenses paid | | (1 053 886) | (664 131) |
| Income tax paid | | (1 250) | (695) |
| **Cash flows used in operating activities before changes in operating assets and liabilities** | | **(305 041)** | **(239 370)** |
| Net increase in cash balances with the Central Bank of the RF | | (25 837) | (2 329) |
| Net decrease in financial assets at FVTPL | | - | 60 781 |
| Net decrease/(increase) in deposits with financial institutions | | 922 309 | (1 431 104) |
| Net increase in loans to customers | | (8 210 340) | (714 188) |
| Net increase in other assets | | (47 068) | (30 801) |
| Net (decrease)/increase in deposits of other banks | | (1 417) | 601 692 |
| Net (decrease)/increase in customer accounts | | 6 979 552 | (253 984) |
| Net increase in other liabilities | | 19 430 | 46 976 |
| **Net cash used in operating activities** | | **(668 412)** | **(1 962 327)** |
| **Cash flows from investing activities** | | | |
| Purchase of investments securities | | (258 598) | (690 286) |
| Proceeds from disposal and redemption of investments securities | | 157 736 | 154 633 |
| Purchases of property, equipment and intangible assets | | (324 506) | (59 068) |
| **Net cash and cash equivalents in investing activities** | | **(425 368)** | **(594 721)** |
| **Cash flows from financing activities** | | | |
| Contributions to share capital | | 1 000 000 | 300 000 |
| Other contributions of shareholders to share capital | | - | 1 948 000 |
| Attraction of subordinated loan | | - | 1 037 600 |
| Repayment of lease liabilities | | (60 683) | - |
| **Net cash and cash equivalents from financing activities** | | **939 317** | **3 285 600** |
| Effect of changes in CBR foreign exchange rate on cash and cash equivalents | | (60 839) | 33 002 |
| **Net increase (decrease) in cash and cash equivalents** | | **(215 302)** | **761 554** |
| **Cash and cash equivalents at the beginning of the year** | 6 | **3 067 513** | **2 305 959** |
| **Cash and cash equivalents, end of the year** | 6 | **2 852 211** | **3 067 513** |

**On behalf of the Management Board of the Bank:**

Karyakin Andrei Dmitrievich
Chairman of the Management Board

Sytenko Vadim Gennadievich
Chief Accountant

24 April 2020

ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ Эс-Би-Ай Банк ОГРН 1037739028678 МОСКВА SBI Bank Strategic Business Innovator

The notes on pages 11-84 form an integral part of these financial statements.

# 1. General information

SBI Bank Limited Liability Company (hereinafter – the "Bank") is a limited liability company registered in the Russian Federation in 1994. The activity of the Bank is regulated by the Central Bank of the Russian Federation and is carried out on the basis of a general license for banking operations with funds in rubles and foreign currency (with the right to attract deposits from individuals) and banking operations with precious metals, registration number 3185.

The Bank is primarily engaged in the following operating activities:

1. Corporate banking:
   - opening and maintenance of current and settlement accounts;
   - bank deposits;
   - loans and other credit facilities;
   - issuance of financial guarantees;
   - transactions with foreign currencies and derivative financial instruments;

2. Retail banking:
   - opening and maintaining bank accounts of individuals;
   - deposits;
   - credit and debit cards;
   - consumer loans and mortgages;

3. Investing activities: trade and repos with financial instruments.

The main types of banking operations:

- Operations with securities;
- Granting loans to legal entities and individuals;
- Deposits;
- Provision of bank guarantees.

All Bank's operations are carried out within the Russian Federation only.

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 – certificate № 872 dated 26 August 2005.

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.

On 8 July 2019, ACRA assigned a credit rating of BBB- (RU) to SBI Bank LLC with a stable outlook.

The bank's legal and business address as at the reporting date: Russian Federation, 125315, Moscow, Leningradsky Avenue, 72, bld. 2, bld. 4.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 1. General information (continued)

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| | % | % |
| SBI Holdings, Inc. | 100.00% | 100.00% |
| **Total** | **100.00%** | **100.00%** |

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 preparation of these financial statements the Bank's management assumed that the Bank will continue as a going concern in the foreseeable future and has no plans to discontinue or significantly reduce its activities, therefore its obligations will be discharged appropriately.

For 2019, the Bank has had continued losses from its main activities in the amount of RUB 1 159 268 thousand. The Bank's activities in 2019 were carried out in accordance with the updated Strategy adopted for the period 2019-2023 and approved by the Board of Directors on 21 February 2019 (approved by Protocol of the Board of Directors No. 02/19 dated 21 February 2019). The Strategy provides for planned unprofitable activities for the period of 2020 and the assistance of the participant (raising additional investments and funding) and reaching break-even point at the end of 2021 (see below more about the Strategy).

Also, as at 31 December 2019, the Bank has cumulative liquidity gap (for more details, see note 28) for an up to one year horizon. This gap is covered by the amount of interbank lending limits of the Bank available for use in the amount exceeding RUB 1 500 000 thousand. In addition, most of the funds due to customers are attributable to shareholder deposits (RUB 1 835 448 thousand – note 29), the actual term of which, in the opinion of the Bank's management, is long-term and exceeds the contract period at the reporting date.

The Bank's management also analyzed the impact of the following events after the reporting date.

Starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. COVID-19 prevention efforts taken by many countries lead to significant operating straits for many businesses and have a significant impact on the international financial markets. The rapid spread of COVID-19 can significantly affect many businesses operating in various industries, including, but not limited to, disruption of operations due to production interruptions/shutdowns, supply chain disruptions, staff quarantine, decrease in demand and funding issues. COVID-19 May also affect the Bank more seriously due to its negative impact on the global economy and major financial markets. The effect of COVID-19 on the Bank's operations is largely dependent on the duration of the pandemic and its impact on the global and Russian economies.

As indicated above, the changing economic situation, the spread of COVID-19, non-working days can significantly affect the Bank's operations and financial indicators, including indicators of the loan portfolio quality, liquidity and capital.

## 1. General information (continued)

Taking it into account, the Bank carried out a deep analysis of the current situation, simulated the potential impact of stress scenarios on the Bank's activities and financial indicators, having considered the possible negative effect of the above events. Based on the modeling results, the Bank prepared a list of possible counter-crisis measures to minimize the consequences of negative scenarios, developed a plan of relevant measures, such as revision of the policy on issuing and monitoring loans, maintenance of a closed foreign exchange position, restriction of the transactions with derivative financial instruments, constant monitor for the Bank's market risk profile (including bonds portfolio revaluation), extra funding from SBIH Group.

The impact of further economic and political developments on future operations and financial position of the Bank might be significant.

At the time of signing these financial statements, the Bank received a letter from the Participant in which it expressed its intention to provide support to the Bank within the next 12 months, including a situation that may arise as a result of the negative impact of the factors described above.

Based on this, the Management concluded that the going concern assumption is applicable to the Bank and that the financial stability of the Bank in the foreseeable future will depend both on external economic conditions, implementation of the Strategy and the support of the Participant.

The Bank's activities were carried out in 2019 in accordance with the tasks defined for the first phase of the implementation of the Development Strategy for the period 2020-2023 and were evidenced by the following achievements:

- Development of competitive products for SMEs (lending, bank guarantees, package products);
- Launch of the Family Bank project;
- Implementation of marketing policies in the target strategic areas, testing of communication channels and conducting the necessary studies of the target audience and the market;
- Optimization of the risk management system in order to ensure the optimal balance between the profitability of business areas and the level of risks assumed;
- Development of a risk management system taking into account the specifics of the selected business model;
- Phased development of the Internet and Mobile Bank for corporate clients, implementation and testing of express products and business processes to serve SMEs.

Over the implementation period of the Strategy in 2019, net assets more than doubled, having reached RUB 14 152 million at the end of the reporting year, liabilities increased 2,7 times.

In 2019, SBI Bank LLC completed the procedure for increasing capital by depositing cash in the amount of RUB 1 000 million and exchange of rights of a monetary claim under a subordinated loan agreement in the amount of RUB 1 037,6 million received from the sole Participant of SBI Holdings, Inc. – SBI Holdings, Inc.(Japan). The amount of the share capital of the Bank after its registration amounted to RUB 1 746 million. The capital indicator according to the Provision of the Bank of Russia dated 04 July 2018 No. 646-P "On the Method of Determining the Value of Own Funds (Capital) of Credit Institutions ("Basel III")" amounted to RUB 3 919 million.

Increase in share capital was registered on 16 August 2019.

Maintaining the ACRA rating allowed the Bank to increase its guarantee portfolio 4,7 times in 2019.

72% of the bank guarantee portfolio are "express guarantees" issued under the Federal Law No. 44-FZ "On the Contract System for State and Municipal Procurement of Goods, Work, and Services" dated 5 April 2013; No. 223-Z "On Purchasing Goods, Work, and Services by Certain Types of Legal Entities" dated 18 July 2011.

The Bank's target indicators as at the end of 2019 were achieved.

## 1. General information (continued)

Taking into account the results of a comprehensive analysis of the development of business areas and service functions, including information technologies, as well as external changes, 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 2020-2023.

When planning the development of corporate business for 2020–2023, the Bank focuses on attracting customers from small and medium-sized businesses (SMEs) and rendering comprehensive services to them, as well as large businesses.

Work with the clients of the SME segment.

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).
- Using qualified courier partner services to ensure direct contact with customers.
- The primary focus is on the cities with the population of more than 100 thousand people, cumulatively covering at least 80% of SMEs in Russia.
- Creating own wide agent network to attract customers working in the government procurement market.
- 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”.

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.

The Bank’s retail business development model is focused on providing customers with classic banking products, payment services and commission services using the “Your Circle” digital platform of the “family bank” created in 2019, which allows the holder to use banking services to fulfill family tasks as well.

## 2. Adoption of new and revised standards and interpretations

**New and revised IFRSs effective in the current year**

***Effect of the initial application of IFRS 16 Leases.*** This year, the Bank applied IFRS 16 *Leases* (issued by the IASB in January 2016) effective for annual periods beginning on or after 1 January 2019.

IFRS 16 introduces new or amended lease accounting requirements. The standard introduces significant changes in lease accounting by eliminating the differences between operating and financial leases, requiring the recognition of a right-of-use asset and corresponding lease liability on the date of recognition for all leases, other than short-term leases and low-value asset leases. The impact of the adoption of IFRS 16 on the Bank’s financial statements is described below.

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

The Bank selected a model of the modified retrospective application of IFRS 16 in accordance with IFRS 16. Accordingly, the Bank did not restate the comparatives.

*(in thousands of Russian rubles, unless otherwise indicated)*

## 2. Adoption of new and revised standards and interpretations (continued)

Impact of new definition of leases. As part of the transition to IFRS 16, the Bank used the practical expedient that allows not to determine again whether a contract is, or contains, a lease. Therefore, the definition of a lease under IAS 17 and IFRIC 4 still applies to leases entered into or modified before 1 January 2019.

The change in definition of leases relates primarily to the concept of control. IFRS 16 distinguishes leases and service contracts on the basis of whether the use of an identified asset is controlled by a customer. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This contrasts with the emphasis on "risks and benefits" in IAS 17 and IFRIC 4.

The Bank applied the definition of leases and the associated guidance of IFRS 16 for all lease contracts entered into or modified not earlier than 1 January 2019 (regardless of whether it is a lessor or a lessee under a lease contract). In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project. The implementation has shown that the new definition in IFRS 16 will not significantly change the scope of the contracts that meet the definition of a lease for the Bank.

Impact on lease accounting by the lessee

*Operating leases:* IFRS 16 changed the lease accounting by the Bank previously classified as operating leases under IAS 17 (off-balance sheet accounting).

When initially applying IAS 16 to all lease contracts, the Bank:

(a) Recognized in the statements of financial position assets in the form of the right of use and lease liabilities, initially valued at the present value of future lease payments;
(b) Recognized in the statements of profit or loss depreciation of assets in the form of the right of use and interest on lease liabilities;
(c) Determined the presentation in the statement of cash flows the total amount of cash allocated for the repayment of lease payments in financial activities.

Lease incentives (e.g. a free-of-charge period) are recognized as part of right-of-use lease assets and liabilities. In the IAS 17, lease incentives are treated as rental income, amortized as a reduction in rental costs on a straight-line basis. According to IFRS 16, the asset valuation in the form of the right of use for impairment will be conducted in accordance with IAS 36 Impairment of Assets.

*Finance lease*. The main difference between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Bank recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount of the guarantee as required by IAS 17. This change had no impact on the amounts recognized in the Bank's financial statements.

Impact of initial application of IFRS 16 on the financial statements. The tables below show the adjustments for each financial statement item affected by the application of IFRS 16:

| **Effect on assets, liabilities and equity as at 1 January 2019** | **As previously reported** | **IFRS 16 adjustments** | **As restated** |
|---|---|---|---|
| Property and equipment and intangible assets, total including | 358 147 | 251 597 | 609 744 |
| – right-of-use asset | - | 251 597 | 251 597 |
| Other assets | 75 429 | (4 933) | 70 496 |
| **Total effect on assets** | **-** | **251 597** | **251 597** |
| Lease liabilities | - | (246 664) | (246 664) |
| **Total effect on liabilities** | **-** | **(246 664)** | **(246 664)** |
| **Retained earnings** | **-** | **-** | **-** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 2. Adoption of new and revised standards and interpretations (continued)

For tax purposes the Bank receives tax deductions in respect of the right-of-use assets and the lease liabilities in a manner consistent with the maintaining accounting treatment.

For accounting purposes, the application of IFRS 16 to the lease previously classified as operating lease in accordance with IAS 17 led to the recognition of the right-of-use assets in the amount of RUB 251 597 thousand and related lease liabilities in the amount of RUB 246 664 thousand as at 1 January 2019. The difference in the total valuation of the asset and liability in the amount of RUB 4 933 thousand is connected with the advance payment that is reclassified from Other assets and recognized in the valuation of the right-of-use asset. As stated above, IFRS 16 initial application didn't influence equity as at 1 January 2019. The effect on profit or loss in the reporting period is a reduction of the amount of other expenses by RUB 60 683 thousand, recognition of the right-of-use asset amortization in the amount of RUB 55 928 thousand (see note 21) and recognition of interest expenses in the amount of RUB 18 523 thousand (refer to note 17).

The application of IFRS 16 has an impact on the Bank's statement of cash flows. A new line appeared in the statement of cash flows in the section "Net cash and cash equivalents received from (used in) financial activities" – Repayment of lease liabilities. Earlier, in accordance with IAS 17, these expenses were recorded by the Bank in the section "Cash from operating activities" under the line Administrative and other operating expenses paid.

The application of IFRS 16 did not have an impact on the net cash flows.

In the current year, the Bank has adopted a number of amendments to IFRS, including the standards and interpretations issued by the International Accounting Standards Board (IASB) which are effective for annual periods beginning on or after 1 January 2019. The application of those amendments had no material impact on the disclosures or the amounts recognized in these financial statements.

| | |
|---|---|
| Amendments to IFRS 9 *Prepayment Features with Negative Compensation.* | The Bank has applied these amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that in order to determine whether prepayment features meet the criteria for payment of principal and interest, the party to the contract may pay or receive a reasonable refund for the prepayment regardless of its cause. In other words, features of the prepayment with negative reimbursement do not automatically violate the criterion of payments of the principal amount of the debt and interest. |
| Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures.* | The Bank has applied these amendments to IAS 28 for the first time in the current year. The amendments clarify that IFRS 9, including impairment provisions, applies to long-term interests. In addition, when applying IFRS 9 to long-term investments, the entity does not take into account adjustments to the carrying amount of long-term investments required by IAS 28 (e.g. adjustments to the carrying amount of long-term investments arising from distribution of losses of the investee or impairment testing as per IAS 28). The Bank applied IFRS 9 to such long-term investments before applying IAS 28. |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 2. Adoption of new and revised standards and interpretations (continued)

| | |
|---|---|
| Annual Improvements to IFRS Standards 2015-2017 Cycle: *Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.* | The Bank has applied the amendments included in Annual Improvements to IFRS 2015-2017 Cycle for the first time in the current year. Annual improvements include amendments to four standards:<br><br>IAS 12 *Income Taxes*. The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. The amendments are applied regardless of income tax rates applicable to distributable and undistributable profits.<br><br>IAS 23 *Borrowing Costs.* The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.<br><br>IFRS 3 *Business Combinations.* The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The remeasurement of PHI includes any unrecognized assets, liabilities and goodwill relating to the joint operation.<br><br>IFRS 11 *Joint Arrangements*. The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation. |
| IFRIC 23 *Uncertainty Over Income Tax Treatments.* | The Bank has applied IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The clarification requires that the entity:<br><br>● define whether each uncertain tax positions should be considered separately or together with other uncertain tax positions;<br>● assess whether it is probable that the tax authority will agree with the uncertain tax treatment that has been used or is suggested to be used by the entity when filing its income tax return:<br>    ● if there is a high probability, the entity determines its tax accounting position in accordance with the tax treatment used or planned for use when filing the income tax return;<br>    ● if there is no high probability, the entity should record the effect of uncertainty in determining its tax accounting position. |

At the time of approval of these financial statements the Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 17 | *Insurance Contracts* |
| IFRS 10 *Consolidated Financial Statements and IAS 28 (amendments)* | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* |
| Amendments to IFRS 3 | *Business Combinations* |
| Amendments to IAS 1 and IAS 8 | *Definition of Materiality* |
| Conceptual framework | *Amendments to References to the Conceptual Framework in IFRS Standards* |

## 2. Adoption of new and revised standards and interpretations (continued)

Management does not expect the application of the Standards specified above to have a significant impact on the financial statements of the Bank in subsequent periods, except as indicated below:

***IFRS 17 Insurance Contracts.*** The new standard establishes principles for recognition, measurement, disclosure and presentation of information on insurance contracts, and supersedes IFRS 4 *Insurance Contracts*.

This standard provides for the use of a general model modified according to insurance contracts with components of direct participation, described as contracts with variable insurance remuneration. If certain criteria are met, the general model is simplified by measuring liability for the remaining coverage using the premium allocation approach.

The general model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows, and will also separately measure the value of such uncertainty; the model takes into account market interest rates and the impact of options and guarantees of insurance contract holders.

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. It is applied retrospectively, unless it is impracticable, in such cases a modified retrospective approach or a fair value approach is used. The Exposure Draft Amendments to IFRS 17 address concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

In order to meet transitional requirements, the date of initial application is the beginning of the annual reporting period in which the entity first applies this standard, and the date of transition is the beginning of the period immediately preceding the date of initial application. The management of the Bank does not expect the application of this standard to affect the financial statements of the Bank in the future, since the Bank does not have the instruments within the scope of the application of this standard.

***Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*** The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. Management anticipates that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise.

***Amendments to IFRS 3 Definition of Business.*** The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The definitions of a business and of outputs were narrowed by removing the reference to an ability to reduce costs.

The amendments also remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business under IFRS 3 *Business Combinations*. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Earlier application is permitted. The management of the Bank does not anticipate that the application of these amendments will have an impact on the Bank's financial statements.

## 2. Adoption of new and revised standards and interpretations (continued)

***Amendments to IAS 1 and IAS 8 Definition of Materiality*.** The amendments are intended to make the definition of materiality easier to understand and are not intended to alter the underlying concept of materiality.

The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The materiality definition presented in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* was replaced with a reference to IAS 1 *Presentation of Financial Statements*. The IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The management of the Bank does not anticipate that the application of these amendments will have an impact on the Bank's financial statements.

***Amendments to References to the Conceptual Framework in IFRS Standards.*** Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC 32.

Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020.

## 3. Significant accounting principles

**Statement of compliance.** These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

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

**Basis of preparation.** These financial statements have been prepared on the historical cost basis except for financial instruments.

Foreign currency exchange rates in which the Bank conducted transactions in the largest amounts compared to other currencies are presented as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Exchange rate at the end of the period (to RUB)** | | |
| USD 1 ("US dollar") | 61.9057 | 69.4706 |
| EUR 1 | 69.3406 | 79.4605 |
| JPY 100 | 0.567032 | 0.629976 |

In addition to these foreign currencies, the Bank carried out operations in British pounds, Swiss francs.

## 3. Significant accounting principles (continued)

***Net interest income.*** Interest income and expense for all financial instruments are recognized in *Net interest income* as *Interest income* and *Interest expense* in the profit or loss account using the effective interest rate method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss provision), or to the amortized cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the provision for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (hereinafter – POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

***Fee and commission income/expenses*. **Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Bank's statement of profit or loss include among other things fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and etc.

Fee and commission expenses with regards to services are accounted for as the services are received.

***Net profit/(loss) on transactions with trading assets and other financial assets at FVTPL and trading liabilities*. **Net gain/(loss) on trading and other financial assets at FVTPL and trading liabilities includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, except interest income/expenses. The latter are recorded in the profit or loss account as part of "Net interest income".

***Dividend income.*** Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for non-quoted equity securities.

The presentation of dividend income in the statement of profit and loss depends on the classification and measurement of the equity investment. Specifically:

- For equity instruments which are held for trading, dividend income is presented as trading income;
- For equity instruments designated at FVTOCI (hereinafter, as well as in the statement of other comprehensive income and statement of capital flows) dividend income is presented in other income;
- For equity instruments not designated at FVTOCI and not held for trading, dividend income is presented as net income from other instruments at FVTPL.

***Financial assets.*** All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Initially financial assets are measured at fair value, plus transaction costs. The exception is for those financial assets classified at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified at FVTPL are recognized immediately in profit or loss.

## 3. Significant accounting principles (continued)

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost.
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI.
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank makes the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis. Specifically:

- The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- The Bank may irrevocably designate a debt instrument that meets the amortized cost or FVTPL criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

<u>Debt instruments at amortized cost or at FVTOCI.</u> The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The entity determines the business model at the level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments which reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

## 3. Significant accounting principles (continued)

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How management of the Bank are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

<u>Financial assets at FVTPL.</u> Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI or/and;
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell;
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

<u>Reclassifications.</u> If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. Changes in contractual cash flows are considered under the accounting policy below (*"Modification and derecognition of financial assets")*.

<u>Gains and losses on foreign exchange operations.</u> The carrying amount of financial assets, that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortized cost that are not part of certain hedging relationships, exchange differences are recognized in profit or loss as "Net gain/(loss) from revaluation of foreign currency".
- For debt instruments measured at FVTOCI that are not part of certain hedging relationships, exchange differences at amortized cost of the debt instrument are recognized in profit or loss as "Net gain/(loss) from revaluation of foreign currency". Other exchange differences are recorded in other comprehensive income in the investments revaluation reserve.
- For financial assets measured at fair value in profit or loss that are not part of certain hedging relationships, exchange differences are recognized in profit or loss as "Net gain/(loss) from revaluation of foreign currency".
- For equity instruments at fair value through other comprehensive income, exchange differences are recorded in other comprehensive income in the revaluation reserve for investments.

## 3. Significant accounting principles (continued)

Impairment. The Bank recognizes loss provisions for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Due from financial institutions;
- Loans to customers;
- Investment securities;
- Other financial assets in other assets;
- Financial guarantees issued.

No impairment loss is recognized on equity investments.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss provision at an amount 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).

For more details about staging please refer to note 28.

A loss provision 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.

ECLs are a probability-weighted estimate of the present value of ECL. These are measured as 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 present value of 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.
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

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 provision 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.

Credit-impaired financial assets. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

## 3. Significant accounting principles (continued)

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit-impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to the deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit-impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Definition of default. Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss provision is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Bank;
- The borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset. For example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Significant increase in credit risk. The Bank monitors all financial assets, issued credit commitments and financial guarantee contracts that are subject to the 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.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

## 3. Significant accounting principles (continued)

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behavior. The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; and
- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Bank uses the same methodologies and data used to measure the loss provision for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. In relation to loans to legal entities, special attention is paid to the assets that are included in the "watch list". It is assumed that if there is doubt about the creditworthiness of a particular counterparty, the risk arises in relation to this list. For retail lending the Bank considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

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.

<u>Modification and derecognition of financial assets.</u> A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Bank renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors. For example, after changing the conditions, the contractual cash flows include not only payments on the principal amount of the debt and interest; the contract currency or counterparty has changed. The extent of change in interest rates, maturity, covenants are also analyzed.

## 3. Significant accounting principles (continued)

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest rate.

If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognized the loss provision for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss provision measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised per amount because there remains a high risk of default, which has not been reduced by the modification.

The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; and
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss provision will continue to be measured at an amount equal to lifetime ECL.

The loss provision on forborne loans in respect of which the bank decided to change the conditions in response to the deterioration in the credit quality of loans, will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL provision). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss. The exception is for the equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

## 3. Significant accounting principles (continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Write-off of assets. Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset, either in its entirety or a portion of it. This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in decrease in ECLs.

Presentation of provision for ECL in the statement of financial position. Loss provision for ECL is presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: no loss provision is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss provision is included as part of the revaluation amount in the investments revaluation reserve;
- For loan commitments and financial guarantee contracts: as a loss provision.

***Financial liabilities and equity.*** Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liability is a contractual obligation to provide cash or another financial asset or exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank, or the contract that could potentially be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is obliged or may be required to provide a variable amount of its own equity instruments, or a derivative contract in excess of its own equity, which will or can be repaid only by exchanging a fixed amount of cash (or another financial asset) for a fixed number of Bank's own equity instruments.

***Financial liabilities.*** Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL. Financial liabilities are classified at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

## 3. Significant accounting principles (continued)

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis;
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss does not incorporate any interest paid on the financial liability.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

<u>Other financial liabilities</u>*.* Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR see the "net interest income section" above.

<u>Derecognition of financial liabilities.</u> The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If modification is not significant, the difference between: (1) the carrying amount of the liability before modification; and (2) the present value of the cash flows after the modification is charged to profit or loss as other income or expenses.

## 3. Significant accounting principles (continued)

Derivative financial instruments. The Bank enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to interest rate risk, credit risk and foreign exchange rate risk.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognized in profit and loss immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

At the same time, in case of insignificance of accounting items of derivative financial instruments, the Bank may present information as a net position and record as Other assets or Other liabilities depending on the sign of the net position.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the provision for losses determined in accordance with IFRS 9; and
- The amount initially recognized less (if necessary) cumulative income recognized in accordance with the Bank's revenue recognition policy.

Financial guarantee contracts that are not classified as at FVTPL are presented as estimated liabilities in the statement of financial position as Other liabilities.

The Bank did not classify in the reporting period any financial guarantee contracts as at FVTPL.

***Cash and cash equivalents.*** Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the Central Bank of the Russian Federation with original maturity of less or equal to 30 days and amounts due from credit institutions with original maturity of less or equal to 30 days and are free from contractual encumbrances.

***Mandatory cash balances with the Central Bank of the Russian Federation.*** Mandatory cash balances with the Central Bank of the Russian Federation represent mandatory reserve deposits with the Central Bank of the Russian Federation, which are not available to finance the Bank's day-to-day operations. Hence, they are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

***Property and equipment.*** Property and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

| | |
|---|---|
| Office and computer equipment | 25% – 40% |
| Other property and equipment | 10% – 33% |

## 3. Significant accounting principles (continued)

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

***Intangible assets***

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure. Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets. An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets. At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the recoverable amount of an individual asset cannot be estimated, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

## 3. Significant accounting principles (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount. In this case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. Recovery of impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount. In this case the recovery of impairment loss is treated as a revaluation increase.

***Precious metals.*** Assets and liabilities denominated in precious metals are translated at the current rate computed based on the fixing of the London Metal Exchange rates, using the RUR/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals operations.

***Taxation.*** Income tax expense comprises current tax and deferred tax.

<u>Current income tax.</u> Current income tax is based on taxable profit for the year. Profit before tax differs from profit as reported in the profit or loss statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

<u>Deferred income tax.</u> Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities on income are measured at tax rates (and also provisions of the tax law) which were approved or almost approved by the legislation at the reporting date and it is expected that they will be effective during a tax asset implementation or repayment of the obligation.

The assessment of deferred tax liabilities and assets reflects tax consequences of the Bank's intentions (as at the end of the reporting period) concerning ways of compensation or repayment of the carrying amount of assets and liabilities.

<u>Current and deferred income tax for the year.</u> Current and deferred income tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity. In this case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

***Provisions***. Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

## 3. Significant accounting principles (continued)

When some or all of the economic benefits required to settle a liability are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

***Contingent liabilities.*** Contingent liabilities are not recognized in the statement of financial position but are disclosed in the financial statements unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

***Collateral.*** The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

***Other equity reserves.*** Other reserves recorded in equity on the Bank's statement of financial position include reserve funds:

- Investment revaluation fund at FVTOCI, which includes changes in the fair value of financial assets at FVTOCI;
- Debt investment credit risk fund at FVTOCI, which includes changes in expected credit loss for these instruments.

***Non-current assets held for sale.*** Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

## 4. Significant accounting judgments and key sources of estimation uncertainty

In the application of the Bank's accounting policies, the Bank management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed regularly. 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.

### Material assumptions

***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. In case of irrelevance of the model, the analysis is conducted for changes in the business model and possible changes in the classification of the relevant assets.

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

***Significant increase in credit risk.*** As explained in note 3, ECL are measured as a provision 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 28 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 28.

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). As a result, the assets move from 12-month to lifetime ECLs, or vice versa. These movements 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. Judgement 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 28 for more details on ECL and note 26 for more details on fair value measurement.

**Sources of estimation uncertainty.** The following are key estimations that the management 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:

***Determination of the number and relative value of forward-looking scenarios for each type of product/market and the definition of forward-looking information related to each scenario.*** When measuring the level of credit losses, the Bank uses reasonable forward-looking information, which is based on the assumptions about the future movement of various economic factors and how these factors will affect each other. Refer to note 28 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 28 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).*** 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. See note 28 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

***Fair Value Measurement.*** 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 26 for more details on fair value measurement.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 5. Prior period reclassification

Certain reclassifications have been made to the financial statements for 2018 to conform to the presentation of the statements for 2019. The result of the adjustments is presented in the table below:

| Item of the statement of profit or loss | As reported in 2018 | Adjustment | Recorded in the statements for 2019 (adjusted for 2018) |
|---|---|---|---|
| | Amount in RUB thousand | | |
| **Recovery/(creation) of other provisions, total** | **2 219** | **(8 915)** | **(6 696)** |
| including: | | | |
| - change of ECL for the obligations of financial guarantee contracts | - | (10 524) | (10 524) |
| - change of ECL for the obligations of lending | - | 679 | 679 |
| - change of the provision for the impairment on other financial assets | 2 219 | 930 | 3 149 |
| **Other net (expenses)/income, total** | **(16 834)** | **8 923** | **(7 911)** |
| including: | | | |
| - change of ECL for the obligations of financial guarantee contracts | (10 524) | 10 524 | - |
| - change of ECL for the obligations of lending | 679 | (679) | - |
| - change of the provision for the impairment on other financial assets | 930 | (930) | - |
| - net gain on precious metals operations | - | 8 | 8 |
| - expenses on disposal of property and equipment | (7 986) | - | (7 986) |
| - other | 67 | - | 67 |
| **Net gain on precious metals operations** | **8** | **(8)** | **-** |

In the financial statements for 2018, changes in the provisions under financial guarantee contracts and loan commitments were recorded in the statements of profit or loss as Other net (expenses)/income in the amount of net amount RUB (9 845) thousand, and under the Recovery/(creation) item of other provisions only the change in the provisions for the expected credit losses of other financial assets was recorded in the amount of RUB 2 219 thousand.

In the financial statements for 2019, the Bank aligns the change in the provisions with the item for their record. Amounts of changes in the provisions under financial guarantee contracts in the amount of RUB (10 524) thousand and the provisions for loan commitments in the amount of RUB 679 thousand are recorded in the statements of profit and loss as Recovery/(creation) of other provisions, and Other net (expenses)/income in the statements of profit or loss is adjusted for the net amount of RUB (9 845) thousand.

The Bank changed the provision for expected credit losses of other financial assets for 2018 in connection with the implementation of IFRS 9, recorded in the statements of profit or loss as Other net (expenses)/income in the amount of RUB 930 thousand. In the financial statements for 2019, the Bank brings the changes in the provisions for expected credit losses of other financial assets in compliance with the item of their record, the amount of change is: RUB 2 219 thousand plus RUB 930 thousand. Profit and loss statement item Other net (expenses)/income is adjusted for RUB 930 thousand.

In the financial statements for 2019, the Bank does not show the item Net profit on operations with precious metals in the amount of RUB 8 thousand as a separate line in the statement of profit or loss due to non-materiality. Net profit on operations with precious metals in the amount of RUB 8 thousand for 2018 is recorded as Other net (expenses)/income.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 6. Cash and cash equivalents

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Term deposits with original maturities up to 30 days | 1 650 000 | - |
| Correspondent accounts with other banks | 933 170 | 80 719 |
| Correspondent accounts with the Central Bank of the Russian Federation | 135 686 | 57 380 |
| Correspondent accounts with the banks of the Russian Federation | 81 497 | 84 091 |
| Cash on hand | 51 858 | 117 462 |
| Term deposits with maturity up to 30 days with the Central Bank of the Russian Federation | - | 2 727 861 |
| **Total cash and cash equivalents before provision** | **2 852 211** | **3 067 513** |
| Less allowance for expected credit losses | (187) | (27) |
| **Total cash and cash equivalents** | **2 852 024** | **3 067 486** |
| Allowance for expected credit losses | 187 | 27 |
| **Cash and cash equivalents for the purposes of the statement of cash flows** | **2 852 211** | **3 067 513** |

Term deposits with initial maturity of up to 30 days are placed with PJSC Sberbank, PJSC Bank Otkritie FK, VTB (PJSC) only in the currency of the Russian Federation, maturity date is till 9 January 2020, interest rates are from 5,5% to 6,75 % per annum.

Funds on the correspondent accounts with the banks of other countries as at 31 December 2019 and 31 December 2018 were placed with Mizuho Bank, Ltd. (Japan), RAIFFEISEN BANK INTERNATIONAL AG (Austria).

Information on the movement of the provision for the impairment of cash and cash equivalents for 2019 and 2018 is presented in the table below:

| | 2019 | 2018 |
|---|---|---|
| **Allowance for ECL as at the beginning of the reporting period** | **27** | **43** |
| Creation of the provision during the reporting period | 160 | (16) |
| **Allowance for ECL as at the end of the reporting period** | **187** | **27** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 7. Due from financial institutions

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Reverse repurchase agreements | 500 970 | 1 230 230 |
| Accounts for settlements with plastic cards | 24 269 | 20 145 |
| Other accounts with financial institutions | 115 | 4 540 |
| Term deposits with original maturity more than 30 days | - | 202 630 |
| **Total due from financial institutions before provision** | **525 354** | **1 457 545** |
| Less allowance for expected credit losses | (72) | (272) |
| **Total due from financial institutions** | **525 282** | **1 457 273** |

The fair value of pledged financial instruments and the carrying amount of reverse repos were:

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| **Instrument description** | **Carrying amount of loans** | **Fair value of collateral** | **Carrying amount of loans** | **Fair value of collateral** |
| Corporate bonds | 250 925 | 304 088 | - | - |
| Clearing Certificate of Participation | 250 045 | 250 000 | - | - |
| Federal bonds of the Russian Federation | - | - | 219 493 | 233 519 |
| Subfederal bonds | - | - | 1 010 737 | 1 123 812 |
| Allowance for expected credit losses | (15) | - | - | - |
| **Total** | **500 955** | **554 088** | **1 230 230** | **1 357 331** |

The movements in the impairment allowance for due from banks for 2019 and 2018 comprised:

| | 2019 | 2018 |
|---|---|---|
| **Allowance for ECL as at the beginning of the reporting period** | **272** | **612 172** |
| Recovery of the allowance during the reporting period | (200) | (290) |
| Debt transfer from loans to financial institutions to loans to customers | - | (611 610) |
| **Allowance for ECL as at the end of the reporting period** | **72** | **272** |

In 2018, the Bank novated funds of financial institutions into the loans to customers. The effect of novation in terms of allowance amounted to RUB 611 610 thousand.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 8. Loans to customers

The total balance of loans and advances to customers is measured at amortized cost.

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Loans to legal entities | 9 267 928 | 3 016 539 |
| Loans to individuals | 2 256 407 | 275 496 |
| **Loans to customers before provision** | **11 524 335** | **3 292 035** |
| Less allowance for expected credit losses | (2 403 559) | (2 046 950) |
| **Total loans to customers** | **9 120 776** | **1 245 085** |

As at 31 December 2019 and 2018, all loans were provided to the companies operating in Russia.

The movements in the impairment allowance for the loans to customers for 2019 and 2018 comprised:

| | 2019 | 2018 |
|---|---|---|
| **Allowance for ECL as at the beginning of the reporting period** | **2 046 950** | **1 495 721** |
| Provision during the reporting period/(recovery) | 382 442 | (32 153) |
| Debt transfer from loans to financial institutions to loans to customers | - | 611 610 |
| Assets written off during the reporting period as uncollectible | (25 833) | (28 228) |
| **Allowance for ECL as at the end of the reporting period** | **2 403 559** | **2 046 950** |

As at 31 December 2019 and 2018 loans to customers included loans totaling RUB 0 thousand and RUB 1 866 512 thousand (including novation) respectively, whose terms were renegotiated. Otherwise these loans would be past due.

The table below shows the type of collateral for loans to customers:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| | ***Carrying amount of loans*** | ***Carrying amount of loans*** |
| Loans collateralized by guarantees | 4 329 766 | 724 944 |
| Unsecured loans | 3 757 838 | 792 524 |
| Loans collateralized by pledge of real estate | 923 340 | 1 774 567 |
| Loans collateralized by pledge of rights of claim | 795 538 | - |
| Loans collateralized by pledge of goods in turnover | 779 012 | - |
| Loans collateralized by pledge of equipment and other property | 645 167 | - |
| Loans collateralized by pledge of securities | 162 710 | - |
| Loans collateralized by deposits of legal entities or individuals | 130 964 | - |
| ***Gross value*** | **11 524 335** | **3 292 035** |
| Allowance for expected credit losses | (2 403 559) | (2 046 950) |
| ***Carrying amount*** | **9 120 776** | **1 245 085** |

Please see note 28 for other details on loans to customers, including the analysis of loans by stages.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 9. Investment securities

According to the adopted accounting policy, investment securities are represented by financial instruments at FVTOCI

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Corporate bonds | 389 962 | 391 681 |
| Bonds issued by credit institutions | 111 123 | - |
| Corporate eurobonds | 73 973 | 119 415 |
| Credit institution eurobonds | 77 228 | - |
| Bank of Russia bonds | 23 239 | 22 387 |
| Sovereign eurobonds | - | 41 571 |
| **Total investment assets** | **675 525** | **575 054** |

Debt securities have the following characteristics as at 31 December 2019 and 31 December 2018, respectively:

| | Maturity, month/year | | Annual coupon rate, %% | | 31 December |
|---|---|---|---|---|---|
| | from | to | from | to | 2019 |
| Corporate bonds | 20 December | 26 September | 8.15 | 13.10 | 389 962 |
| Corporate eurobonds | 21 May | 21 May | 3.37 | 3.37 | 73 973 |
| Bank of Russia bonds | 21 August | 21 August | 7.50 | 7.50 | 23 239 |
| Bonds issued by credit institutions | 29 March | 29 March | 9.25 | 9.25 | 111 123 |
| Credit institution eurobonds | 24 February | 24 February | 5.15 | 5.15 | 77 228 |
| **Total debt securities** | **-** | **-** | **-** | **-** | **675 525** |

| | Maturity, month/year | | Annual coupon rate, %% | | 31 December |
|---|---|---|---|---|---|
| | from | to | from | to | 2018 |
| Corporate bonds | 19 September | 23 October | 8.15 | 13.10 | 391 681 |
| Corporate eurobonds | 21 May | 21 July | 3.37 | 5.95 | 119 415 |
| Sovereign eurobonds | 26 May | 26 May | 4.75 | 4.75 | 41 571 |
| Bank of Russia bonds | 21 August | 21 August | 7.5 | 7.50 | 22 387 |
| **Total debt securities** | **-** | **-** | **-** | **-** | **575 054** |

The movements in the impairment provision for the investment securities for 2019 and 2018 are presented in the table below. The provision is recorded in equity and does not change the carrying amount of investment securities (see Statement of changes in capital).

| | 2019 | 2018 |
|---|---|---|
| **Allowance for ECL as at the beginning of the reporting period** | **2 645** | **41** |
| Creation of the allowance during the reporting period | 267 | 2 604 |
| **Allowance for ECL as at the end of the reporting period** | **2 912** | **2 645** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 10. Property and equipment and intangible assets

| | Office and computer equipment | Other property and equipment | Lease (right-of-use assets) | Software licenses | Total |
|---|---|---|---|---|---|
| Gross carrying amount as at 31 December 2017 | 30 932 | 13 145 | - | 46 720 | **90 797** |
| Gross carrying amount as at 31 December 2018 | 30 312 | 13 909 | - | 91 413 | **135 634** |
| Gross carrying amount as at 31 December 2019 | 78 463 | 1 465 | 251 597 | 375 161 | **706 686** |
| Accumulated depreciation and amortization with impairment loss as at 31 December 2017 | (30 251) | (11 972) | - | (31 813) | **(74 036)** |
| Accumulated depreciation and amortization with impairment loss as at 31 December 2018 | (29 315) | (11 848) | - | (32 227) | **(73 390)** |
| Accumulated depreciation and amortization with impairment loss as at 31 December 2019 | (44 301) | (851) | (55 928) | (51 790) | **(152 870)** |
| **Reconciliation of carrying amount:** | | | | | |
| Carrying amount as at 31 December 2017 | 681 | 1 173 | - | 14 907 | **16 761** |
| Additions | 909 | 1 829 | - | 56 329 | **59 067** |
| Disposals | (1 529) | (1 065) | - | (11 637) | **(14 231)** |
| Depreciation and amortization | (593) | (910) | - | (8 953) | **(10 456)** |
| Other movements | 1 529 | 1 034 | - | 8 540 | **11 103** |
| **Carrying amount as at 31 December 2018** | **997** | **2 061** | **-** | **59 186** | **62 244** |
| Additions | 38 013 | - | 251 597 | 288 203 | **577 813** |
| Disposals | (2 445) | (397) | - | (4 455) | **(7 297)** |
| Depreciation and amortization | (6 324) | (363) | (55 928) | (20 448) | **(83 063)** |
| Other movements | 3 921 | (687) | - | 885 | **4 119** |
| **Carrying amount as at 31 December 2019** | **34 162** | **614** | **195 669** | **323 371** | **553 816** |

As at 31 December 2019 and 2018 property and equipment included property and equipment for which depreciation is accumulated in the amount of 100%, the value of such objects is RUB 38 821 thousand and RUB 33 766 thousand respectively.

All disposals of property and equipment and intangible assets were carried out as a result of the complete depreciation and amortization of these assets; these objects were not sold in 2019.

The Bank leases office premises. The period remaining until the end of the lease is 4 years. Please see note 28 for the analysis of lease liabilities by maturity.

| | 31 December 2019 | 1 January 2019 |
|---|---|---|
| **Amounts recognized in profit and loss** | | |
| Depreciation expense on right-of-use assets | 55 928 | - |
| Interest expenses on lease liabilities | 18 523 | - |

As at 31 December 2019, the Bank had liability under short-term lease of RUB 204 504 thousand (refer to note 16).

***(in thousands of Russian rubles, unless otherwise indicated)***

## 11. Other assets

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Outstanding settlements | 7 825 | 2 974 |
| Security deposits guaranteeing performance of the obligations | 25 151 | - |
| Recognized penalties and fines for late payment of bank claims | 19 112 | - |
| Other receivables | 4 828 | - |
| Fair value of swap, spot transactions | 1 112 | - |
| **Total other financial assets before allowance** | **58 028** | **2 974** |
| Less allowance for expected credit losses | (23 681) | - |
| **Total other financial assets** | **34 347** | **2 974** |
| Advances paid | 46 027 | 55 789 |
| Other | 81 | 16 639 |
| Advances to employees | - | 27 |
| **Total other non-financial assets before provisions** | **46 108** | **72 455** |
| Less allowance for impairment losses | **-** | **-** |
| **Total other non-financial assets** | **46 108** | **72 455** |
| **Total other assets** | **80 455** | **75 429** |

According to the adopted accounting policy, the line "Receivables from swap and spot transactions" includes the revaluation of foreign currency for spot transactions in the amount of a net position of RUB 14 thousand and transactions with derivative financial instruments (hereinafter – the derivatives) in the amount of the net position of RUB 1 098 thousand totaling RUB 1 112 thousand. These assets are carried at fair value.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

| | 31 December 2019 | | | |
|---|---|---|---|---|
| | Nominal amount | | Fair value | |
| **Type of derivative** | **Receivable** | **Payable** | **Asset** | **Liability** |
| **Derivative financial instruments held for trading:** | | | | |
| **Foreign currency** | | | | |
| Swaps | 2 551 596 | (2 550 498) | 1 278 | (180) |
| **Total derivative financial instruments** | **2 551 596** | **(2 550 498)** | **1 278** | **(180)** |
| **Total derivative financial instruments held for trading** | **2 551 596** | **(2 550 498)** | **1 278** | **(180)** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 11. Other assets (continued)

According to the adopted accounting policy, the Bank records the receivables for recognized fines and penalties for late payment of liabilities, starting from the financial statements for 2019, as Other assets. Previously, these receivables were recorded as Loans to customers. The value of such receivables was: gross value – RUB 20 803 thousand, allowance for ECLs – RUB 20 801 thousand, carrying amount – RUB 2 thousand.

According to the adopted accounting policy, the Bank records the receivables for other operations, starting from the financial statements for 2019, as Other assets. Previously, these receivables were recorded as Loans to customers. The value of such receivables was: gross value – RUB 8 918 thousand, allowance for ECLs – RUB 8 918 thousand, carrying amount – RUB 0 thousand.

Information on the movement of the allowance for expected credit losses for other financial assets for 2019 is presented in the table below. The allowance for expected credit losses for other financial assets for 2018 was recovered in the amount of RUB 3 149 thousand:

| | **Other financial assets** | | | |
|---|---|---|---|---|
| **2019** | **Outstanding settlements** | **Recognized penalties and fines for late payment of bank claims** | **Other receivables** | **Total** |
| **Allowance for ECL as at the beginning of the reporting period** | **-** | **-** | **-** | - |
| Creation of the allowance during the reporting period | 1 | 19 047 | 4 633 | 23 681 |
| **Allowance for ECL as at the end of the reporting period** | **1** | **19 047** | **4 633** | **23 681** |

| | **31 December 2019** | | | |
|---|---|---|---|---|
| | **Nominal amount** | | **Fair value** | |
| **Type of derivative** | **Receivable** | **Payable** | **Asset** | **Liability** |
| **Derivative financial instruments held for trading:** | | | | |
| **Foreign currency** | | | | |
| Swaps | 2 551 596 | (2 550 498) | 1 278 | (180) |
| **Total derivative financial instruments** | **2 551 596** | **(2 550 498)** | **1 278** | **(180)** |
| **Total derivative financial instruments held for trading** | **2 551 596** | **(2 550 498)** | **1 278** | **(180)** |

| **2018** | **Other financial assets** | **Total** |
|---|---|---|
| **Allowance for ECL as at the beginning of the reporting period** | **3 149** | **3 149** |
| Recovery of the allowance during the reporting period | (3 149) | **(3 149)** |
| **Allowance for ECL as at the end of the reporting period** | **-** | **-** |

*(in thousands of Russian rubles, unless otherwise indicated)*

## 12. Non-current assets held for sale

| | |
|---|---|
| **31 December 2017** | **642 958** |
| Acquisition of property | 67 000 |
| Sale of property | (27 000) |
| Impairment | (197 810) |
| **31 December 2018** | **485 148** |
| Impairment | (191 201) |
| **31 December 2019** | **293 947** |

As at 31 December 2019, the Bank accounted, as long-term assets held for sale, assets received as compensation for loan debt in the amount of RUB 293 947 thousand (as at 31 December 2018: RUB 485 148 thousand). The amount of impairment for these assets amounted to RUB 498 941 thousand as of 31 December 2019 (as at 31 December 2018: RUB 307 740 thousand).

Long-term assets held for sale were recorded at fair value determined in the amount of the borrower's (debtor's) terminated obligations under the agreement for the provision (placement) of funds.

As at the date of preparation of these statements, one of the objects of long-term assets held for sale with a carrying amount of RUB 17 434 thousand was sold. The net result from the disposal of the asset amounted to RUB (2 434) thousand.

## 13. Due to other banks

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Term deposits from other banks | 605 200 | - |
| Repurchase agreements | - | 600 386 |
| Settlements on treasury transactions | - | 1 101 |
| Accounts for settlements with plastic cards | - | 292 |
| **Total due to banks** | **605 200** | **601 779** |

As at 31 December 2019, funds in other banks included funds in the amount of RUB 605 200 thousand that were received from 1 bank.

As at 31 December 2018 Bank deposits included loans received under repurchase agreements in the amount of RUB 600 386 thousand, which were repaid in January 2019.

Fair value of assets pledged and carrying amount of loans under repurchase agreements as at 31 December 2018 comprised:

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Carrying amount of loans | Fair value of collateral | Carrying amount of loans | Fair value of collateral |
| Subfederal bonds | - | - | 600 386 | 667 552 |
| **Total** | **-** | **-** | **600 386** | **667 552** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 14. Due to customers

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Legal entities** | | |
| - current/settlement accounts | 1 613 655 | 619 230 |
| - term deposits | 2 783 381 | 371 492 |
| **Individuals** | | |
| - current/demand accounts | 328 245 | 255 600 |
| - term deposits | 4 098 881 | 602 180 |
| **Total customer accounts** | **8 824 162** | **1 848 502** |

As at 31 December 2019, the Bank had 15 customers with balances exceeding RUB 32 000 thousand in the amount of RUB 3 688 273 thousand, which is 42% of total customer accounts and represents significant concentration.

As at 31 December 2018, the Bank had 6 customers with balances exceeding RUB 25 000 thousand in the amount of RUB 495 899 thousand, which represents 27% of total customer accounts and represents significant concentration.

The table below provides information on customer accounts by sector of the economy:

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Individuals | 4 427 126 | 50.2% | 857 781 | 46.40% |
| Finance and investments | 1 981 095 | 22.5% | 181 931 | 9.84% |
| Trade and services | 1 094 597 | 12.4% | 645 918 | 34.94% |
| Construction | 445 629 | 5.1% | 25 443 | 1.38% |
| Leasing | 333 073 | 3.8% | - | 0.00% |
| Scientific research and development | 222 078 | 2.5% | - | 0.00% |
| Creative, art-related and entertainment activities | 139 903 | 1.6% | - | 0.00% |
| Food and agriculture | 82 644 | 0.9% | - | 0.00% |
| Other sectors | 42 212 | 0.5% | 33 897 | 1.83% |
| Production and manufacturing | 23 224 | 0.3% | 52 089 | 2.82% |
| Audit, consulting, accounting | 17 523 | 0.2% | - | 0.00% |
| Mining and services | 15 058 | 0.2% | - | 0.00% |
| Publishing | - | 0.0% | 32 755 | 1.77% |
| Non-profit entities | - | 0.0% | 9 929 | 0.54% |
| Transport | - | 0.0% | 7 480 | 0.40% |
| Charity | - | 0.0% | 798 | 0.04% |
| Timber and woodworking | - | 0.0% | 477 | 0.03% |
| Communication and telecommunications | - | 0.0% | 4 | 0.00% |
| **Total customer accounts** | **8 824 162** | **49.83%** | **1 848 502** | **53.60%** |

## 15. Subordinated loan

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Subordinated loans | - | 1 065 921 |
| **Total other borrowed funds** | **-** | **1 065 921** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 15. Subordinated loan (continued)

In 2018, the Bank raised a subordinated loan from the sole Participant in the amount of RUB 1 037 600 thousand for a period until 2023 at a floating interest rate of MosPrime 6M + 0.35%.

In 2019 the subordinated loan was transferred to equity by resolution of the Bank's sole Member № 03/19 dated 10.05.2019 (see note 17).

The change in this item in the statement of financial position was of a non-cash nature for the purposes of the statement of cash flows as disclosed in note 24.

## 16. Other liabilities

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Lease liability | 204 504 | - |
| Deferred commission income on guarantees | 116 950 | 35 915 |
| Provision for financial guarantees | 53 786 | 10 524 |
| Settlements on other transactions | 25 894 | 34 331 |
| Payables to personnel on unused vacations | 22 372 | 15 526 |
| Deposit insurance liability | 6 541 | 1 235 |
| **Total other financial liabilities** | **430 047** | **97 531** |
| Taxes and duties payable, other than current income taxes | 11 320 | 5 958 |
| Provisions for commitments on loans (unused credit lines, "overdrafts") | 8 119 | 3 314 |
| Income tax | 145 | 62 |
| Other | 1 | - |
| **Total other non-financial liabilities** | **19 585** | **9 334** |
| **Total other liabilities** | **449 632** | **106 865** |

Movements in the provision for expected credit losses on financial guarantees and loan commitments for 2019 and 2018 are presented in the tables below:

| **2019** | Guarantees | Loan commitments | Total |
|---|---|---|---|
| **Provision for ECL as at the beginning of the reporting period** | **10 524** | **3 314** | **13 838** |
| Creation of the provision during the reporting period | 43 262 | 4 805 | 48 067 |
| **Provision for ECL as at the end of the reporting period** | **53 786** | **8 119** | **61 905** |

| **2018** | | | |
|---|---|---|---|
| **Provision for ECL as at the beginning of the reporting period** | **-** | **3 993** | **3 993** |
| Creation/(recovery) of the provision during the reporting period | 10 524 | (679) | 9 845 |
| **Provision for ECL as at the end of the reporting period** | **10 524** | **3 314** | **13 838** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 16. Other liabilities (continued)

The table below presents minimum undiscounted lease payments:

| | 31 December 2019 | 1 January 2019 |
|---|---|---|
| **Maturity analysis:** | | |
| Year 1 | 64 324 | 60 683 |
| Year 2 | 68 183 | 64 324 |
| Year 3 | 72 274 | 68 183 |
| Year 4 | 31 142 | 72 274 |
| Year 5 | - | 31 142 |
| Less: unearned interest | (31 419) | (49 942) |
| | 204 504 | 246 664 |
| **By lease term:** | | |
| Long-term | 155 081 | 204 504 |
| Short-term | 49 423 | 42 160 |

The Bank does not face a significant liquidity risk with regard to its lease liabilities. A more detailed analysis of rental payment liquidity is presented in note 28.

## 17. Equity

The share capital of the Bank consists of the notional value of the share of its participant and is presented in Russian rubles.

The actual value of the Bank participant’s share corresponds to a part of the Bank’s equity in proportion to the size of its share.

As at the reporting date, the Bank does not have any debts to the participant as there is no information on the participant’s application to exit the company. All shares are fully paid.

The equity of the Bank as at 31 December 2019 and 31 December 2018 comprises:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Share capital | 1 746 000 | 1 300 000 |
| Share premium | 4 922 900 | 3 331 300 |
| **Total issued equity** | **6 668 900** | **4 631 300** |
| Reserve funds | 20 420 | (5 264) |
| Accumulated losses | (2 415 819) | (1 256 551) |
| **Total other equity components** | **(2 395 399)** | **(1 261 815)** |
| **Total equity** | **4 273 501** | **3 369 485** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 17. Equity (continued)

On 10 May 2019, the sole Participant of the Bank made a decision No. 03/19 to increase its equity through an additional contribution of RUB 1 billion and exchange of subordinated loan rights in the amount of RUB 1 037 600 thousand. As a result, there was an increase in the share capital by RUB 446 000 thousand, and the share premium by RUB 1 591 600 thousand:

- 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. – the total amount of this increase is RUB 1 000 000 thousand;
- 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. – the total amount of this increase is RUB 1 037 600 thousand
- The increase in the share capital and share premium in the total amount of RUB 2 037 600 thousand was registered on 16 August 2019.

An increase in the share capital in the form of a subordinated loan conversion in the amount of RUB 1 037 600 thousand is not reported in the statement of cash flows, as it is a non-cash flow.

The main sources of capital increase in 2018 were:

- The sole participant's contribution to the share capital in the amount of RUB 300 000 thousand and to the share premium in the amount of RUB 1 948 000 thousand. – the total amount of this increase is RUB 2 248 000 thousand

The change in this item in the statement of financial position was also of a non-cash nature for the purposes of the statement of cash flows as disclosed in note 24.

Reserve funds represent a fund/(deficit) for the revaluation of financial assets at FVTOCI and include accumulated income and expenses arising from the revaluation of financial assets at FVTOCI recognized in other comprehensive income, less amounts reclassified to profit or loss on disposal as well as credit impairment fund for such assets.

The change in reserve funds is presented below.

| | **2019** | **2018** |
|---|---|---|
| At the beginning of the period | (5 264) | - |
| Implementation of IFRS 9 from the financial statements for 2018: | | |
| - investment revaluation reserve | - | 889 |
| - credit risk on financial assets measured at FVTOCI | - | 41 |
| As restated | - | 930 |
| Net gain on revaluation | 28 043 | (8 798) |
| Cumulative (gain)/loss reclassified to profit or loss on sale | (2 626) | - |
| Cumulative (gain)/loss reclassified to profit or loss on impairment | 267 | 2 604 |
| **At the end of the period** | **20 420** | **(5 264)** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 18. Net interest income

| | 2019 | 2018 |
|---|---|---|
| *Interest income on financial assets measured at amortized cost* | | |
| Interest income on loans to customers | 617 831 | 159 678 |
| Interest income on the balances in the CBR | 94 237 | 219 698 |
| Interest income on balances due from credit organizations | 49 340 | 29 867 |
| Interest income on due from correspondent accounts | 112 | - |
| **Total** | **761 520** | **409 243** |
| *Interest income of financial assets measured at fair value through other comprehensive income* | | |
| Interest income from bonds, total: | 49 437 | 27 121 |
| - interest income from other residents’ bonds | 33 731 | 23 856 |
| - interest income from bonds of credit institutions | 7 261 | - |
| - interest income from other non-residents’ bonds | 6 034 | 1 398 |
| - interest income from bonds of the Russian Federation | 2 411 | 674 |
| - interest income from Bank of Russia bonds | - | 1 193 |
| - interest income adjustment | - | 2 514 |
| **Total** | **49 437** | **29 635** |
| **Total interest income** | **810 957** | **438 878** |
| *Interest expenses on financial Liabilities measured at amortized cost* | | |
| Interest expenses on funds attracted to term deposits of individuals | (126 480) | - |
| Interest expenses on subordinated loan | (57 520) | (68 159) |
| Interest expense on finance lease obligations | (18 523) | - |
| Interest expense on customer accounts | (14 210) | (50 165) |
| Interest expense on funds attracted to current/settlement accounts | (7 045) | - |
| Interest expenses on balances due from credit organizations | (6 415) | (551) |
| Expenses on liabilities raised at above-market rates | (1 760) | - |
| **Total interest expenses** | **(231 953)** | **(118 875)** |
| **Net interest income (net interest expenses)** | **579 004** | **320 003** |

For 2019 total interest income calculated by effective interest rate method comprised RUB 49 437 thousand (2018: RUB 29 635 thousand) for financial assets measured at FVTOCI, and RUB 761 520 thousand (2018: RUB 409 243 thousand). For 2019 cumulative interest expense calculated by effective interest rate method comprised RUB 230 193 thousand (2018: RUB 118 875 thousand).

***(in thousands of Russian rubles, unless otherwise indicated)***

## 19. Fee and commission income and expenses

| | 2019 | 2018 |
|---|---|---|
| Fee and commission income from bank guarantees and sureties issuance operations | 99 573 | 24 800 |
| Fee and commission income from settlement and teller services | 12 541 | 9 812 |
| Fee and commission income from money transfers | 8 836 | - |
| Fee and commission income from carrying out the functions of the currency control | 7 506 | 3 303 |
| Fee and commission income from opening and maintenance of bank accounts | 4 180 | 3 802 |
| Fee and commission income from other operations | 2 001 | 1 192 |
| Fee and commission income from operations with currency values | 56 | - |
| Fee and commission income from plastic cards operations and acquiring | - | 9 442 |
| **Total fee and commission income** | **134 693** | **52 351** |
| Fee and commission expenses on intermediary services under broker and similar agreements to individual entrepreneurs | (55 313) | (4 030) |
| Fee and commission expenses on services on cash transfers including services of payment and settlement systems | (25 603) | - |
| Fee and commission expenses on operations with currency values | (1 995) | - |
| Other commission expenses | (1 469) | (933) |
| Fee and commission expenses on opening and maintenance of bank accounts | (1 023) | (1 032) |
| Fee and commission expenses of professional securities market participants related to the purchase and sale of securities, except for consulting and information services | (124) | - |
| Fee and commission expenses on plastic cards operations | - | (7 127) |
| Fee and commission expenses on settlement and cash services | - | (4 728) |
| **Total fee and commission expenses** | **(85 527)** | **(17 850)** |
| **Net fee and commission income (expense)** | **49 166** | **34 501** |

## 20. Net gain/(loss) on financial assets operations

| | 2019 | 2018 |
|---|---|---|
| Net income/(loss) in financial assets at fair value through profit or loss | (1 093) | - |
| Net income/(loss) on financial assets at fair value through other comprehensive income | 2 907 | 473 |
| Net income/(loss) on loans and accounts receivable | (23) | - |
| **Total gains less losses (losses less gains) on operations with financial instruments** | **1 791** | **473** |

## 21. Recovery of other provisions/(other provisions)

| | 2019 | 2018 |
|---|---|---|
| Change in ECL on obligations under financial guarantee contracts | (43 262) | (10 524) |
| Change in allowance for impairment losses on other financial assets | (23 681) | 3 149 |
| Change in ECL on loan commitments | (4 805) | 679 |
| **Total change in other provisions** | **(71 748)** | **(6 696)** |

In the financial statements for 2019 the Bank has aligned the presentation of certain items of the profit and loss statement in accordance with the new presentation form, including Recovery of other provisions/(other provisions) (see note 5).

Movements in the provision for expected credit losses on financial guarantees and loan commitments for 2019 and 2018 are presented in note 16, for other financial assets in note 11.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 22. Operating expenses

| | 2019 | 2018 |
|---|---|---|
| Staff costs | 532 291 | 278 072 |
| IT-expenses | 158 087 | 109 350 |
| Taxes and duties on payroll | 119 509 | 60 677 |
| Total expenses from transactions with property, plant and equipment, incl.: | 80 829 | 53 270 |
| - depreciation of right-of-use assets | 55 928 | - |
| - repairs and maintenance expenses | 18 214 | 51 736 |
| - depreciation of property, plant and equipment | 6 687 | 1 503 |
| - expenses on disposal (sale) | - | 31 |
| Advertising | 77 554 | 5 301 |
| Rentals on leased property and equipment and other property | 44 988 | 73 181 |
| Taxes and duties charged to expenses according to the legislation of the Russian Federation | 28 145 | 21 994 |
| Other organization and management expenses | 23 598 | 27 200 |
| Payments for the right to use intellectual property items | 21 157 | - |
| Total expenses from transactions with intangible assets, incl.: | 20 448 | 12 050 |
| - amortization of intangible assets | 20 448 | 8 953 |
| - expenses on disposal (sale) | - | 3 097 |
| Consulting services | 20 306 | - |
| Expenses on writing off the cost of inventories | 18 523 | - |
| Audit | 15 441 | 12 220 |
| Insurance | 15 262 | 4 817 |
| Security | 6 102 | 3 475 |
| Recruitment expenses | 4 701 | 16 110 |
| **Total operating expenses** | **1 186 941** | **677 717** |

The growth of major operating expenses is planned as part of the Bank's strategy.

## 23. Income tax

The Bank provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the RF.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2019 and 2018 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliation between the effective tax rate and the profit shown below equals 20% of the taxable profit of legal entities incorporated in the Russian Federation under local tax legislation.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 23. Income tax (continued)

Deferred tax assets/liabilities as at 31 December 2019 and 2018 comprise:

| | **2019** | **2018** |
|---|---|---|
| **Deferred tax assets/(liabilities) related to:** | | |
| Loans to customers | 573 827 | 375 660 |
| Provisions for balances due from financial institutions and other assets | 162 440 | (2 219) |
| Available-for-sale financial assets | (34 876) | 7 909 |
| Impairment of non-current assets held for sale | 191 201 | 197 810 |
| Property and equipment | (11 665) | 497 |
| Other financial assets and liabilities | 15 893 | 51 536 |
| Tax losses carried forward | 2 432 613 | 1 940 057 |
| Net deferred tax assets/(liabilities) | 665 887 | 514 250 |
| Unrecognized deferred tax asset | (665 887) | (514 250) |
| **Net deferred tax assets/(liabilities)** | - | - |

The effective tax rate reconciliation is as follows for the years ended 31 December 2019 and 2018:

| | **2019** | **2018** |
|---|---|---|
| Loss before income tax | (1 157 935) | (450 091) |
| Tax at the statutory tax rate (20%) | (231 587) | (90 018) |
| Change in unrecognized deferred tax asset | 151 637 | 45 786 |
| Effect of tax rate, different from the rate of 20% | 362 | 676 |
| Tax effect of permanent differences | 80 921 | 44 251 |
| **Income tax expenses** | | |
| Current income tax expense/(benefit) | 1 333 | 695 |
| Deferred income tax expense/(benefit) | - | - |
| **Income tax expense/(benefit)** | **1 333** | **695** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 24. Changes in liabilities arising from financing activities

The following table presents data on changes in the Bank's liabilities from financing activities, both arising and not arising from cash flows for 2019 and 2018, respectively.

| | | | | Non-monetary changes | | |
|---|---|---|---|---|---|---|
| **Statement of cash flow line item** | **1 January 2019** | **31 December 2019** | **Cash flows from financing activities** | **Increase of share capital due to a subordinated loan** | **Exclusion of accrued interest expenses** | **Exclusion of accumulated depreciation** |
| Settlement of lease liabilities (note 16) | - | 204 504 | (60 683) | - | (18 523) | (246 664) |
| Conversion of a subordinated loan (note 15) | 1 065 921 | - | - | 1 037 600 | 28 321 | |
| **Total** | **1 065 921** | **204 504** | **(60 683)** | **1 037 600** | **9 798** | **(246 664)** |

| **Statement of cash flow line item** | **1 January 2018** | **31 December 2018** | **Movement of cash flows from financing activities** | **Non-monetary changes Exclusion of accrued interest expenses** |
|---|---|---|---|---|
| Attraction of a subordinated loan (note 15) | - | 1 065 921 | 1 037 600 | (28 321) |
| **Total** | **2 450 432** | **5 697 221** | **3 285 600** | **(28 321)** |

## 25. Commitments and contingencies

In the normal course of business, the Bank becomes a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank applies the same credit policy to off-balance sheet commitments as it does to the balance sheet financial instruments.

Provision for losses on contingent liabilities totaled RUB 61 905 thousand and RUB 13 838 thousand as at 31 December 2019 and 2018, respectively.

As at 31 December 2019 and 2018 contingent liabilities comprise:

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Guarantees | 5 326 472 | 1 117 149 |
| Loan commitments | 1 632 645 | 318 086 |
| Letters of credit | - | 205 000 |
| **Total gross amount** | **6 959 117** | **1 640 235** |
| Less provision for impairment losses | (61 905) | (13 838) |
| **Total** | **6 897 212** | **1 626 397** |

## 25. Commitments and contingencies (continued)

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2019 and 2018, commitments under unused credit lines were RUB 1 632 645 thousand and RUB 318 086 thousand, respectively.

### 25.1. Litigations

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material losses will be incurred and, accordingly, no provision has been made in these financial statements.

### 25.2. Taxation

Russian business legislation continues 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 often taken a strict stance when it came to interpreting 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 certain 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, tax authorities may take a different position on the interpretation of the effective tax legislation, which may have a significant impact on financial statements.

In 2019, the Tax Code of the Russian Federation and certain laws were amended to provide for, among other things, an increase in the base VAT rate to 20%. The 20% rate is applied to sales of goods, work and services and property rights effective 1 January 2019. As VAT is not charged on banking operations, management does not expect a significant impact on the statements of the Bank, with the exception of a corresponding increase in costs when purchasing goods and paying for services.

### 25.3. 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. 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 country's economy is particularly sensitive to the prices of oil and gas in the global market. In March 2020, oil prices dropped by more than 40%, which immediately resulted in depreciation of the Russian Ruble against major foreign currencies.

Starting from 2014, the U.S. and the E.U. imposed several packages of sanctions on a number of Russian officials, businessmen and entities. This led to reduced access of the Russian businesses to international capital markets.

In addition, at the beginning of 2020 a new coronavirus (COVID-19) began to spread very rapidly around the world (see note 1 for details). The significant impact of COVID-19 on the Bank's operations depends to a large extent on the duration and prevalence of the virus's impact on the global and Russian economies.

The impact of these developments on the Bank's future performance and financial position may be significant.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 25. Commitments and contingencies (continued)

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.

## 26. 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.

### 26.1. Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

| | Fair value as at | | | |
|---|---|---|---|---|
| **Financial assets/ financial liabilities** | **31 December 2019** | **31 December 2018** | **Hierarchy of fair value** | **Valuation technique(-s) and key inputs** |
| Financial assets (see note 9) | 675 525 | 575 054 | Level 1 | Quoted bid prices in an active market |
| Derivative financial assets (see note 11) | 1 098 | - | Level 2 | Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. |

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 (i.e., for example, prices), and
(iii) Level 3 includes estimates, which are not based on observable market data (i.e., 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.

| | 31 December 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | Fair value | | | Fair value | | |
| | **Level 1** | **Level 2** | **Level 3** | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets** | | | | | | |
| Investment assets | 675 525 | - | - | 575 054 | - | - |
| Derivative financial instruments | - | 1 098 | - | - | - | - |
| **Total assets carried at fair value** | **675 525** | **1 098** | **-** | **575 054** | **-** | **-** |

***(in thousands of Russian rubles, unless otherwise indicated)***

# 26. Fair value of financial instruments (continued)

### 26.2. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the Bank's management consider that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

| | 31 December 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | Fair value | | | Fair value | | |
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 2 852 024 | - | - | 3 067 486 | - | - |
| Mandatory cash balance with the Central Bank of the RF | 50 670 | - | - | 24 833 | - | - |
| Due from financial institutions | - | 525 282 | - | - | 1 457 273 | - |
| Loans to customers | - | - | 9 588 380 | - | - | 1 398 387 |
| Other financial assets | - | - | 34 347 | - | - | 2 974 |
| **Total financial assets** | **2 902 694** | **525 282** | **9 622 727** | **3 092 319** | **1 457 273** | **1 401 361** |
| **Financial liabilities** | | | | | | |
| Due to other banks | - | - | 632 104 | - | 601 779 | - |
| Due to customers | - | - | 8 621 952 | - | - | 1 909 304 |
| Subordinated loan | - | - | - | - | 1 065 921 | - |
| Other financial liabilities | - | - | 430 047 | - | - | 85 771 |
| **Total financial liabilities** | **-** | **-** | **9 684 103** | **-** | **1 667 700** | **1 995 075** |

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

# 27. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR in supervising the Bank.

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

As at 31 December 2019, the Bank's equity includes the treasury interests of the sole participant, reserve funds and retained earnings, for which information is disclosed in the statement of changes in equity and note 17. As at 31 December 2018, the Bank's capital included borrowings represented by a subordinated loan from the sole participant of the Bank, information on which is disclosed in note 15. As at 31 December 2019 the subordinated loan was contributed to share capital.

The Bank's overall capital risk management policy has remained unchanged from 2018.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 27. Capital risk management (continued)

The table below presents the composition of the Bank's equity (capital) calculated in accordance with Regulation of the Bank of Russia No. 646-P dated 04.07.2018 "On the methodology for determining of equity (capital) of credit organizations ("Basel III")" as at 31 December 2019 and 31 December 2018:

| | **Year ended 31 December 2019** | **Year ended 31 December 2018** |
|---|---|---|
| Base capital | 3 919 050 | 3 260 429 |
| Core capital | 3 919 050 | 3 260 429 |
| Additional capital | - | 830 080 |
| **As at 31 December** | **3 919 050** | **4 090 509** |
| **Risk-weighted assets** | **19 808 532** | **5 577 012** |

Base and core capital consist of funds contributed to share capital and accumulated loss. The additional capital includes a subordinated loan, current year's loss and provision for remeasurement of financial assets at FVTPL.

Capital adequacy ratio (capital) is calculated in accordance with the Bank of Russia Instruction No. 180-I dated 28.06.2017 "On Banks' Required Ratios" as at 31 December 2019 and 31 December 2018 are presented as follows:

| | **Year ended 31 December 2019** | **Year ended 31 December 2018** |
|---|---|---|
| Capital adequacy ratio (capital) (N1.0) (minimum 8%) | 19.7847 | 73.3460 |
| Common equity adequacy ratio H1.1 (minimum 4.5%) | 19.7847 | 58.4620 |
| Core equity adequacy ratio H1.1 (minimum 6%) | 19.7847 | 58.4620 |

## 28. Risk management policies

The risk management system is a part of the Bank's overall corporate governance system and is aimed at ensuring the Bank's sustainable development in implementing the Bank's Development Strategy approved by the Board of Directors.

In developing its risk management strategy, the Bank follows an approach that ensures long-term going concern. The Bank's financial stability is ensured by timely execution and confirmation of the materiality of previously identified risks, as well as by qualitative risk and capital management to cover them.

The Bank identifies risks inherent to the operations, including potential risks, and identifies significant risks. At the same time, the Bank proceeds from the principle of proportionality (compliance of the organization with the level of internal capital adequacy assessment procedures (hereinafter – ICAAP) and risk management with the scale of the Bank's business) and the principle of cyclicality (depending on market conditions and the phase of the economic cycle in which the Bank is located).

Risk identification and assessment is performed at least once a year. At significant change of external and internal environment of the Bank influencing the risk portfolio, unplanned identification and assessment of risk materiality is performed. The results of identification shall be documented and communicated to the Bank's Board of Directors.

## 28. Risk management policies (continued)

The Bank may recognize other risks as significant on the basis of comparing the maximum losses from the risk with the capital calculated according to the regulatory requirements or on the basis of an expert requirement.

Credit risk, market risk, operational risk, interest rate risk and liquidity risk are automatically recognized as significant.

In order to plan the risk level, the Bank sets target risk levels, which are subdivided into indicators under standard conditions and stressful operating conditions. Planning of the Bank's risks exposure level is carried out as part of the annual business planning process.

The Bank manages the aggregate risk level, which includes calculation of indicators characterizing the consolidated aggregate risk level on the basis of risk assessments, taking into account the interconnectedness of risks with each other, assessment of the risk level deviation from the values established by internal documents, assessment of the degree of compliance of the risk level with the approved risk appetite, decision-making on setting (changing) limits or other decisions aimed at optimizing the risk level.

Assessment (control) of the volume of risks significant for the Bank and the aggregate level of risks is performed at least once per quarter.

The Bank has established a Risk Management Service – Risk Management Department, which is independent of subdivisions involved in accepting risks.

Risk management department:

- Develops and implements, practices and improves the risk management system in accordance with the requirements of the Bank's internal documents and the requirements and recommendations of the Bank of Russia;
- Organizes the process of identification and assessment of significant risks;
- Generates the ICAAP reporting;
- Generates reports for the Bank's management bodies engaged in risk management. To the extent necessary for decision-making;
- Generates proposals on the values of risk aptitude limits and risk targets;
- Performs stress testing;
- Consolidates risk information and presents it to authorized units for disclosure purposes.

A member of the Management Board, which oversees the work of the Bank Risk Management Department, coordinates and controls the work of all subdivisions (employees) involved in risk management, as well as special working bodies (committees) responsible for risk management.

The organizational structure of participants in the Bank's risk and capital management system is as follows:

- A participant (general meeting of participants) of the Bank;
- Board of Directors;
- Management Board;
- the Chairman of the Management Board (Sole Executive Body of the Company);
- the Committees (Large and Small Credit Committees, Assets and Liabilities Management Committee; Risk Management Committee under the Bank's Board of Directors);
- Risk management department;
- Internal Audit Function;
- Internal control unit.

## 28. Risk management policies (continued)

**Credit risk management.** Credit risk – the risk arising from the probability of non-fulfillment of contractual obligations by the borrower or counterparty to the Bank.

The Bank's credit policy is based on the Bank's development Strategy for 2019-2023 and defines the main directions of the Bank's development (strategy and tactics) in the field of banking operations and products that carry credit risk.

The Bank's credit policy is considered an integral element of the Bank's business model and development Strategy in the course of its current activity.

The main principles of the Credit policy include:

- The compliance of the credit risk management system with the regulations of the Central Bank of Russia and other regulatory bodies;
- Presence of necessary internal regulatory documents on credit risk management approved by the Bank's management bodies and communicated to all responsible employees of the Bank;
- Maintaining an effective risk management system, which involves the formation of a single methodological space for the Bank's divisions, as well as ensuring the implementation and coordination of functions in terms of a single approach to the identification, measurement, management and monitoring of credit risks;
- Regular receipt by the Bank's management bodies, including the Board of Directors, of information on the Bank's credit risk status;
- Regular review of the credit risk management system and timely updating of credit risk management documents in order to comply with current regulatory requirements, the current market situation and the Bank's organizational structure;
- The existence of operational structural units of the Bank responsible for assuming credit risk and operating within the existing restrictions, internal instructions of the Bank and legal requirements, and controlling structural units of the Bank responsible for monitoring and control of credit risk and independent from operational structural units of the Bank;
- Integration of the credit risk management system into the Bank's overall risk management system;
- Existence of an information system for collecting and analyzing information on the state of credit risk, ensuring the provision of accurate and timely data on the state of claims and liabilities;
- Lending to borrowers on the terms of repayment, urgency and payment, as well as in compliance with the target nature and security;
- Adequacy of the credit risk assessment and management system in terms of the volume and complexity of transactions carried out by the Bank that carry credit risk;
- Performing transactions that carry credit risk based on the analysis of a specific loan request, investment transaction and/or within the previously established credit limit based on a written decision of the authorized collective bodies or authorized Bank officials in accordance with the nature and scope of their delegated authority to accept credit risk;
- Avoiding conflicts of interest when making a credit decision, as well as when registering and recording transactions with credit risk is ensured by a clear division of the Bank's divisions into initiating, expert, supporting and accounting divisions;
- Continuous monitoring of the credit transaction and the borrower until the moment of settlement of the client's obligation;
- Ensuring continuous monitoring of the loan portfolio as a whole;
- Determining the cost terms of transactions in such a way that they compensate for the cost of resources involved, the degree of credit risk accepted, the costs of the Bank's business, and ensure the profitability of the Bank's operations;
- Ensuring growth of commission income on operations with credit risk;
- Ensuring a balanced structure of the loan portfolio by credit products and individual categories of borrowers;
- Using the system of credit limits for customer loan transactions, including industry, regional and country limits;

## 28. Risk management policies (continued)

- Providing comprehensive customer service, with credit products as a key element. When making credit decisions by the Bank, one of the criteria for determining the client's priority is the use of products and services other than credit, or the presence of large balances on current accounts in the Bank, as well as evaluating the effectiveness of interaction with the client for the Bank;
- Maximum satisfaction of clients' needs in credit resources while maintaining an acceptable level of credit risks;
- Maintaining the consistently high quality of credit services provided to the Bank's clients, ensuring the competitiveness of the Bank's credit products, including their cost conditions;
- Continuity in the implementation of the Credit policy;
- Ensuring a system of measures to counteract money laundering from crime and terrorism financing in credit transactions;
- Effective internal control system of the Bank's credit activity.

The credit risk management system is an integral part of the Bank's risk management strategy and consists of the following main components:

- Identification of credit risk;
- Analysis and assessment of credit risk for specific credit products/transactions/counterparty;
- Decision-making system for providing credit products/making credit transactions/setting limits on counterparties;
- Limiting credit products (portfolio), including setting credit limits on the borrower/group of related borrowers, within individual credit products;
- Limiting and delegating authority to make decisions on providing credit products/making credit transactions/setting limits on counterparties;
- Creation of provision for loans, receivables on loans and other debt equivalent to it;
- Setting and monitoring of target/threshold requirements of credit portfolio;
- Securing credit products;
- Preliminary and subsequent control of granting, monitoring and support of credit products;
- Dealing with problem assets.

The Bank's credit policy is based on the following general approaches to credit risk assessment and management:

- The Bank's credit policy is approved and periodically reviewed by The Bank's Board of Directors on the recommendation of The Bank's Management Board;
- Responsibility for the implementation of the Credit policy approved by the Bank's Board of Directors is assigned to The Bank's Management Board and Credit Committees, as well as to the heads of relevant structural divisions of the Bank;
- Credit risk is identified and managed for all products and operations that contain credit risk;
- When making decisions on granting loans, the compliance of the credit transaction/participants of the transaction with the criteria established by the Bank's internal documents is checked;
- Credit limits are set for the borrower/group of related borrowers, taking into account the risks of both balance sheet and contingent liabilities that carry credit risk;
- The process of making decisions on granting new loans, as well as changing the terms and prolongation of existing loans is formalized in the Bank's internal documents;
- The granting of loans should be considered regardless of whether the borrower is related to the Bank. All loans provided to Bank-related borrowers should be subject to particularly careful monitoring and other possible measures to control and reduce the risks of such transactions;
- The system of ongoing monitoring and control of the credit risk of the loan portfolio is used;
- The state of loans is monitored, including determining the adequacy of the reserves formed for them;

## 28. Risk management policies (continued)

- The use of internal ratings system/internal and/or external models for predicting the level of default on credit transactions of individuals is considered to be used in order to manage credit risk;
- An information system and analysis technology is being created, maintained and developed to manage credit risks, both for balance sheet and contingent liabilities that carry credit risk;
- When considering the provision of products that carry credit risk, potential changes in economic conditions as well as market conditions in which the borrower/target segment operates are taken into account;
- The Bank’s risk management department conducts an independent current estimate of the Bank’s credit risk management processes. The results of such analysis are brought directly to the attention of the Bank’s Management Board and the relevant authorized bodies of the Bank;
- The internal audit function periodically reviews the effectiveness of the credit risk assessment methodology, credit risk management procedures established by the Bank’s internal documents, and the completeness of the application of these documents;
- The organization of the Bank’s credit work and the amount of risks taken comply with prudential standards, regulations and internal limits. Internal control and credit work practices are maintained and improved in order to timely inform the management of the appropriate level (the Bank’s Management Board, other Authorized bodies and units of the Bank) about exceptions/violations of the Credit policy, credit procedure and limits in order to take the necessary measures;
- There is a system for preventing and correcting the situation at the early stages of credit quality deterioration; managing problematic and doubtful debts; and correcting other problematic situations related to Credit risks.

The Bank uses the following risk minimization methods:

1. *The system of limits* includes:
   - limits that restrict the amount of credit risks accepted. These limits include limits on making decisions on transactions that carry credit risk, etc.;
   - limits of concentration of credit risks;
   - limits that restrict the level of risk for a specific customer (a group of related customers). These limits include individual limits, limits on specific transactions, and others
2. *Collateral policy*. For the purposes of the credit policy, the types of collateral are: collateral, guarantee, guarantees issued in favor of the Bank. The advantage is given to ensuring high liquidity, as well as ensuring the first and second quality categories in accordance with the requirements for the formation of provisions for potential losses on loan and equivalent debt.

In accordance with the requirements of the Regulation of the Bank of Russia dated 28.06.2017 N 590-P “On the order of formation of provision for possible loans losses, loan and equivalent debts by credit institutions” and the Regulation of the Bank of Russia dated 23.10.2017 N 611-P “On the order of formation of provisions for possible loans losses by credit institutions” during credit transactions, the Bank performs formation of provision for possible loans losses, loan and equivalent debts and reserves for possible losses. These provisions are used for calculation of mandatory norms according to the Instruction of the Bank of Russia dated 29.11.2019 N 199-I “On mandatory norms and buffers to capital adequacy ratio of banks with general license” (not for these financial statements).

Based on the internal provisions valuation technique in accordance with IFRS 9, the Bank establishes provisions for expected credit losses on the following financial instruments measured at amortized cost or fair value through other comprehensive income:

- Loans to corporate customers;
- Loans to individuals;
- Debt securities at fair value through other comprehensive income;
- Interbank operations (deposits placed in counterparty banks, loans to banks in the interbank market, repos and correspondent accounts);
- The Bank calculates and adjusts the provision for the expected credit losses at least quarterly on the last calendar day of the quarter, unless the credit risk increases significantly.

## 28. Risk management policies (continued)

Expected credit losses can be calculated on an individual or collective basis.

***Significant increase in credit risk.*** To assess the amount of the provision for expected credit losses on a financial instrument, the procedure for assigning a stage (First, Second or Third stage) to the financial instrument is performed. The stage of a financial instrument is determined based on indicators of significant increase/decrease in the level of credit risk and indicators of credit impairment in accordance with the table below.

Qualitative indicators for financial instruments and loans to legal entities and individuals that may indicate a significant increase in credit risk include, among others:

- Deterioration in the operating results of the borrower or other obligee to the Bank: actual or forecast changes in the operating results of the borrower or other obligee to the Bank or its controlling shareholder(-s) (participant(-s)), experienced or expected significant financial difficulties that may have a significant impact on the ability of the borrower or other obligee to meet its obligations, and may lead to an actual or expected decrease in future cash flows required to repay the loan or implement the project, as a result, there may be an actual or expected insufficiency of cash flow available for debt servicing;
- Other signs of deterioration of the operating environment of the borrower or other obligee to the Bank: actual or expected occurrence of adverse changes in the business, regulatory, economic or technological environment of the borrower or other obligee to the Bank (for example, a decrease in demand for products/services of the borrower or other obligee to the Bank due to technological changes, an increase in unemployment, a decrease in purchasing power).

The assessment of expected credit losses of individuals on a collective basis takes into account the impact of forecast macroeconomic changes on both internal and external data. At the same time, the risk factor used for the assessment can be recognized by the Bank as resistant to macroeconomic changes.

As part of accounting for forecast macroeconomic changes in the assessment of expected credit losses, historical data are examined for dependence on macroeconomic factors. The main external source of historical and forecast macroeconomic information was "The Economist: Intelligence Unit", which presents monthly and annual historical and forecast values of key factors of the Russian economy and reflects the average position of the market in relation to the forecast of macroeconomic development of the Russian Federation.

The Bank can use historical data from the Federal state statistics service as external macroeconomic information for accounting for macroeconomic parameters, as well as other sources available to the Bank.

For a portfolio of securities and interbank operations, ratings of rating agencies used to assess the probability of default take into account macroeconomic indicators over a 3-5-year horizon. The Bank does not make additional adjustments to the probability of default based on macroeconomic forecasts.

***Measurement of ECL.*** The key inputs used for measuring ECL are:

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

The Bank determines the probability of default of a corporate client based on the internal rating of the counterparty by industry. Assignment of an internal credit rating to corporate clients is made by means of determining a total score obtained as a result of a complex quantitative and qualitative assessment of a corporate client being rated.

The internal credit rating of the counterparty may be adjusted to reflect the support of the group. Based on the Bank's total corporate score, the Bank determines its internal credit rating, which is translated into the scale of Moody's international rating agency. The Bank assigns a default probability to a corporate client according to Moody's statistics, which corresponds to the assigned credit rating.

## 28. Risk management policies (continued)

The accumulated default probability (PD) – the probability that the loan in question will default at some point during the analyzed period, is calculated for the subportfolio of loans to individuals.

The PD parameter depends on time (i.e. it has a certain structure by terms) and applies to all non-default credits (i.e. to stage 1 and stage 2 instruments). To model the probability of default, the Bank uses historical information on loan migration.

When calculating expected credit losses on an individual basis for individuals, the probability of default is determined for 12 months or the entire life of the financial instrument depending on the stage.
In order to comply with IFRS 9 requirements, the PD value is adjusted by the Bank to take into account macroeconomic factors.

For all securities of investment, speculative and default classes the probability of default is assessed according to the external rating of the security, and in the absence of an external rating of the security – according to the external rating of the issuer, and in the absence (recall) of the specified external rating of the issuer – the rating is assigned based on the assessment of the financial position of the issuer: good – B +, average – CCC +, bad – CC, in accordance with the scale of Moody's international rating agency.

For corporate clients LGD - share of irrecoverable losses in case of default on the i-th period of the financial instrument.

For the sub-portfolio of loans to individuals, the loss given default (LGD) is determined – the share of the loan amount that will be lost in case of default. As part of the LGD valuation, reimbursement is simulated by discounting at the original effective interest rate.

For LGD securities the share of non-refundable losses in case of default for the t period of the security.

EAD for loans to corporate customers, interbank loans, loans to individuals – is defined as gross carrying amount of the financial instrument. For calculation of provision for off-balance sheet commitments (including contingent liabilities – bank guarantees, credit lines) this value is adjusted by the credit conversion ratio.

When calculating expected credit losses on a collective basis for individuals, the amount at risk is estimated separately for each loan by summing the balance sheet amount at risk, consisting of the amount of loan principal and interest at the reporting date, and the off-balance sheet amount at risk, which describes the amount of cash by which the amount of loan principal can be increased before the event of default.

EAD for debt securities for is estimated as the equivalent of the gross book value of debt securities for each year and is calculated as the sum of nominal amount and coupon payments for period, discounted at the effective interest rate calculated in accordance with the letter of the Bank of Russia No. 59-T dated 27.04.2010.

***Groupings based on shared risks characteristics.*** For loans to individuals, the calculation of expected credit losses can be made on an individual and collective basis, provided that individual loans are combined into sub-portfolios based on the characteristics of uniformity and comparability of credit risk characteristics at the reporting date for calculating expected credit losses, as well as on the historical period used for statistical modeling.

As at the reporting date the credit portfolio of individuals of the Bank allows to allocate the following sub-portfolios for collective assessment:

- "Credit Cards", which includes credit bank cards with overdraft and credit bank cards with grace period, issued before October 2018;
- "Consumer Loans", which includes unsecured consumer loans and credit cards issued from October 2018 under the new credit decision-making procedure.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

The table below presents the analysis of significant changes in the gross carrying amount of financial assets during the period that led to changes in the amount of the loss provision and changes in the provision for expected credit losses in 2018 and 2019 within asset classes:

| **Cash and cash equivalents** | **2019** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Movements in gross value for 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) | - | - |
| Increase/(Decrease) due to change in credit risk | 863 149 | - | - | 863 149 |
| New financial assets originated or purchased | 1 650 000 | - | - | 1 650 000 |
| Financial assets that have been derecognized | (2 728 451) | - | - | (2 728 451) |
| **Total gross carrying amount** | **2 852 211** | **-** | **-** | **2 852 211** |
| ***Movements in loss provision for 2019*** | | | | |
| **Loss provision as at the beginning of the period** | **4** | **23** | **-** | **27** |
| Transfers to Stage 1 | 23 | (23) | - | - |
| Increase/(Decrease) due to change in credit risk | 11 | - | - | 11 |
| New financial assets originated or purchased | 149 | - | - | 149 |
| **Total loss reserve** | **187** | **-** | **-** | **187** |

| **Cash and cash equivalents** | **2018** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Movements in gross value for 2018*** | | | | |
| **Gross value as at the beginning of the period** | **2 207 874** | **98 083** | **2** | **2 305 959** |
| Increase/(Decrease) due to change in credit risk | 43 051 | (43 051) | - | - |
| Changes due to modifications that did not result in derecognition | 12 968 | 12 259 | - | 25 227 |
| New financial assets originated or purchased | 2 727 861 | - | - | 2 727 861 |
| Financial assets that have been derecognized | (1 991 532) | - | (2) | (1 991 534) |
| **Total gross carrying amount** | **3 000 222** | **67 291** | **-** | **3 067 513** |
| ***Movements in loss provision for 2018*** | | | | |
| **Loss provision as at the beginning of the period** | **15** | **28** | **-** | **43** |
| Increase due to change in asset amount | - | (5) | - | (5) |
| New financial assets originated or purchased | 4 | - | - | 4 |
| Financial assets that have been derecognized | (15) | - | - | (15) |
| **Total loss reserve** | **4** | **23** | **-** | **27** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

| **Due to credit and financial institutions** | **2019** Stage 1 | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| ***Movements in gross value for 2019*** | | | | |
| **Gross value as at the beginning of the period** | **1 457 545** | **-** | **-** | **1 457 545** |
| Increase/(Decrease) due to change in credit risk | (167) | - | - | (167) |
| New financial assets originated or purchased | 525 239 | - | - | 525 239 |
| Financial assets that have been derecognized | (1 457 263) | - | - | (1 457 263) |
| **Total gross carrying amount** | **525 354** | **-** | **-** | **525 354** |
| ***Movements in loss provision for 2019*** | | | | |
| **Loss provision as at the beginning of the period** | **272** | **-** | **-** | **272** |
| New financial assets originated or purchased | 72 | - | - | 72 |
| Financial assets that have been derecognized | (272) | - | - | (272) |
| **Total loss reserve** | **72** | **-** | **-** | **72** |

| **Due to credit and financial institutions** | **2018** Stage 1 | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| ***Movements in gross value for 2018*** | | | | |
| **Gross value as at the beginning of the period** | **436** | **26 006** | **611 610** | **638 052** |
| Transfers to Stage 1 | 26 006 | (26 006) | - | - |
| Changes due to modifications that did not result in derecognition | (6 297) | - | - | (6 297) |
| New financial assets originated or purchased | 1 437 400 | - | - | 1 437 400 |
| Debt transfer from loans to financial institutions to loans to customers | - | - | (611 610) | (611 610) |
| **Total gross carrying amount** | **1 457 545** | **-** | **-** | **1 457 545** |
| ***Movements in loss provision for 2018*** | | | | |
| **Loss provision as at the beginning of the period** | **-** | **562** | **611 610** | **612 172** |
| Transfers to Stage 1 | 562 | (562) | - | - |
| Changes due to modifications that did not result in derecognition | (330) | - | - | (330) |
| New financial assets originated or purchased | 40 | - | - | 40 |
| Debt transfer from loans to financial institutions to loans to customers | - | - | (611 610) | (611 610) |
| **Total loss reserve** | **272** | **-** | **-** | **272** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

| Loans to customers | 2019 Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| ***Movements in gross value for 2019*** | | | | |
| **Gross value as at the beginning of the period** | **1 251 643** | **2 324** | **2 038 068** | **3 292 035** |
| Transfers to Stage 1 | 2 183 | (399) | (1 784) | - |
| Transfers to Stage 2 | (908) | 908 | - | - |
| Transfers to Stage 3 | (7 530) | (1 073) | 8 603 | - |
| Increase/(Decrease) due to change in credit risk | (87 468) | 90 | 39 713 | (47 665) |
| New financial assets originated or purchased | 8 343 539 | 116 613 | - | 8 460 152 |
| Financial assets that have been derecognized | (150 888) | (851) | (2 615) | (154 354) |
| Write off | - | - | (25 833) | (25 833) |
| **Total gross carrying amount** | **9 350 571** | **117 612** | **2 056 152** | **11 524 335** |
| ***Movements in loss provision for 2019*** | | | | |
| **Loss provision as at the beginning of the period** | **12 974** | **1 095** | **2 032 881** | **2 046 950** |
| Transfers to Stage 1 | 1 882 | (288) | (1 594) | - |
| Transfers to Stage 2 | (116) | 116 | - | - |
| Transfers to Stage 3 | (919) | (774) | 1 693 | - |
| Increase/(Decrease) due to change in credit risk | (5 429) | 793 | 50 707 | 46 071 |
| New financial assets originated or purchased | 238 320 | 101 214 | - | 339 534 |
| Financial assets that have been derecognized | (1 238) | (33) | (1 892) | (3 163) |
| Write off | - | - | (25 833) | (25 833) |
| **Total loss reserve** | **245 474** | **102 123** | **2 055 962** | **2 403 559** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

| | 2018 | | | |
|---|---|---|---|---|
| **Loans to customers** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Movements in gross value for 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 | (9 284) | (4 379) | 13 663 | - |
| Increase due to change in asset amount | 3 076 | - | 36 092 | 39 168 |
| Decrease due to change in asset amount | (3 651) | - | (21 363) | (25 014) |
| New financial assets originated or purchased | 1 214 124 | - | - | 1 214 124 |
| Debt transfer from loans to financial institutions to loans to customers | - | - | 611 610 | 611 610 |
| Financial assets that have been derecognized | (232 207) | (437) | (302 633) | (535 277) |
| Write off | - | - | (28 228) | (28 228) |
| Other changes | 1 905 | - | 2 072 | 3 977 |
| **Total gross carrying amount** | **1 251 643** | **2 324** | **2 038 068** | **3 292 035** |
| ***Movements in loss provision for 2018*** | | | | |
| **Loss provision 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 | 2 454 | - | 36 092 | 38 546 |
| Decrease due to change in asset amount | (1 197) | - | (21 363) | (22 560) |
| New financial assets originated or purchased | 8 729 | - | - | 8 729 |
| Debt transfer from loans to financial institutions to loans to customers | - | - | 611 610 | 611 610 |
| Financial assets that have been derecognized | (10 949) | (277) | (47 728) | (58 954) |
| Write off | - | - | (28 228) | (28 228) |
| Other changes | 14 | 1 080 | 992 | 2 086 |
| **Total loss reserve** | **12 974** | **1 095** | **2 032 881** | **2 046 950** |

*(in thousands of Russian rubles, unless otherwise indicated)*

## 28. Risk management policies (continued)

| | 2019 | | | |
|---|---|---|---|---|
| **Investment assets** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Movements in gross value for 2019*** | | | | |
| **Gross value as at the beginning of the period** | **575 054** | **-** | **-** | **575 054** |
| Increase/(Decrease) due to change in credit risk | 2 499 | - | - | 2 499 |
| New financial assets originated or purchased | 257 231 | - | - | 257 231 |
| Financial assets that have been derecognized | (159 259) | - | - | (159 259) |
| **Total gross carrying amount** | **675 525** | **-** | **-** | **675 525** |
| ***Movements in loss provision for 2019*** | | | | |
| **Loss provision as at the beginning of the period** | **2 645** | **-** | **-** | **2 645** |
| Increase/(Decrease) due to change in credit risk | (366) | - | - | (366) |
| New financial assets originated or purchased | 868 | - | - | 868 |
| Financial assets that have been derecognized | (235) | - | - | (235) |
| **Total loss provision** | **2 912** | **-** | **-** | **2 912** |

| | 2018 | | | |
|---|---|---|---|---|
| **Investment assets** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Movements in gross value for 2018*** | | | | |
| **Gross value as at the beginning of the period** | **36 819** | **-** | **-** | **36 819** |
| Increase due to change in asset amount | 6 341 | - | - | 6 341 |
| New financial assets originated or purchased | 531 894 | - | - | 531 894 |
| **Total gross carrying amount** | **575 054** | **-** | **-** | **575 054** |
| ***Movements in loss provision for 2018*** | | | | |
| **Loss provision as at the beginning of the period** | **41** | **-** | **-** | **41** |
| Increase due to change in asset amount | (41) | - | - | (41) |
| New financial assets originated or purchased | 2 645 | - | - | 2 645 |
| **Total loss provision** | **2 645** | **-** | **-** | **2 645** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

| **Credit-related contingent liabilities** | **2019** Stage 1 | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| ***Change in total credit related contingent liabilities for 2019*** | | | | |
| **Value as at the beginning of the period** | **1 638 958** | **88** | **1 189** | **1 640 235** |
| Transfers to Stage 1 | 51 | (50) | (1) | - |
| Transfers to Stage 2 | (473) | 473 | - | - |
| Transfers to Stage 3 | (1 361) | (11) | 1 372 | - |
| Movement due to change in credit risk | 5 345 | (241) | (259) | 4 845 |
| Created or newly acquired credit-related contingent liabilities | 6 126 999 | 432 | 10 | 6 127 441 |
| Credit-related contingent liabilities, which have been derecognized | (812 466) | (27) | (911) | (813 404) |
| **Total amount committed** | **6 957 053** | **664** | **1 400** | **6 959 117** |
| ***Movements in loss provision for 2019*** | | | | |
| **Loss provision as at the beginning of the period** | **12 703** | **64** | **1 071** | **13 838** |
| Transfers to Stage 1 | 37 | (36) | (1) | - |
| Transfers to Stage 2 | (32) | 32 | - | - |
| Transfers to Stage 3 | (50) | (8) | 58 | - |
| Movement due to change in credit risk | 414 | 151 | 1 082 | 1 647 |
| Created or newly acquired credit-related contingent liabilities | 52 705 | 215 | 10 | 52 930 |
| Credit-related contingent liabilities, which have been derecognized | (5 669) | (20) | (821) | (6 510) |
| **Total loss reserve** | **60 108** | **398** | **1 399** | **61 905** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

| **Credit-related contingent liabilities** | | **2018** | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Change in total credit related contingent liabilities for 2018*** | | | | |
| **Value as at the beginning of the period** | **31 267** | **210** | **2 447** | **33 924** |
| 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 liabilities amount | 5 842 | 64 | 448 | 6 354 |
| Decrease due to change in liability amount | (6 349) | (226) | (794) | (7 369) |
| Changes due to modifications that did not result in derecognition | | | | |
| Created or newly acquired liabilities | 1 611 824 | - | 36 | 1 611 860 |
| Closed loan commitments | (3 149) | (50) | (1 335) | (4 534) |
| **Total amount committed** | **1 638 958** | **88** | **1 189** | **1 640 235** |
| ***Movements in loss provision for 2018*** | | | | |
| **Loss provision 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 liability amount | 8 518 | 225 | 1 694 | 10 437 |
| Decrease due to change in liability amount | (1 088) | (31) | (674) | (1 793) |
| Created or newly acquired liabilities | 5 285 | - | 2 | 5 287 |
| Closed loan commitments | (75) | - | (18) | (93) |
| **Total loss reserve** | **12 703** | **64** | **1 071** | **13 838** |

As discussed above in the significant increase in credit risk section, under the Bank's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

*(in thousands of Russian rubles, unless otherwise indicated)*

## 28. Risk management policies (continued)

Credit quality of loans to legal entities and individuals outstanding as at 31 December 2019 was as follows:

| Loans to legal entities As at 31 December 2019 | Gross loans | Provision for impairment | Net loans | Provision for impairment to gross loans |
|---|---|---|---|---|
| **Individually impaired** | | | | |
| Not past due | 7 432 859 | (33 734) | 7 399 125 | 0.45% |
| Overdue: | | | | |
| 31–60 days | 784 | (704) | 80 | 89.80% |
| 61–90 days | 19 | (19) | - | 100.00% |
| from 91 to 180 days | 1 730 538 | (1 730 521) | 17 | 99.99% |
| over 180 days | 103 728 | (103 728) | - | 100.00% |
| **Total individually impaired loans** | **9 267 928** | **(1 868 706)** | **7 399 222** | **20.16%** |
| **Total collectively measured loans** | **-** | **-** | **-** | **-** |
| **Total loans to legal entities** | **9 267 928** | **(1 868 706)** | **7 399 222** | **20.16%** |

| Loans to individuals As at 31 December 2019 | Gross loans | Provision for impairment | Net loans | Provision for impairment to gross loans |
|---|---|---|---|---|
| **Individually impaired** | | | | |
| Not past due | 186 954 | (2 776) | 184 178 | 1.48% |
| Overdue: | | | | |
| from 61 to 90 days | 7 | (7) | - | 100.00% |
| from 91 to 180 days | 145 523 | (145 480) | 43 | 99.97% |
| over 180 days | 53 279 | (52 972) | 307 | 99.42% |
| **Total individually impaired loans** | **385 763** | **(201 235)** | **184 528** | **52.17%** |
| **Collectively assessed** | | | | |
| Not past due | 1 623 960 | (190 908) | 1 433 052 | 11.76% |
| Overdue: | | | | |
| up to 30 days | 108 734 | (19 638) | 89 096 | 18.06% |
| 31–60 days | 60 307 | (51 828) | 8 479 | 85.94% |
| 61–90 days | 45 225 | (38 883) | 6 342 | 85.98% |
| from 91 to 180 days | 28 742 | (28 692) | 50 | 99.83% |
| over 180 days | 3 676 | (3 669) | 7 | 99.81% |
| **Total collectively measured loans** | **1 870 644** | **(333 618)** | **1 537 026** | **17.83%** |
| **Total loans to individuals** | **2 256 407** | **(534 852)** | **1 721 554** | **23.70%** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

Credit quality of loans to legal entities and individuals outstanding as at 31 December 2018 was as follows:

| **Loans to legal entities As at 31 December 2018** | **Gross loans** | **Provision for impairment** | **Net loans** | **Provision for impairment to gross loans** |
|---|---|---|---|---|
| **Not past due and unimpaired loans** | 70 328 | - | 70 328 | 0.00% |
| **Individually impaired** | | | | |
| Not past due | 2 905 861 | (1 726 409) | 1 179 452 | 59.41% |
| Overdue: | | | | |
| over 180 days | 110 678 | (110 678) | - | 100.00% |
| **Total individually impaired loans** | **3 016 539** | **(1 837 087)** | **1 179 452** | **60.90%** |
| **Total collectively measured loans** | **-** | **-** | **-** | **-** |
| **Total loans to legal entities** | **3 016 539** | **(1 837 087)** | **1 179 452** | **60.90%** |

| **Loans to individuals As at 31 December 2018** | **Gross loans** | **Provision for impairment** | **Net loans** | **Provision for impairment to gross loans** |
|---|---|---|---|---|
| **Not past due and unimpaired loans** | - | - | - | - |
| **Individually impaired** | | | | |
| Not past due | 141 814 | (134 644) | 7 170 | 94.94% |
| Overdue: | | | | |
| up to 30 days | 21 | (2) | 19 | 9.52% |
| over 180 days | 23 929 | (23 929) | - | 100.00% |
| **Total individually impaired loans** | **165 764** | **(158 575)** | **7 189** | **95.66%** |
| **Collectively assessed** | | | | |
| Not past due | 77 945 | (19 572) | 58 373 | 25.11% |
| Overdue: | | | | |
| up to 30 days | 54 | (6) | 48 | 11.11% |
| from 31 to 60 days | 94 | (80) | 14 | 85.11% |
| from 61 to 90 days | 54 | (46) | 8 | 85.19% |
| from 91 to 180 days | 484 | (483) | 1 | 99.79% |
| over 180 days | 31 100 | (31 100) | - | 100.00% |
| **Total collectively measured loans** | **109 731** | **(51 287)** | **58 444** | **46.74%** |
| **Total loans to individuals** | **275 495** | **(209 862)** | **65 633** | **76.18%** |

*(in thousands of Russian rubles, unless otherwise indicated)*

## 28. Risk management policies (continued)

Below there is an analysis of the Bank's concentration of credit risk by sectors.

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Trade and services | 2 907 894 | 25.23% | 394 214 | 11.97% |
| Individuals | 2 256 407 | 19.58% | 275 495 | 8.37% |
| Finance and investments | 1 778 146 | 15.43% | 1 787 877 | 54.31% |
| Leasing | 1 173 692 | 10.18% | 626 642 | 19.04% |
| Production and manufacturing | 1 590 610 | 13.80% | 79 394 | 2.41% |
| Lease and asset management | 521 857 | 4.53% | - | 0.00% |
| Scientific research and development | 424 641 | 3.68% | - | 0.00% |
| Medical practice | 296 005 | 2.57% | - | 0.00% |
| Food and agriculture | 215 069 | 1.87% | 26 767 | 0.81% |
| Hotel business | 150 048 | 1.30% | - | 0.00% |
| Construction | 107 063 | 0.93% | 101 646 | 3.09% |
| Transport | 51 868 | 0.45% | - | 0.00% |
| Other sectors | 51 035 | 0.44% | - | 0.00% |
| **Total loans before allowance for expected credit losses** | **11 524 335** | **100.00%** | **3 292 035** | **100.00%** |
| Allowance for expected credit losses | **(2 403 559)** | | **(2 046 950)** | |
| **Total loans to customers** | **9 120 776** | | **1 245 085** | |

***Collateral.*** The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are presented by the Bank in note 8. The principal collateral received by the Bank is represented by guarantees of legal entities and individuals. However, only two types of collateral were used by the Bank to reduce provision for expected credit losses: real estate and deposits received.

At 31 December 2019, the fair value of collateral that the Bank holds relating to loans individually determined to be impaired amounts to RUB 1 523 858 thousand. Collateral includes guarantees, pledge of goods in turnover and pledge of receivables.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

The table below shows the maximum credit risk exposure for the statement of financial position items, including derivatives. The maximum risk exposure is presented without considering the impact of risk mitigation measures, such as the use of master agreements and collateral.

| | Maximum credit risk exposure | Collateralized assets | Net credit risk exposure |
|---|---|---|---|
| **31 December 2019** | | | |
| Cash and cash equivalents (less cash on hand) | 2 800 166 | - | 2 800 166 |
| Mandatory cash balance with the Central Bank of the RF | 50 670 | - | 50 670 |
| Due from financial institutions | 525 282 | (500 970) | 24 312 |
| Loans to customers | 9 120 776 | (7 567 660) | 1 553 116 |
| Investment assets | 675 525 | - | 675 525 |
| Other financial assets | 34 347 | - | 34 347 |
| Guarantees | 5 272 686 | - | 5 272 686 |
| Loan commitments | 1 624 526 | - | 1 624 526 |
| Letters of credit | - | - | - |
| **31 December 2018** | | | |
| Cash and cash equivalents (less cash on hand) | 2 950 024 | - | 2 950 024 |
| Mandatory cash balance with the Central Bank of the RF | 24 833 | - | 24 833 |
| Due from financial institutions | 1 457 273 | (1 230 230) | 227 043 |
| Loans to customers | 1 245 085 | - | 1 245 085 |
| Investment assets | 575 054 | - | 575 054 |
| Other financial assets | 2 974 | - | 2 974 |
| Guarantees | 1 106 625 | - | 1 106 625 |
| Loan commitments | 314 772 | - | 314 772 |
| Letters of credit | 205 000 | - | 205 000 |

The Bank did not repossessed any assets in the reporting year. During the year ended 31 December 2018, the Bank obtained assets through foreclosure of collateral in the amount of RUB 67 000 thousand. (Refer to note 12). As at 31 December 2019 and 2018, such assets amounting to RUB 293 947 thousand and RUB 485 148 thousand, respectively, are recorded in a separate item in the statement of financial position – Non-current assets held for sale.

The gross value of loans on which collateral is accepted to reduce expected credit losses as at 31 December 2019 amounted to RUR 1 054 304 thousand, the value of expected loans amounted to RUB 4 423 thousand. As at 31 December 2019 the collateral received allowed the Bank to reduce provisions for such individually impaired loans by RUB 55 958 thousand.

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers, this risk exposure is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

***Geographical concentration.*** The Risk Management Department of the Bank exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from potential changes in the investment climate fluctuations in the Russian Federation.

The geographical concentration of assets and liabilities is based on the counterparty's country of origin and is set out below:

| **31 December 2019** | **RF** | **OECD countries** | **Other countries** | **Total** |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Cash and cash equivalents | 1 918 882 | 933 142 | - | **2 852 024** |
| Mandatory cash balance with the Central Bank of the RF | 50 670 | | | **50 670** |
| Due from financial institutions | 501 070 | 24 212 | - | **525 282** |
| Loans to customers | 9 120 776 | - | - | **9 120 776** |
| Investment assets | 524 324 | 151 201 | - | **675 525** |
| Other financial assets | 34 347 | - | - | **34 347** |
| **TOTAL ASSETS** | **12 150 069** | **1 108 555** | **-** | **13 258 624** |
| **FINANCIAL LIABILITIES** | | | | |
| Due to other banks | 605 200 | - | - | **605 200** |
| Due to customers | 6 917 123 | 1 880 597 | 26 442 | **8 824 162** |
| Other financial liabilities | 430 047 | - | - | **430 047** |
| **TOTAL LIABILITIES** | **7 952 370** | **1 880 597** | **26 442** | **9 859 409** |

| **31 December 2018** | **RF** | **OECD countries** | **Other countries** | **Total** |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Cash and cash equivalents | 2 986 769 | 80 717 | - | **3 067 486** |
| Mandatory cash balance with the Central Bank of the RF | 24 833 | - | - | **24 833** |
| Due from financial institutions | 1 437 355 | 19 918 | - | **1 457 273** |
| Loans to customers | 1 245 085 | - | - | **1 245 085** |
| Investment assets | 575 054 | - | - | **575 054** |
| Other financial assets | 2 974 | - | - | **2 974** |
| **TOTAL ASSETS** | **6 272 070** | **100 635** | **-** | **6 372 705** |
| **FINANCIAL LIABILITIES** | | | | |
| Due to other banks | 601 779 | - | - | **601 779** |
| Due to customers | 1 657 743 | 170 465 | 20 294 | **1 848 502** |
| Subordinated loan | - | 1 065 921 | - | **1 065 921** |
| Other financial liabilities | 97 531 | - | - | **97 531** |
| **TOTAL LIABILITIES** | **2 357 053** | **1 236 386** | **20 294** | **3 613 733** |

The following table details credit ratings of the financial assets held by the Bank.

External credit ratings published by Moody's rating agency are used to monitor the increase in credit risk levels since the initial recognition of financial assets (except for loans to individuals and legal entities). In the absence of an external credit rating from Moody's, the worst available rating from international rating agencies such as Fitch and Standard & Poor's is used.

The highest possible rating by Moody's classification is Aaa. Financial assets are graded from Aaa to Baa3. Financial assets rated Ba1 and below are classed as speculative grade. With a rating of Ca and below – to default.

(in thousands of Russian rubles, unless otherwise indicated)

## 28. Risk management policies (continued)

Based on the Bank's total corporate score, the Bank determines its internal credit rating, which is translated into the scale of Moody's international rating agency (hereinafter – Moody's).

| | Investment rating | Speculative rating | Default rating | Not rated | Total |
|---|---|---|---|---|---|
| **31 December 2019** | | | | | |
| Cash and cash equivalents | 2 298 781 | 501 346 | | 39 | **2 800 166** |
| Mandatory cash balance with the Central Bank of the RF | 50 670 | - | | - | **50 670** |
| Due from financial institutions | 525 173 | - | | 109 | **525 282** |
| Loans to customers | 5 663 515 | 1 735 610 | 97 | 1 721 554 | **9 120 776** |
| Investment assets | 97 212 | 578 313 | | - | **675 525** |
| Other financial assets | - | - | | 34 347 | **34 347** |
| **31 December 2018** | | | | | |
| Cash and cash equivalents | 2 867 811 | - | | 82 213 | **2 950 024** |
| Mandatory cash balance with the Central Bank of the RF | 24 833 | - | | - | **24 833** |
| Due from financial institutions | 1 457 273 | - | | - | **1 457 273** |
| Loans to customers | - | - | | 1 245 085 | **1 245 085** |
| Investment assets | 575 054 | - | | - | **575 054** |
| Other financial assets | - | 1 485 | | 1 489 | **2 974** |

### Liquidity Risk

***Liquidity risk management.*** Liquidity risk is determined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to a risk of daily calls on its cash resources with respect to overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees, as well as with respect to cash-settled guarantee payments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity management process is supervised by the Management Board of the Bank.

The Bank tries to maintain a stable financing base consisting primarily of deposits by legal entities/individuals, as well as invest in diversified liquid asset portfolios in order to be able to quickly and easily address unexpected liquidity requirements.

Management of the Bank's liquidity requires analyzing the level of liquid assets required for settlement of liabilities as they mature; ensuring access to diverse sources of funding; ready plans of actions in case of any funding issues; and control over compliance of balance sheet liquidity ratios with statutory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR.

The tables below present contractual maturities. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws. The amounts included below for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

| 31 December 2019 | Weighted average effective interest rate | Up to 1 month | 1 month to 3 months | 3 month to 12 months | From 1 to 3 years | Over 3 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and cash equivalents | 5.85% | 1 649 851 | - | - | - | - | - | **1 649 851** |
| Due from financial institutions | 6.71% | 500 955 | - | - | - | - | - | **500 955** |
| Loans to customers | 8.12% | 3 | 2 752 | 1 734 492 | 4 505 050 | 2 877 876 | 29 | **9 120 202** |
| Investment assets | 9.25% | - | - | 139 104 | 97 212 | 439 209 | - | **675 525** |
| **Total financial assets subject to interest rate risk** | | **2 150 809** | **2 752** | **1 873 596** | **4 602 262** | **3 317 085** | **29** | **11 946 533** |
| Cash and cash equivalents | - | 1 202 173 | - | - | - | - | - | **1 202 173** |
| Mandatory cash balance with the Central Bank of the RF | - | - | - | - | - | - | 50 670 | **50 670** |
| Due from financial institutions | - | 115 | - | - | - | - | 24 212 | **24 327** |
| Loans to customers | - | 574 | - | - | - | - | - | **574** |
| Other financial assets | - | 8 937 | 260 | - | - | 25 150 | - | **34 347** |
| **Total financial assets not subject to interest rate risk** | | **1 211 799** | **260** | **-** | **-** | **25 150** | **74 882** | **1 312 091** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Due to other banks | 6.97% | - | - | - | (605 200) | - | - | **(605 200)** |
| Due to customers | 4.80% | (1 995 223) | (1 921 400) | (2 804 069) | (874 787) | - | - | **(7 595 479)** |
| Other financial liabilities | 8.50% | (4 130) | (7 743) | (37 551) | (124 574) | (30 506) | - | **(204 504)** |
| **Total financial liabilities subject to interest rate risk** | | **(1 999 353)** | **(1 929 143)** | **(2 841 620)** | **(1 604 561)** | **(30 506)** | **-** | **(8 405 183)** |
| Due to customers | - | (1 228 683) | - | - | - | - | - | **(1 228 683)** |
| Other financial liabilities | - | (29 815) | (42 508) | (50 485) | (102 735) | - | - | **(225 543)** |
| **Total financial liabilities not subject to interest rate risk** | | **(1 258 498)** | **(42 508)** | **(50 485)** | **(102 735)** | **-** | **-** | **(1 454 226)** |
| **Liquidity gap for financial assets and liabilities exposed to interest rate risk** | | **151 456** | **(1 926 391)** | **(968 024)** | **2 997 701** | **3 286 579** | **29** | **3 541 350** |
| **Cumulative liquidity gap for financial assets and liabilities subject to interest rate risk** | | **151 456** | **(1 774 935)** | **(2 742 959)** | **254 742** | **3 541 321** | **3 389 894** | |
| **Liquidity gap for financial assets and liabilities not exposed to interest rate risk** | | **(46 699)** | **(42 248)** | **(50 485)** | **(102 735)** | **25 150** | | |
| **Cumulative liquidity gap for financial assets and liabilities not subject to interest rate risk** | | **(46 699)** | **(88 947)** | **(139 432)** | **(242 167)** | **(217 017)** | | |

Based on the results of distribution of financial assets/liabilities exposed to interest rate risk by contractual maturities in 2019, there is a negative gap (liquidity deficit) in terms of one month to one year. This gap is covered by the amount of available interbank lending limits of the Bank in excess of RUB 1 500 000 thousand.

In addition, the majority of funds raised from customers relate to the shareholder’s deposits (RUB 1 835 448 thousand – note 29), the actual term of their placement, in the opinion of the Bank’s management, is long-term and exceeds the contractual term established as at the reporting date.

*(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

| 31 December 2018 | Weighted average effective interest rate | Up to 1 month | 1 month to 3 months | 3 month to 12 months | From 1 to 3 years | Over 3 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and cash equivalents | 7.35% | 2 950 024 | - | - | - | - | - | **2 950 024** |
| Due from financial institutions | 7.82% | 1 432 588 | - | - | - | - | - | **1 432 588** |
| Loans to customers | 8.40% | 448 925 | 729 632 | 66 528 | - | - | - | **1 245 085** |
| Investment assets | 8.30% | - | - | 16 230 | 485 941 | 72 883 | - | **575 054** |
| **Total financial assets subject to interest rate risk** | | **4 831 537** | **729 632** | **82 758** | **485 941** | **72 883** | **-** | **6 202 751** |
| Cash and cash equivalents | - | 117 462 | - | - | - | - | - | **117 462** |
| Mandatory cash balance with the Central Bank of the RF | - | - | - | - | - | - | 24 833 | **24 833** |
| Due from financial institutions | - | 24 685 | - | - | - | - | - | **24 685** |
| Loans to customers | - | 448 925 | 729 632 | 66 528 | - | - | - | **1 245 085** |
| Other financial assets | - | 2 974 | - | - | - | - | - | **2 974** |
| **Total financial assets not subject to interest rate risk** | | **5 425 583** | **1 459 264** | **149 286** | **485 941** | **72 883** | **24 833** | **7 617 790** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Due to other banks | 7.83% | (600 386) | - | - | - | - | - | **(600 386)** |
| Due to customers | 1.08% | (313 438) | (158 712) | (508 130) | - | - | - | **(980 280)** |
| Subordinated loan | 7.97% | (28 321) | - | - | - | (1 037 600) | - | **(1 065 921)** |
| **Total financial liabilities subject to interest rate risk** | | **(942 145)** | **(158 712)** | **(508 130)** | **-** | **(1 037 600)** | **-** | **(2 646 587)** |
| Due to other banks | - | (1 393) | - | - | - | - | - | **(1 393)** |
| Due to customers | - | (868 222) | - | - | - | - | - | **(868 222)** |
| Other financial liabilities | - | (85 771) | (1 235) | (10 525) | - | - | - | **(97 531)** |
| **Total financial liabilities not subject to interest rate risk** | | **(955 386)** | **(1 235)** | **(10 525)** | **-** | **-** | **-** | **(967 146)** |
| **Liquidity gap for financial assets and liabilities exposed to interest rate risk** | | **3 889 392** | **570 920** | **(425 372)** | **485 941** | **(964 717)** | **-** | **3 556 164** |
| **Cumulative liquidity gap for financial assets and liabilities subject to interest rate risk** | | **3 889 392** | **4 460 312** | **4 034 940** | **4 520 881** | **3 556 164** | **3 556 164** | |
| **Liquidity gap for financial assets and liabilities not exposed to interest rate risk** | | **4 470 197** | **1 458 029** | **138 761** | **485 941** | **72 883** | **24 833** | **6 650 644** |
| **Cumulative liquidity gap for financial assets and liabilities not subject to interest rate risk** | | **4 470 197** | **5 928 226** | **6 066 987** | **6 552 928** | **6 625 811** | **6 650 644** | |

(in thousands of Russian rubles, unless otherwise indicated)

## 28. Risk management policies (continued)

The following tables detail the Bank's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

The amount under credit related liabilities and financial guarantee contracts is the maximum amount that can be used in accordance with the credit related liabilities or under a financial guarantee contract. Non-discounted cash flows potentially payable under financial guarantees and similar agreements are classified based on the earliest date on which they could be drawn down.

| | Up to 1 month | 1 month to 3 months | 3 month to 12 months | From 1 to 3 years | Over 3 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | |
| Due to other banks | - | - | 41 804 | 646 919 | - | - | **688 723** |
| Due to customers | 3 230 087 | 1 930 738 | 2 930 462 | 970 618 | - | - | **9 061 905** |
| Other financial liabilities | 33 944 | 50 251 | 88 036 | 227 310 | 30 506 | - | **430 047** |
| **Total financial liabilities by contractual maturity dates** | **3 264 031** | **1 980 989** | **3 060 302** | **1 844 847** | **30 506** | **-** | **10 180 675** |
| **Credit-related contingent liabilities** | **1 286 075** | **541 224** | **1 551 720** | **3 447 709** | **132 389** | **-** | **6 959 117** |
| **2018** | | | | | | | |
| Due to other banks | 602 940 | - | - | - | - | - | **602 940** |
| Due to customers | 1 184 316 | 163 341 | 517 756 | - | - | - | **1 865 413** |
| Subordinated loan | 35 118 | 13 594 | 62 306 | 248 090 | 1 120 297 | - | **1 479 405** |
| Other financial liabilities | 85 771 | 1 235 | 10 525 | - | - | - | **97 531** |
| **Total financial liabilities by contractual maturity dates** | **1 908 145** | **178 170** | **590 587** | **248 090** | **1 120 297** | **-** | **4 045 289** |
| **Credit-related contingent liabilities** | **376 479** | **234 614** | **196 177** | **819 129** | **-** | **-** | **1 626 399** |

**Interest rate risk.** The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Such fluctuations may increase the interest margin; however, unexpected changes of interest rates may decrease the margin or cause losses.

Interest rate risk is assessed by the Bank based on gap-analysis on interest rate sensitive instruments ("IRSI"). The basic methodological approach of gap analysis as part of the interest rate risk assessment is recognition of the future payment flows for IRSI at the carrying amount. The carrying amount is broken down by dates of interest rate review in accordance with the contractual maturities, depending on which of the specified dates, the date of interest rate or the maturity date, is earlier.

The change in net interest income, resulting from changes in the value of IRSI upon their repayment or interest rate review, establishes the level of interest rate risk. The change in net interest income depends on the amount of the net cumulative gap for IRSI and a possible change in the interest rate at the end of the annual reporting period.

To analyze financial instruments that are sensitive to interest rate changes, a period equivalent to one year is selected as a maximum analyzed interval.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

Upon preparation of the report on the risk of interest rate changes for the Bank's management in 2019, the assumption on the interest rate changes by 400 basis points (in 2018: 400 basis points) is used, which is consistent with the management's expectations in relation to a reasonably possible fluctuation of interest rates.

If, as at 31 December 2019, interest rates increased/decreased by 400 basis points higher (2018: 400 basis points higher), while other variables would remain unchanged, net interest income for the year would increase/decrease by RUB 48 175 thousand higher (2018: RUB 8 316 thousand).

The table below summarizes the interest rate, by major currencies, for major financial instruments. The analysis is based on the effective interest rates as at the end of the reporting period:

| **2019** | **RUB** | **USD** | **EUR** | **Other** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 5.85% | 0.00% | 0.00% | 0.00% |
| Due from financial institutions | 6.71% | 0.00% | 0.00% | 0.00% |
| Loans to customers | 18.00% | 5.25% | 5.50% | 3.74% |
| Investment assets | 10.49% | 0.00% | 4.26% | 0.00% |
| **Financial liabilities** | | | | |
| Due to other banks | 6.97% | 0.00% | 0.00% | 0.00% |
| Due to customers | | | | |
| - current/settlement accounts | 1.94% | 0.11% | 0.01% | 0.00% |
| - term deposits | 7.57% | 1.71% | 0.40% | 0.15% |

| **2018** | **RUB** | **USD** | **EUR** | **Other** |
|---|---|---|---|---|
| Cash and cash equivalents | 7.35% | 0.00% | 0.00% | 0.00% |
| Due from financial institutions | 7.82% | 0.00% | 0.00% | 0.00% |
| Loans to customers | 12.31% | 4.49% | 0.00% | 3.82% |
| Investment assets | 11.29% | 5.30% | 0.00% | 0.00% |
| **Financial liabilities** | | | | |
| Due to other banks | 7.83% | 0.00% | 0.00% | 0.00% |
| Due to customers | 3.29% | 0.66% | 0.17% | 0.20% |
| Subordinated loan | 7.97% | 0.00% | 0.00% | 0.00% |

### Financing facilities

***Market risk.*** Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level of volatility of market rates or prices. Market risk covers interest rate risk, currency risk, commodity prices and equity prices that the Bank is exposed to. There have been no changes as to the way the Bank measures these risks or the risks it is exposed to or the manner in which these risks are managed.

The Bank did not perform any operations with instruments during the reporting period and did not have open positions exposed to the risk of changes in commodity and equity prices at the end of the reporting period.

## 28. Risk management policies (continued)

According to the nature of its activities, the Bank is exposed to interest rate risk by forming a trading portfolio of debt securities sensitive to changes in market interest rates, as well as due to the following sources of interest rate risk arising from the Bank's interest rate position:

- Maturity gap of assets, liabilities and liabilities on fixed interest rate instruments;
- Maturity gap of assets, liabilities, off-balance claims and liabilities on instruments with the floating interest rate (interest rate re-pricing risk);
- Change of yield configuration for long and short positions (risk of yield curve);
- Gap in the degree of change in interest rates on attracted and placed resources.

In order to manage interest rate risk, the Bank has established a system of interest rate risk management based on the following key principles for risk management:

- Daily and continuous interest rate risk management;
- The compliance of the interest rate risk management system with the regulations of the Bank of Russia and other regulatory bodies;
- Presence of necessary internal regulatory documents on interest rate risk management approved by the Bank's management bodies and communicated to all employees of the Bank;
- Regular receipt by the Bank's management bodies, including the Board of Directors, of information on the Bank's interest rate risk status;
- Regular review of the interest rate risk management system and timely updating of interest rate risk management documents in order to comply with current regulatory requirements, the current market situation and the Bank's organizational structure;
- Presence of a system of limits and restrictions binding on all responsible structural units and employees of the Bank;
- The existence of operational structural units of the Bank responsible for interest rate risk management and operating within the existing restrictions, internal instructions of the Bank and legal requirements, and controlling structural units of the Bank responsible for monitoring and control of interest rate risk and independent from operational structural units of the Bank;
- Integration of the interest rate risk management system into the Bank's overall risk management system.

The Assets and Liabilities Management Committee manages interest rate and market risks by managing the Bank's interest rate position, determining interest rate policy, structure of the Bank's assets and liabilities by maturity and instruments, approving rates for attracting and placing resources from individuals and legal entities, and transfer rates.

The Bank Risk Management Department prepares proposals on setting and changing limits and restrictions necessary for interest rate risk management, monitors compliance with limits and signal values, prepares internal reports on interest rate risk management, and performs stress testing of interest rate risk.

The Treasury Department monitors the Bank's current performance results, manages the structure of the trading portfolio, including the securities portfolio, estimates and forecasts compliance with the established limits and restrictions.

The Bank's management monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

**Interest rate sensitivity.** Sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. Details of sensitivity analysis for foreign currency risk and for interest rate risk are set below.

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions.

The interest rate sensitivity analysis below has been performed for financial instruments, that are sensitive to the interest rate changes. The analysis is performed as at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

A 200 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents the Bank management's assessment of the reasonably possible change in interest rates.

***Currency risk.*** Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

| | **RUB** | **USD** USD 1 = RUB 61.9057 | **EUR** EUR 1 = RUB 69.3406 | **Other currency precious metals** | **Total** |
|---|---|---|---|---|---|
| **2019** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 1 866 737 | 25 326 | 45 171 | 914 790 | **2 852 024** |
| Mandatory cash balance with the Central Bank of the RF | 50 670 | - | - | - | **50 670** |
| Due from financial institutions | 501 064 | 6 | 24 212 | - | **525 282** |
| Loans to customers | 8 805 458 | 216 150 | 42 371 | 56 797 | **9 120 776** |
| Investment assets | 524 324 | - | 151 201 | - | **675 525** |
| Other financial assets | 34 347 | - | - | - | **34 347** |
| **Total financial assets** | **11 782 600** | **241 482** | **262 955** | **971 587** | **13 258 624** |
| **Financial liabilities** | | | | | |
| Due to other banks | (605 200) | - | - | - | **(605 200)** |
| Customer accounts | (6 513 303) | (191 924) | (285 446) | (1 833 489) | **(8 824 162)** |
| Other financial liabilities | (430 047) | - | - | - | **(430 047)** |
| **Total financial liabilities** | **(7 548 550)** | **(191 924)** | **(285 446)** | **(1 833 489)** | **(9 859 409)** |
| **Net currency balance sheet position** | **4 234 050** | **49 558** | **(22 491)** | **(861 902)** | **3 399 215** |
| **Foreign exchange spot transactions** | **(826 904)** | **(43 334)** | **20 802** | **850 548** | **1 112** |
| **Net currency position** | **3 407 146** | **6 224** | **(1 689)** | **(11 354)** | **3 400 327** |

***(in thousands of Russian rubles, unless otherwise indicated)***

## 28. Risk management policies (continued)

| | RUB | USD<br>USD 1 =<br>RUB 69.4706 | EUR<br>EUR 1 =<br>RUB 79.4605 | Other currency | Total |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 2 856 880 | 45 461 | 62 259 | 102 886 | **3 067 486** |
| Mandatory cash balance with the Central Bank of the RF | 24 833 | - | - | - | **24 833** |
| Due from financial institutions | 1 433 306 | 19 932 | 4 035 | - | **1 457 273** |
| Loans to customers | 1 178 557 | - | - | 66 528 | **1 245 085** |
| Investment assets | 414 068 | 76 407 | 84 579 | - | **575 054** |
| Other financial assets | 2 974 | - | - | - | **2 974** |
| **Total financial assets** | **5 910 618** | **141 800** | **150 873** | **169 414** | **6 372 705** |
| **Financial liabilities** | | | | | |
| Due to other banks | (601 688) | (86) | (5) | - | **(601 779)** |
| Due to customers | (1 161 508) | (168 634) | (346 863) | (171 497) | **(1 848 502)** |
| Subordinated loan | (1 065 921) | - | - | - | **(1 065 921)** |
| Other financial liabilities | (97 531) | - | - | - | **(97 531)** |
| **Total financial liabilities** | **(2 926 648)** | **(168 720)** | **(346 868)** | **(171 497)** | **(3 613 733)** |
| **Net currency balance sheet position** | **2 983 970** | **(26 920)** | **(195 995)** | **(2 083)** | **2 758 972** |
| **Foreign exchange spot transactions** | **(234 488)** | **34 735** | **198 651** | **-** | **(1 102)** |
| **Net currency position** | **2 749 482** | **7 815** | **2 656** | **(2 083)** | **2 757 870** |

Currency risk sensitivity. The following table details the Bank's sensitivity to a 30-percent (2018: by 5%) increase and decrease in the RUB against the relevant foreign currencies. The sensitivity analysis addresses only balances related to monetary items denominated in foreign currency and adjusts their translation at the period end for a 30% change in foreign currency rates (2018: by 5%).

A positive number below indicates an increase in profit and other equity where the RUB strengthens 30% (2018: by 5%) against the relevant currency. For a 30% (2018: by 5%) weakening of the RUB against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

| | As at 31 December 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| | Impact on | | | |
| | **Profit or loss** | **Equity** | **Profit or loss** | **Equity** |
| USD strengthening by 30% (2018: by 5%) | 1 867 | 1 494 | 391 | 313 |
| USD weakening by 30% (2018: by 5%) | (1 867) | (1 494) | (391) | (313) |
| EUR strengthening by 30% (2018: by 5%) | (507) | (405) | 133 | 106 |
| EUR strengthening by 30% (2018: by 5%) | 507 | 405 | (133) | (106) |
| Other currencies strengthening by 30% (2018: by 5%) | (3 406) | (2 725) | (104) | (83) |
| Other currencies weakening by 30% (2018: by 5%) | 3 406 | 2 725 | 104 | 83 |

## 28. Risk management policies (continued)

This risk mainly relates to cash balances on the Bank's cash office and in correspondent accounts, as well as balances of the Bank's customers on current and/or settlement accounts and deposits.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in stockholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty. Another limitation relates to the assumption that all interest rates move in an identical fashion.

***Price risk* – *own products.*** The Bank is exposed to price risk due to the impact of general and specific market fluctuations on its products.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

**Operational risk.** Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to the Bank's reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

## 29. Related party transactions

In accordance with IAS 24 Related Party Disclosures, related parties are the parties one of which has control or significant influence over the operating and financial decisions of the other party. In considering related party relationships, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions that unrelated parties might 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.

***(in thousands of Russian rubles, unless otherwise indicated)***

## 29. Related party transactions (continued)

The Bank had the following balances on transactions with related parties:

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| **Financial statement line item** | **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 | 10 226 | 11 524 335 | 7 719 | 3 292 035 |
| *- key management personnel* | 10 226 | | 7 719 | - |
| *- shareholders* | - | | - | - |
| *- entities under common control* | - | | - | - |
| *Allowance for impairment of loans* | (1 150) | (2 403 559) | (45) | (2 046 950) |
| *- key management personnel* | (1 150) | | (45) | - |
| *- shareholders* | - | | - | - |
| *- entities under common control* | - | | - | - |
| Due to customers | 1 859 946 | 8 824 162 | 149 324 | 1 848 502 |
| *- key management personnel* | 24 480 | | 18 632 | - |
| *- shareholders* | 1 835 448 | | 128 538 | - |
| *- entities under common control* | 18 | | 2 154 | - |
| Subordinated loan | - | - | - | 1 065 921 |
| *- key management personnel* | - | | - | - |
| *- shareholders* | - | | 1 065 921 | - |
| *- entities under common control* | - | | - | - |
| Unused credit lines | 568 | 1 632 645 | 840 | 318 086 |
| *- key management personnel* | 568 | | 840 | - |
| *- shareholders* | - | | - | - |
| *- entities under common control* | - | | - | - |

Included in the statement of profit or loss for 2019 and 2018 there are the following amounts, which arose due to transactions with related parties:

| | 2019 | | 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 | 1 055 | 810 957 | 5 979 | 438 878 |
| *- key management personnel* | 1 055 | | 124 | - |
| *- shareholders* | - | | - | - |
| *- entities under common control* | - | | 5 855 | - |
| *Interest expense* | (58 300) | (230 193) | (73 318) | (118 875) |
| *- key management personnel* | (702) | | (158) | - |
| *- shareholders* | (57 591) | | (68 176) | - |
| *- entities under common control* | (7) | | (4 984) | - |
| *Fee and commission income* | 594 | 134 693 | 452 | 52 351 |
| *- key management personnel* | 20 | | 31 | - |
| *- shareholders* | 18 | | 22 | - |
| *- entities under common control* | 556 | | 399 | - |
| *Net gain(loss) from trading in foreign currencies* | 7 954 | 58 711 | 1 420 | 48 874 |
| *- key management personnel* | 65 | | 83 | - |
| *- shareholders* | 7 889 | | 1 337 | - |
| *- entities under common control* | - | | - | - |
| *Operating expense* | (98 154) | (1 186 941) | (63 041) | (677 717) |
| *- key management personnel* | (83 601) | | (63 041) | - |
| *- shareholders* | (905) | | - | - |
| *- entities under common control* | (13 648) | | - | - |

## 29. Related party transactions (continued)

Remuneration to key management personnel (excluding social security contributions) for 2019 was RUB 80 939 thousand (for 2018: RUB 63 041 thousand). Short-term unused vacation liabilities to the Bank's key management personnel in 2019 amounted to RUB 2 566 thousand.

## 30. Subsequent events

All information received by the Bank after the reporting date on the conditions existing at the reporting date is reflected in these financial statements taking into account this new information.

As discussed in note 1 the changing economic environment, the spread of the COVID-19 virus, the introduction of non-working days could have a material impact on the Bank's operations and financial performance.

At the beginning of 2020, the Bank underwent a scheduled audit by the Central Bank of the Russian Federation, which was suspended due to the spread of COVID-19.

There are no non-adjusting events after the reporting date that are material to the users of these financial statements, other than those described in note 12.

Approved for issue and signed on 24 April 2020.
On behalf of the Management Board of the Bank:

Karyakin Andrei Dmitrievich
Chairman of the Management Board

Sytenko Vadim Gennadievich
Chief Accountant

Общество с ограниченной ответственностью «Эс-Би-Ай Банк» SBI Bank Strategic Business Innovator Москва