

**Joint Stock Company  
“BCS Bank”**

**Consolidated Financial Statements  
in accordance with IFRS as at 31 December 2019  
and for the year ended 31 December 2019**

**MOSCOW**

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# Independent Auditors' Report

## To Shareholder and Board of Directors of BCS Bank Joint Stock Company

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of BCS Bank JSC (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

#### Basis for Opinion

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

#### Emphasis of Matter – comparative information

We draw attention to Note 3 to the consolidated financial statements, which indicates that the comparative information presented as at and for the year ended 31 December 2018 has been restated. Our opinion is not modified in respect of this matter.

Audited entity: BCS Bank JSC  
Registration No. in the Unified State Register of Legal Entities  
105540000369.  
Moscow, Russia

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities:  
1027700125628

Member of the Self-Regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations No.12006020351.



### **Other Matter Relating to Comparative Information**

As part of our audit of the consolidated financial statements as at and for the year ended 31 December 2019, we audited the adjustments described in Note 3 that were applied to restate the comparative information presented as at and for the year ended 31 December 2018 and the statement of financial position as at 1 January 2018. In our opinion, the adjustments described in Note 3 are appropriate and have been properly applied.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

**Report on findings from procedures performed in accordance with the requirements of Federal Law No 395-1, dated 2 December 1990, *On Banks and Banking Activity***

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal control and organising risk management systems in accordance with requirements established by the Bank of Russia.

In accordance with Article 42 of the Federal Law No 395-1, dated 2 December 1990 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2020 established by the Bank of Russia; and
- whether the elements of the Group's internal control and organization of risk management systems comply with requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings on the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios as at 1 January 2020 were within the limits established by the Bank of Russia.



We have not performed any procedures on the accounting records maintained by the Group other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

- Based on our procedures with respect whether the compliance of elements of the Group's internal control and organization of its risk management systems comply with requirements established by the Bank of Russia, we found that:
  - as at 31 December 2019, the Bank's Internal Audit Department was subordinated to, and reported to, the Board of Directors, and the Risk Directorate was not subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;
  - the Bank's internal documentation, effective as at 31 December 2019, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;
  - as at 31 December 2019 the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks and on the Group's capital;
  - the frequency and consistency of reports prepared by the Bank's Risk Directorate and Internal Audit Department during 2019, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's Risk Directorate and Internal Audit Department as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
  - as at 31 December 2019, the Board of Directors and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2019, the Board of Directors and Executive Management of the Bank periodically discussed the reports prepared by the Risk Directorate and Internal Audit Department, and considered the proposed corrective actions.



Procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:





A.E.Kolosov  
JSC "KPMG"  
Moscow, Russia  
30 April 2020



**BCS Bank JSC**  
**Consolidated Statement of Financial Position**  
**as at 31 December 2019**  
*(all in RUB thousand, unless otherwise stated)*

	Notes	31 December 2019	31 December 2018 (restated)	1 January 2018 (restated)
<b>Assets</b>				
Cash and cash equivalents	5	7 065 221	12 544 060	8 125 276
Mandatory reserves in the Central Bank of the Russian Federation		545 478	512 411	504 794
Financial assets held-for-trading	6, 27	12 319	80 906	576 902
Amounts due from banks and other credit institutions	7	43 811 355	30 783 149	23 658 081
Loans to customers	8	9 890 743	3 545 935	2 551 485
Financial assets measured at FVOCI	9	9 039 124	9 936 097	17 194 574
Financial assets measured at FVOCI (encumbered)	9	-	3 805 772	987 849
Property, equipment, intangible assets and right-of-use assets	10	991 947	293 068	151 528
Current income tax		77 955	36 212	500
Deferred tax asset	22	39 405	-	-
Other assets	12	434 750	229 701	171 970
Non-current assets classified as held-for-sale	11	14 794	75 441	42 415
<b>Total assets</b>		<b>71 923 091</b>	<b>61 842 752</b>	<b>53 965 374</b>
<b>Liabilities</b>				
Amounts due to banks and other credit institutions	13	12 181 750	7 617 241	1 761 675
Amounts due to customers	14	49 608 615	45 007 347	42 805 669
Financial liabilities held-for-trading	27	16 279	77 231	15
Other liabilities	15	1 039 410	1 638 316	2 182 613
Current income tax liabilities		4 289	3 925	2 790
Deferred tax liabilities	22	-	107 166	222 572
<b>Total liabilities</b>		<b>62 850 343</b>	<b>54 451 226</b>	<b>46 975 334</b>
<b>Equity</b>				
Share capital	16	2 332 129	1 558 500	1 558 500
Share premium	16	1 586 571	60 200	60 200
Retained earnings	24	2 016 421	2 438 369	2 476 029
Perpetual subordinated loan		3 095 285	3 473 530	2 880 010
Provision for changes in fair value of financial assets measured at FVOCI	24	42 342	(139 073)	15 301
<b>Total equity</b>		<b>9 072 748</b>	<b>7 391 526</b>	<b>6 990 040</b>
<b>Total equity and liabilities</b>		<b>71 923 091</b>	<b>61 842 752</b>	<b>53 965 374</b>

  
Deputy Chairman of the Management Board  
D.G. Ivanishchenko  
30 April 2020

  
Deputy Chief Accountant

I.V. Kryukov  
30 April 2020



The Consolidated Statement of Financial Position is to be read in conjunction with the Notes to, and forming part of, the Consolidated Financial Statements.



BCS Bank JSC

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
for the year ended 31 December 2019  
*(all in RUB thousand, unless otherwise stated)*


	Notes	2019	2018 (restated)
Interest income calculated using the effective interest rate method	17	3 361 328	2 749 490
Other interest income	17	697	-
Interest expenses	17	(1 649 161)	(1 189 131)
<b>Net interest income</b>	<b>17</b>	<b>1 712 864</b>	<b>1 560 359</b>
Change in allowance for expected credit losses on financial assets	5,7,8,9	(306 003)	5 405
<b>Net interest income after allowance for losses from financial assets</b>		<b>1 406 861</b>	<b>1 565 764</b>
Net profit (loss) from purchase and sale of financial assets measured at FVOCI	18	281 771	(363 095)
Net profit (loss) from operations with financial assets measured at FVTPL		3 191	(1 298)
Net (loss) profit from operations with foreign currency	19	(350 730)	1 541 033
Net gain (loss) on revaluation of foreign currency	19	95 228	(440 705)
Dividend income		460	345
Fee and commission income	20	1 040 743	643 019
Fee and commission expense	20	(355 401)	(429 280)
Change in other provisions	12, 15	(39 561)	(13 115)
Other operating income		72 602	151 694
<b>Operating income</b>		<b>2 155 164</b>	<b>2 654 362</b>
Administrative and other operating expenses	21	(2 721 910)	(1 659 330)
<b>(Loss) profit before tax</b>		<b>(566 746)</b>	<b>995 032</b>
Income tax return (expense)	22	100 481	(179 145)
<b>(Loss) profit for the year</b>		<b>(466 265)</b>	<b>815 887</b>


The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to, and forming part of, the Consolidated Financial Statements.

BCS Bank JSC

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
for the year ended 31 December 2019  
*(all in RUB thousand, unless otherwise stated)*

	Notes	2019	2018 (restated)
<b>Other comprehensive income (loss)</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
<i>Fair value reserve (debt instruments)</i>			
- Change in fair value		424 153	(715 048)
- Value transferred to profit or loss		(214 382)	447 398
Income tax recognized in other comprehensive income		(45 354)	53 530
<b>Other comprehensive income (loss) less income tax</b>		<u>164 417</u>	<u>(214 120)</u>
<b>Total comprehensive (loss) profit for the year</b>		<u>(301 848)</u>	<u>601 767</u>

  
Deputy Chairman of the Management Board  
D.G. Ivanishchenko  
30 April 2020

  
Deputy Chief Accountant  
I.V. Kryukov  
30 April 2020



The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to, and forming part of, the Consolidated Financial Statements.

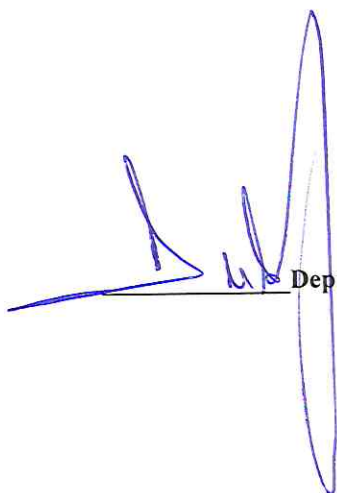
**BCS Bank JSC**  
**Consolidated Statement of Cash Flows**  
**for the year ended 31 December 2019**  
*(all in RUB thousand, unless otherwise stated)*

	Note	2019	2018 (restated)
<b>Cash flows from operating activities</b>			
Interest received		3 286 610	2 641 667
Interest paid		(1 799 476)	(947 317)
Expenses less income from foreign currency transactions		(270 985)	2 112 947
Fees and commissions received		948 652	643 019
Fees and commissions paid		(448 858)	(429 280)
Other operating income		41 552	32 579
Operating expenses paid		(2 581 723)	(1 474 466)
Income tax paid		(165 456)	(131 905)
<b>Cash flows (used in) received from operating activities before changes in operating assets and liabilities</b>		<b>(989 684)</b>	<b>2 447 244</b>
Net (increase) in mandatory reserves in the Central Bank of the Russian Federation		(33 067)	(7 617)
Net (increase) in amounts due from banks and other financial institutions		(12 965 491)	(7 125 068)
Net (increase) in loans to customers		(6 498 380)	(979 336)
Net (increase) in other assets		(246 455)	(175 647)
Net increase in amounts due to banks and other financial institutions		4 672 303	5 740 274
Net increase (decrease) in customer accounts		7 504 395	(1 685 568)
Net (decrease) in other liabilities		(848 473)	(852 289)
<b>Net cash flows used in operating activities</b>		<b>(9 404 852)</b>	<b>(2 638 007)</b>
<b>Cash flows from investing activities</b>			
Revenue from sale of financial assets measured at FVOCI		81 516 986	64 040 102
Acquisition of financial assets measured at FVOCI		(76 996 393)	(58 328 410)
Acquisition of property, equipment and intangible assets		(397 369)	(105 841)
Revenue from sale of property		65 060	7 096
Dividends received		460	345
<b>Net cash flows from investing activities</b>		<b>4 188 744</b>	<b>5 613 292</b>
<b>Cash flows from financing activities</b>			
Emission of ordinary shares		2 300 000	-
Cash outflow on lease liabilities		(70 211)	-
Interest paid on perpetual subordinated loan		(301 601)	(264 084)
Dividends paid	23	-	(99 541)
<b>Net cash flows received from (used in) financing activities</b>		<b>1 928 188</b>	<b>(363 625)</b>
<b>Effect of changes in the CBRF official exchange rate changes on cash and cash equivalents</b>		<b>(2 194 682)</b>	<b>1 812 968</b>

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to, and forming part of, the Consolidated Financial Statements.

**BCS Bank JSC**  
**Consolidated Statement of Cash Flows**  
**for the year ended 31 December 2019**  
*(all in RUB thousand, unless otherwise stated)*

	Note	2019	2018 (restated)
Net (decrease) increase in cash and cash equivalent		(5 482 602)	4 424 628
Cash and cash equivalents before allowance for expected credit losses at the beginning of the year	5	12 588 603	8 163 975
Cash and cash equivalents before allowance for expected credit losses at the end of the year	5	7 106 001	12 588 603



Deputy Chairman of the Management Board  
**D.G. Ivanishchenko**  
 30 April 2020



Deputy Chief Accountant

**I.V. Kryukov**  
 30 April 2020



The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to, and forming part of, the Consolidated Financial Statements.



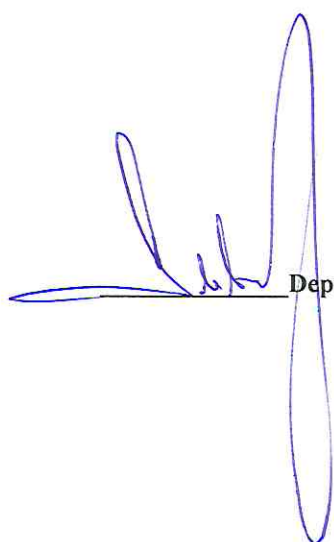
**BCS Bank JSC**  
**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2019**  
*(all in RUB thousand, unless otherwise stated)*

	Share capital	Share premium	Provision for changes in the fair value of investment financial assets	Perpetual subordinated loan	Retained earnings	Total equity
<b>Balance as at 1 January 2018 (before restatement)</b>	1 558 500	60 200	15 301	-	2 402 301	4 046 302
Revision effect	-	-	-	2 880 010	73 728	2 953 738
<b>Balance as at 1 January 2018 (restated)</b>	1 558 500	60 200	15 301	2 880 010	2 476 029	6 999 040
Effect of transition to IFRS 9 as at 1 January 2018	-	-	59 746	-	(67 923)	(8 177)
<b>Restated balance as at 1 January 2018</b>	<b>1 558 500</b>	<b>60 200</b>	<b>75 047</b>	<b>2 880 010</b>	<b>2 408 106</b>	<b>6 981 863</b>
Profit for the year	-	-	-	-	815 887	815 887
<b>Other comprehensive loss</b>						
Net change in fair value	-	-	(715 048)	-	-	(715 048)
Value transferred to profit or loss	-	-	447 398	-	-	447 398
Income tax recognized in other comprehensive income	-	-	53 530	-	-	53 530
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>(214 120)</b>	<b>-</b>	<b>815 887</b>	<b>601 767</b>
Revaluation of the perpetual subordinated loan	-	-	-	593 520	(593 520)	-
Interest paid on perpetual subordinated loan	-	-	-	-	(264 084)	(264 084)
Income tax referred to perpetual subordinated loan	-	-	-	-	171 521	171 521
Dividends paid	-	-	-	-	(99 541)	(99 541)
<b>Balance as at 31 December 2018 (restated)</b>	<b>1 558 500</b>	<b>60 200</b>	<b>(139 073)</b>	<b>3 473 530</b>	<b>2 438 369</b>	<b>7 391 526</b>
Loss for the year	-	-	-	-	(466 265)	(466 265)
<b>Other comprehensive income</b>						
Net change in fair value	-	-	424 153	-	-	424 153
Value transferred to profit or loss	-	-	(214 382)	-	-	(214 382)
Transfer change in fair value to equity	-	-	16 998	-	(16 998)	-
Income tax recognized in other comprehensive income	-	-	(45 354)	-	-	(45 354)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>181 415</b>	<b>-</b>	<b>(483 263)</b>	<b>(301 848)</b>

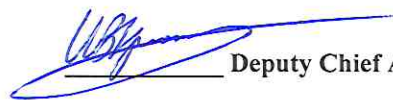
The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to, and forming part of, the Consolidated Financial Statements.

**BCS Bank JSC**  
**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2019**  
*(all in RUB thousand, unless otherwise stated)*

	Share capital	Share premium	Provision for changes in the fair value of investment financial assets	Perpetual subordinated loan	Retained earnings	Total equity
Revaluation of perpetual subordinated loan	-	-	-	(378 245)	378 245	-
Interest paid on perpetual subordinated loan	-	-	-	-	(301 601)	(301 601)
Income tax referred to perpetual subordinated loan	-	-	-	-	(15 329)	(15 329)
Issue of shares	773 629	1 526 371	-	-	-	2 300 000
<b>Balance as at 31 December 2019</b>	<b>2 332 129</b>	<b>1 586 571</b>	<b>42 342</b>	<b>3 095 285</b>	<b>2 016 421</b>	<b>9 072 748</b>



Deputy Chairman of the Management  
Board  
D.G. Ivanishchenko  
30 April 2020



Deputy Chief Accountant

I.V. Kryukov  
30 April 2020



The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to, and forming part of, the Consolidated Financial Statements.

## 1. Introduction

### Main lines of business

Full name	Joint-Stock Company “BCS Bank”
Abbreviated name	BCS Bank JSC
Address	69 Prospect Mira, building 1, 129110, Moscow, Russia
Date of registration by the Central Bank of the Russian Federation	1 June 1989
Registration number	101

**Full corporate name:** in accordance with the decision of the sole shareholder dated 16 August 2018, the name of the Bank was changed from Joint Stock Company “BCS - Investment Bank” to Joint Stock Company “BCS Bank”, therefore respective amendments to the Charter of the Bank were registered on 14 November 2018.

**Legal address of the Bank:** On 16 August 2018, the sole shareholder decided to change the Bank's address from the address: Novosibirsk, Russian Federation, to address: Moscow, Russian Federation, and to change the Bank's address from the address: 37 Sovetskaya Street 630099, Novosibirsk to the address: 69 Prospect Mira, building 1, 129110, Moscow, Russian Federation, therefore respective amendments to the Bank's Charter were registered on 14 November 2018.

The main line of business of BCS Bank JSC (hereinafter - the “Bank”) is banking operations within the Russian Federation.

The Bank is a bank with a general license and operates under a general license for banking operations with funds in rubles and foreign currency (with the right to attract deposits from individuals) and for banking operations with precious metals No. 101 issued by the Central Bank of the Russian Federation (hereinafter - the “CBRF”) on 29 November 2018 without any limitation of validity and operates in accordance with the Federal Law “On Banks and Banking Activities” and other legislative acts of the Russian Federation.

Apart from the general license of the CBRF, the Bank operates under the following licenses and permits:

- License to a professional participant of the securities market No. 045-13349-100000 issued by the Federal Service for Financial Markets on 14 October 2010 to act as a broker;
- License to a professional participant of the securities market No. 045-13351-010000 issued by the Federal Service for Financial Markets on 14 October 2010 to act as a dealer;
- License to a professional participant of the securities market No. 045-13878-000100 issued by the CBRF on 27 June 2014 to act as a depositary.

The Bank is a member of the obligatory insurance system for deposits of individuals with banks of the Russian Federation (the Bank was included in the register of banks participating in the deposit insurance system on 3 February 2005 under No. 583).

The principal activities of the Bank are deposit attraction, customer account opening and maintenance, issuing loans and guarantees, cash and settlement transactions, securities and foreign exchange transactions. The Bank's activities are regulated by the CBRF.

The Bank's head office is located in Moscow (formerly Novosibirsk) with 52 lending and cash services offices in 7 federal districts of the Russian Federation.

### Shareholders

As at 1 January 2019, the Bank's immediate parent company was BCS Company LLC. In July 2019 the Bank's shareholder changed; as at 1 January 2020 the Bank's immediate parent company is Siberian Investments LLC; as at 1 January 2020 and 1 December 2019 the Bank's outstanding shares are as follows:

	1 January 2020 (%)	1 January 2019 (%)
<b>Shareholder</b>		
Siberian Investments LLC	100.00	-
BCS Company LLC	-	100.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>



**Information about the banking group**

As at 1 January 2020 BCS Bank JSC is the parent credit institution of the banking group (hereinafter - the “Group”), which includes the sole participant BCS Fintech LLC:

Name	Country of registration	Main lines of business	Ownership, %	
			1 January 2020	1 January 2019
BCS Fintech LLC	Russian Federation	Software development	<b>99.0</b>	-

These consolidated financial statements of the banking group are available on the website of the parent credit institution (the Bank) at [http://bcs-bank.com/about\\_document/](http://bcs-bank.com/about_document/) within the terms prescribed by the regulations of the CBRF.

These consolidated financial statements do not include the data of the sole participant of the banking group due to recognition of the data of the sole participant as insignificant. Investments in the sole participant of the banking group are recognized at cost less impairment.

As at 1 January 2019, the Bank was not a participant of a banking group or holding, a head of a banking (consolidated) group, nor had any subsidiaries.

The Group is ultimately controlled by an individual, Oleg Vladimirovich Mikhasenko, who has the power to direct the transactions of the Bank at his own discretion and for his own benefit.

**Russian business environment**

The Bank’s operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to the economic and financial markets risks of the Russian Federation, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The present economic and political situation, including the developments in the Ukraine, the sanctions imposed against Russia by certain countries and counter-sanctions imposed by Russia in return, create certain operational risks for the Bank. Management of the Bank believes that it takes all the necessary efforts to support the economic stability of the Bank in the current environment.

Deterioration of the general economic situation, depreciation of the national currency and slowdown in economic growth may result in lower business activity of enterprises operating in the Russian Federation and lower consumer purchasing power. In this situation, the Bank believes that the growth rates and lending volumes of borrowers may decrease, and their financial performance may deteriorate. However, this is not going to have a significant impact on the Bank's financial performance due to the low risk business model.

On March 1, 2020, the World Health Organization announced that the spread of a new coronavirus infection had become pandemic. In response to the potentially serious threat posed to the health of the population by the COVID-19 virus, the state authorities of the Russian Federation took measures to curb the spread of coronavirus infection, including the introduction of restrictions on crossing the borders of the Russian Federation, restrictions on entry of foreign citizens, as well as recommendations to enterprises on transferring employees to remote work mode. During March 2020, local authorities gradually introduced additional measures to ensure social distance, including the cessation of schools, universities, restaurants, cinemas, theaters, museums, and sports facilities. In order to ensure the sanitary and epidemiological well-being of the population, the President of the Russian Federation announced non-working days with salary retention from March 30 to April 30, 2020 for all categories of workers, with the exception of employees of medical and pharmacy organizations, emergency services, companies providing the population with food and essential goods and continuous-cycle enterprises.

Due to the disruption of business activity and the self-isolation regime introduced in many countries, global oil demand has fallen sharply, which has led to oversupply and a sharp drop in oil prices. On April 12, 2020, the world's largest oil producers, including Russia, agreed on a record reduction in crude oil production to stabilize the oil market, which nevertheless did not reduce the pressure on oil prices. A sharp decrease in prices and volumes of oil production leads to a corresponding drop in revenues of oil companies and a decrease in deductions to the federal budget, which in can entail serious economic and social consequences and will provoke a reduction in public sector spending.

These events will have a more significant negative impact on the economy, including:

- Violation of business and economic activity, leading to supply disruptions and violation of contractual obligations;
- Significant failures in the work of enterprises of certain industries operating in the domestic market, as well as export-oriented enterprises with a high degree of dependence on foreign markets. The most affected sectors include retail, tourism, the entertainment and hospitality sectors, transportation, the oil industry, construction, the automotive industry, insurance, and the financial sector;
- A significant reduction in demand for goods and services that are not urgent or vital;
- The growth of economic uncertainty, reflected in the increasing volatility of the value of assets and exchange rates.

In March 2020, the Government of the Russian Federation announced the adoption of a package of measures to support the sectors that were most affected by the spread of coronavirus infection. The program includes, in particular, deferment of taxes and fees for small and medium-sized businesses, deferred repayment of loans, deferred rental payments for federal and municipal property, state support for refinancing and restructuring loans for companies in particularly problematic sectors. In addition, the rate of insurance premiums was reduced for all small and medium-sized businesses. The list of sectors strongly affected by the crisis is closely monitored and can be adjusted to take into account further changes in the economic situation.

The rapid spread of coronavirus infection did not have a strong negative impact on the banking sector. Over the past few weeks, the volume of the Bank's operations has remained stable, and its activities have not been interrupted. In general, a deterioration in the quality of corporate borrowers and a decrease in the creditworthiness of the population are expected. The Bank has introduced more stringent criteria for issuing new loans. In addition, Bank conducted stress testing of the impact of additional creation of regulatory reserves on the value of capital adequacy ratio, as well as the impact of negative scenarios on the outflow of liabilities on a liquid position. These stress tests have shown that at the moment the Bank has sufficient reserves in terms of capital adequacy ratio and liquidity.

Despite the fact that it is possible to reduce the Bank's profitability indicators by the end of 2020, management believes that the measures taken will ensure the availability of sufficient resources to continue the Bank's activities without significant disruptions. The Bank analyzes possible negative scenarios for the development of the situation and is ready to adapt its operating plans accordingly. Management continues to closely monitor the development of the situation and will take the necessary measures to mitigate the consequences of possible negative events and circumstances as they arise.

The consolidated financial statements reflect management's assessment of the impact of the business environment on the operations and financial position of the Bank. The future business environment may differ from management's assessment.

## **2. Basis of preparation**

### **Statement of compliance**

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter - "IFRS").

This is the first set of the Bank's annual consolidated financial statements prepared with due account for the requirements of IFRS 16 *Leases*. Changes to significant accounting policies are described in Note 3.

### **Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except for the following items: derivative financial instruments, financial assets and financial liabilities held for trading and financial assets measured at FVOCI.

### **Functional and presentation currency**

The functional currency of the Bank is the Russian Rouble ("RUB") as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Consolidated financial information presented in RUB is rounded to the nearest thousand.

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Foreign currencies, in particular, USD and EUR, play a significant role in determining the economic parameters of a number of economic transactions performed in the Russian Federation. The table below shows the exchange rates of the Russian Rouble against the US dollar and Euro established by the CBRF:

	<b>31 December 2019</b>	<b>31 December 2018</b>
USD	61.9057	69.4706
EUR	69.3406	79.4605

### **Use of estimates and judgments**

In preparation these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

### **Judgments**

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- classification of financial assets: assessment of the business model in which a financial asset is held and assessment of whether the contractual terms of a financial asset include solely payments of principal and interest.
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining default, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

### **Assumptions and estimations uncertainty**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the consolidated financial statements the year ended 31 December 2019 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 3.
- estimates of fair values of financial assets and liabilities – Note 29.

### **Changes in accounting policies and presentation**

The Group has initially applied IFRS 16 from 1 January 2019.

A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Group's consolidated financial statements.

Due to the transition methods chosen by the Group in applying IFRS 16, comparative information throughout these consolidated financial statements has not generally been restated to reflect its requirements

The effect of the initial application of this standard is described in Note 3 below.

### **3. Significant accounting policies**

In the preparation of these consolidated financial statements, the Group applied the same accounting policies as those applied in the preparation of the previous annual financial statements of the Bank, except for certain aspects explained below that are related to the application by the Bank of IFRS 16 (Note 2), which became effective on 1 January 2019.

Explanations of how the Bank applied the changes in the Accounting Policy are presented below.

#### **IFRS 16 Leases**

The Bank applied IFRS 16 initially on 1 January 2019, using a modified retrospective approach, without restating comparative information.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

#### *The Bank's lease transactions and procedure for their recognition*

The Bank leases office premises and other facilities. The terms of lease agreements are agreed on an individual basis and may vary. The lease agreements do not contain any covenants, but the leased assets cannot be used as collateral for the borrowed funds.

Prior to 1 January 2019 the Bank classified the lease agreements, under which the Bank acted as a lessee, into operating and finance leases. Previously, the Bank recognized operating lease expense on a straight-line basis over the term of the lease and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

Starting from 1 January 2019, a single model for accounting for lease agreements in which the Bank acts as a lessee was introduced, assuming that they are recognized on the Bank's balance sheet. According to this model, the Bank recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

In addition, the nature of expenses related to those leases has changed as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

At initial recognition, the lease liability is recognized in the amount equal to the present value of future lease payments discounted using the interest rate stipulated in the agreement if such rate can be easily determined or, if such rate cannot be easily determined, using the rate of zero coupon yield curve of federal loan bonds adjusted for the credit spread for the Bank. The rate of zero coupon yield curve of federal loan bonds is determined as of the date of initial recognition based on data available on the Moscow Stock Exchange website. The credit spread for the Bank is determined on an annual basis.

After initial recognition the lease liability is measured at amortized cost using the effective interest method.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

A right-of-use asset is initially measured at historical cost that includes the initial amount of the lease liability adjusted by the lease payments made at or before the lease commencement date less any lease incentives received, incurred initial direct costs and the estimated costs of dismantling and removing the underlying asset, recovering the asset or site on which it is located, initial direct costs and costs estimate to be incurred by the Bank in dismantling and relocating the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required under the terms of the lease. After initial recognition, the right-of-use asset is amortized on a straight-line basis. The amortization period lasts until the earlier of the two following dates: the end of the useful life of the underlying asset or the lease term.

The Bank does not recognize the right-of-use asset and the lease liability under short-term lease agreements with a term of less than 12 months and under low value underlying assets lease agreements. Lease payments under such agreements are recognized in profit or loss on a straight-line basis over the term of the lease.

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The Bank has applied judgment to determine the lease term for some lease contracts in which it is a lessee, based on the period for which the contract is enforceable. The Bank considers that enforceability of the lease is established not only by the written agreement (including penalty clauses) in combination with applicable legislation related to renewal or termination rights, but also by economic disincentives for the lessee and/or the lessor that might create a ‘penalty’ in a broader meaning. This might result in the lease enforceability period going beyond the boundaries of the written contract because of inclusion of additional period which lasts until the moment when the ‘penalty’ becomes insignificant for both parties. According to the Bank, the term “penalty” includes, in addition to “contractual penalties”, other costs incurred by either party in connection with early termination of a lease agreement (costs of moving or searching for new lease items, costs associated with significant inseparable improvements to the leased property that would result in economic losses for the Bank if the agreement is early terminated).

The Bank has applied judgment to determine the lease term for some lease agreements in which it is a lessee that include renewal options. The assessment of whether the Bank is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

*Practical expedients*

The Bank applied the practical expedient to grandfather the definition of a lease on transition. This means that the Bank will apply IFRS 16 to all the agreements concluded before 1 January 2019 and identified as leases under IAS 17 and IFRIC 4.

Moreover, the Bank has applied the following practical expedients in transition:

- applied a single discount rate to all lease agreements in a portfolio with sufficiently similar characteristics;
- immediately before the date of initial application, assessed whether the lease agreements are onerous in accordance with IAS 37 “Estimated liabilities, Contingent Liabilities and Contingent Assets”;
- accounted for leases that expire within 12 months after 1 January 2019 as short-term leases;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the agreement contains options to extend or terminate the lease.

*The Bank as the lessor*

The Bank leases a part of its PPE (less than 20%). The Bank has classified these lease agreements as operating leases.

The accounting requirements applicable to the Bank as a lessor do not differ from those contained in IAS 17.

The Bank is not required to make any adjustments when adopting IFRS 16 for leases where it acts as a lessor. However, the Bank applied IFRS 15 “Revenue from contracts with customers” to allocate the contractual reimbursement among all lease and non-lease components.

*Effect on financial statements at the date of transition to IFRS 16*

Effect on financial statements indicators. At transition to IFRS 16 as at 1 January 2019 the Bank recognized lease liabilities in the amount of RUB 77,684 thousand in the item “Other liabilities” and right-of-use assets in the amount of RUB 76,089 thousand in the item “Property, equipment, intangible assets and right-of-use assets”. The Bank assessed right-of-use assets at the amount equal to the value of the lease liabilities subject to adjustments for lease payments related to December 2018 and payable in January 2019, therefore, there is no effect on the opening balance of retained earnings.

Financial expenses are disclosed in the item “Interest expense” in the Statement of profit or loss and other comprehensive income. Amortization of right-of-use assets is disclosed in the item “Administrative and other operating expenses” of the Statement of profit or loss and other comprehensive income. Total cash outflows under lease liabilities are disclosed in the item “Cash flow from financing activities” in the Statement of the cash flows.

In measuring lease liabilities as at 1 January 2019 the weighted average discount rate applied by the Bank was 10.18%.

	<b>1 January 2019</b>
Liabilities for future lease payments disclosed in the financial statements of the Bank as at 31 December 2018	18,923
Practical expedient: short-term lease	(143)
Practical expedient: low-value underlying asset	(214)
Future lease payments for contract renewal due to sufficient certainty of contract renewal	71,189
Future lease payments recognized for the purposes of IFRS 16	89,755
Effect of discounting	(12,071)
<b>Lease liabilities discounted using the rate, recognized as at 1 January 2019</b>	<b>77,684</b>
Amount of advances paid	68
Amount of payments related to December 2018 and payable in January 2019	(1,663)
<b>Right-of-use assets as at 1 January 2019</b>	<b>76,089</b>

### *Effect on the Financial Statements for 2019*

As a result of transition to IFRS 16, as at 31 December 2019, the Group recognized right-of-use assets in the amount of RUB 410,108 thousand and lease liabilities in the amount of RUB 351,912 thousand in respect of lease agreements previously classified as operating leases and new lease agreements.

In addition, in relation to those leases under IFRS 16, the Group has recognized depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognized depreciation charges in the amount of RUB 56,549 thousand and interest expenses under these agreements in the amount of RUB 24,019 thousand.

The accounting policies set out below have been applied by the Bank consistently to all periods presented in these consolidated financial statements, with specific exceptions indicated in Note 2 and related to changes in accounting policies associated with the Bank's application of IFRS 16 in effect from 1 January 2019.

## **Foreign currency**

### *Foreign currency transactions*

Foreign currency transactions are translated to the respective functional currencies of the Bank at the rates effective as at the date of transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency profit or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies and recognized at actual costs are transferred to the functional currencies at exchange rates at the date of the transactions.

Foreign exchange differences arising on translation to a foreign currency are recognized in profit or loss, except for differences arising on translation of equity instruments measured at fair value through other comprehensive income, except where the difference arises from impairment in which case foreign exchange differences recognized in other comprehensive income are reclassified to profit or loss; a financial liability recognized as a hedge of a net investment to foreign transactions, if the hedge is effective; or qualifying cash flow hedges, if the hedge is effective, recognized in other comprehensive income.

## **Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBRF and other banks, and highly liquid financial assets with original maturities of one day, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposits with the CBRF are not considered to be a cash equivalent due to restrictions on their withdrawability. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

## **Interest income and expense**

### *Effective interest rate*

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

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

When calculating the effective interest rate for financial instruments that are not credit-impaired assets the Bank assesses future cash flows taking into account all contractual terms of this financial instrument but without considering expected credit losses. For credit-impaired financial assets the effective interest rate adjusted for credit risk is calculated using the amount of expected future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

### ***Amortized cost and gross carrying amount***

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition less the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' measured at amortized cost is the amortized cost of a financial asset before adjusting for any expected loss allowance.

### ***Calculation of interest income and expenses***

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that became credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross carrying value basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see below.

### ***Presentation of information***

Interest income and expenses presented in the Statement of profit or loss and other comprehensive income include:

- interest income and expenses on financial assets and financial liabilities measured at amortized cost calculated using the effective interest method;
- interest income on debt instruments measured at fair value through other comprehensive income (FVOCI) calculated using the effective interest method.

### ***Fees and commission***

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

### ***Financial assets and liabilities***

#### ***Classification of financial instruments***

Upon initial recognition, financial assets are classified as measured either at amortized cost or at fair value through other comprehensive income or at fair value through profit or loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated by the Bank as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- on specified dates contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.



A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated by the Bank as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- on specified dates contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognized in other comprehensive income, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest income calculated using the effective interest rate method;
- expected credit losses (ECL) and their reversal; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

For such equity instruments gains and losses are never reclassified into profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### **Business model assessment**

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets.
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### **Assessment of whether contractual cash flows are solely payments of principal and interest**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as 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 (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI criterion), the Bank will consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;

- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- features that modify consideration for the time value of money (e.g. periodic reset of interest rates);

The Bank holds a portfolio of long-term fixed rate loans, for which the Bank has the option to revise the interest rate following the change in the key rate set by the CBRF. The borrowers have an option to either accept the revised rate or redeem the loan at par without significant penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that interest represents consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Thus, the Bank treats these loans as essentially those with a variable interest rate.

### **Reclassification**

Classification of financial assets after initial recognition does not change, except for in the period following the period when the Bank changes its business model with regard to financial assets management. The Bank should reclassify financial assets only when it has changed the business model used to manage these financial assets. Such changes are expected to be very rare. Such changes must be designated by the top management of the Bank as a result of external or internal changes and must be significant for the Bank's activity and evident for external parties. Therefore, a change of the Bank's business model can occur when and only when the Bank starts or ceases to conduct certain activity which is significant for its operations; for instance, when the Bank acquired, disposed of or terminated a certain business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

### ***Derecognition***

#### **Financial assets**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

From 1 January 2018 any cumulative gain/loss recognized in other comprehensive income in respect of equity investment securities designated by the Bank as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

#### **Financial liabilities**

The Bank derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

### ***Modification of financial assets and financial liabilities***

#### **Impairment**

#### **Financial assets**

If the terms of a financial asset are modified, the Bank assesses whether cash flows related to such modified asset significantly differ. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In such case the original financial asset is derecognized and a new financial asset is recognized at fair value. Changes in the amount of cash flows related to existing financial assets or liabilities are not treated as modification if they arise from the current terms of the agreement, for example, changes of interest rates by the Bank due to the change of the key rate by the CBRF, if the related loan agreement permits the Bank to change interest rates.

The Bank performs quantitative and qualitative assessment of whether the modification is significant, i.e. whether cash flows related to the original financial asset differ significantly from the modified or new financial asset. The Bank performs quantitative and qualitative assessment of whether modification is material analyzing qualitative factors, quantitative factors and the overall effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. Similarly, in performing this assessment the Bank acts in line with the requirements with regard to the derecognition of financial liabilities.

The Bank concludes that a modification is significant based on the following qualitative factors:

- change in the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In such case the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount of the gross carrying amount adjustment as profit or loss on modification in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset. If such modification is caused by a financial distress of the borrower, the related profit or loss is presented in impairment losses. In other cases the related profit or loss is presented in interest income calculated using the effective interest rate method.

For loans with terms permitting the borrower to early repay the loan at face value and with no significant penalties a change of the interest rate to the market level in response to a change in market conditions is accounted for by the Bank similarly to the accounting treatment for instruments with variable interest rate, i.e. the interest rate is revised prospectively.

As part of its credit risk management the Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'). If the Bank plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the assessment as to whether the modification of terms was significant. As a result, the amount of remaining contractual cash flows related to the original financial asset that are still recognized upon modification is likely to be equal to the amount of new modified contractual cash flows. If, based on the results of a quantitative assessment, the Bank concludes that the modification of financial assets conducted as part of the Bank's forbearance policy is not significant, the Bank conducts a qualitative assessment as to whether this modification is significant.

### **Financial liabilities**

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Bank applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Bank recognizes any adjustment to the amortized cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

The Bank performs quantitative and qualitative assessment of whether modification is material analyzing qualitative factors, quantitative factors and the overall effect of qualitative and quantitative factors. The Bank concludes that a modification is significant based on the following qualitative factors:

- change in the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment 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 interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

### **Financial liabilities**

The Bank derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of the financial liability does not result in derecognition, any costs and fees incurred are recognized as an adjustment to the carrying amount of the asset or liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

The Bank recognizes loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- accounts receivable;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than accounts receivable) for which credit risk has not increased significantly since initial recognition (see Note 4).

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'.

12-month expected credit losses (12-month ECL) are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1' financial instruments.

Lifetime expected credit losses ("lifetime ECLs") are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments which are not purchased or originated credit-impaired assets for which lifetime ECL are recognized are referred to as "Stage 2" financial instruments (in case credit risk on the financial instrument has increased significantly since initial recognition and the financial instrument is not credit-impaired) and "Stage 3" financial instruments (in case financial instrument is credit-impaired).

### **Measurement of ECL**

ECLs are a default probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive;
- *financial assets that are credit-impaired at the reporting date*: the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the present value of the expected payments to reimburse the holder's credit losses less any amounts that the Bank expects to recover.

### **Restructured financial assets**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized, and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).

- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

#### ***Credit-impaired financial assets***

At each reporting date the Bank assesses financial assets carried at amortized cost and debt financial assets carried at FVOCI for credit impairment. 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

In making the assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

#### ***Presentation of allowance for ECL in the statement of financial position***

Amounts of loss allowance for expected credit losses are presented in the statement of financial position in the following way:

- *financial assets measured at amortized cost*: as a decrease of the gross carrying amount of such assets;
- *loan commitments and financial guarantee agreements*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECLs on the loan commitment component separately from those on the drawn component (loan issued)*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the amount of the expected credit loss allowance is disclosed and recognized in the revaluation reserve for changes in fair value.

#### ***Write-offs***

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally 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. However the Bank can continue to perform activities to collect a loan with regard to written-off financial assets in accordance with the amounts due recovery policy.

#### ***Derivatives***

Derivatives include swap, forward and futures contracts, spot transactions, foreign currency.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in profit or loss.

Financial assets held for trading include foreign currency derivatives, the financial result of which is recognized in net profit from foreign exchange transactions (Note 6).

#### **Embedded derivatives**

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives were presented in the statement of financial position separately from the host contract.

#### **Loans to customers**

The “Loans to customers” caption of the consolidated statement of financial position includes:

- loans to customers measured at amortized cost; they are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortized cost using the effective interest rate method.

#### **Financial assets measured at FVOCI**

The item “Financial assets measured at fair value through other comprehensive income” in the statement of financial position includes:

- equity securities mandatorily measured at FVTPL classified to this category at the Bank’s discretion; these are measured at fair value with changes recognized immediately in profit or loss;
- debt securities measured at FVOCI.

This category includes investment securities and rights of claim acquired from third parties that the Bank intends to hold for an indefinite period of time. These financial assets can be sold depending on liquidity requirements, changes in interest rates or share prices. The Bank classifies financial assets into the appropriate category at their acquisition.

Initially, financial assets measured at fair value through other comprehensive income are recognized at acquisition cost (which includes transaction costs), and subsequently are remeasured at fair value based on purchase quotes. Financial assets for which there are no quotes from external “independent” sources are measured by the Bank at fair value based on results of recent sale of similar financial assets to third parties, analysis of other information such as discounted cash flows and financial information on the investment object, as well as on application of other measurement methods.

Unrealized income and expenses arising from changes in the fair value of financial assets measured at FVOCI are recognized in other components of comprehensive income and recognized in the statement of comprehensive income.

When financial assets measured at FVOCI are disposed, the relevant accumulated unrealized income and expenses are subject to reclassification from equity to profit or loss and are included in the statement of comprehensive income in the line “Net profit (loss) from purchase and sale of financial assets measured at FVOCI”.

Interest income on financial assets measured at FVOCI is calculated using the effective interest rate method and recognized in the statement of profit or loss and other comprehensive income as interest income on financial assets measured at FVOCI. Dividends received are recognized in the line “Other operating income” in the statement of profit and loss and other comprehensive income when the Bank's right to receive payment is established and provided there is a probability of receiving dividends.

### **Financial assets measured at FVTPL**

The Bank classifies financial assets measured at FVTPL held for trading and other financial assets classified as measured at FVTPL at initial recognition into this category. A financial asset is classified as measured at FVTPL if it is acquired for the purpose of sale in the short term and it forms part of a portfolio of financial instruments that are managed collectively and for which there is evidence of actual generation of profit. Other financial assets measured at FVTPL include financial assets that were classified as such at initial recognition. The Bank classifies financial assets into this category only if one of the conditions is met:

- such classification fully or substantially eliminates any discrepancies in the accounting which would otherwise arise as a result of evaluation of assets and liabilities or recognition of relevant income and expenses using different methods;
- a group of financial assets is managed and measured at fair value in accordance with a documented risk management or investment strategy. Information on these financial assets managed on a fair value basis is provided to the Bank's management for consideration;
- the financial asset includes an embedded derivative that should be accounted for separately.

Initially and subsequently, financial assets measured at FVTPL are recognized at fair value, which is calculated either on the basis of market quotes or using different valuation methods, assuming the possibility of future sale of these financial assets.

The best way to measure the fair value of an instrument is to have available published price quotations in an active market. When determining market quotations, all financial assets are measured at the last trade price if such securities are quoted at an exchange, or at the last purchase price if such instruments are traded in an over-the-counter market.

Realized and unrealized income and expenses on transactions with financial assets measured at fair value are recognized in the statement of profit and loss and other comprehensive income for the period in which they occurred as part of income less expenses on transactions with such financial assets. Interest income on financial assets measured at fair value is recognized in the statement of profit and loss and other comprehensive income as interest income.

Dividends received are recorded in the item "Other operating income" in the statement of profit and loss and other comprehensive income.

All purchases and sales of financial assets measured at FVTPL that require delivery within the term established by regulation or market rules are recognized on the transaction date. In all other cases such transactions are recognized as derivative financial instruments until the settlement date.

The Bank classifies financial assets measured at fair value into the relevant category at the time of their acquisition; financial assets of this category are not subject to reclassification.

### **Deposits and subordinated liabilities**

Deposits and subordinated liabilities are initially measured at fair value less related transaction costs and subsequently at their amortized cost using the effective interest method.

### **Financial guarantees and loan commitments**

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide a loan on pre-agreed terms and on time.

Financial guarantees issued or commitments to provide loans at a below-market interest rate are initially measured at fair value, with their initial fair value being amortized over the life of such guarantee or commitment. Subsequently, they are measured as follows:

at the higher of the initially recognized amortized cost and the amount of the estimated loss allowance determined in accordance with IFRS 9 and initially recognized amount less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15; and

The Bank has no loan commitments that are measured at FVTPL.

The Bank recognizes a loss allowance for other loan commitments.

Liabilities arising from financial guarantees and loan commitments are included within provisions.



## **Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

## **Property and equipment**

### ***Owned assets***

Items of property and equipment are stated in the financial statements at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

### ***Depreciation***

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual asset. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings and constructions – 30 years;
- Computers and office equipment – 2-7 years;
- Other items – 2-20 years.

## **Intangible assets**

Acquired intangible assets are stated in the financial statements at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Useful lives of intangible assets vary from 15 months to 45 years.

## **Assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held-for-sale. Immediately before being classified as held for sale, assets or components of a disposal group are remeasured. Thereafter, the assets, or disposal groups, are measured at the lower of their carrying value and fair value less cost of disposal.

## **Share capital**

### ***Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

### ***Redemption of own shares***

If the Bank repurchases own shares, the amount paid including the costs directly related to repurchase is recognized in the financial statements as a decrease in equity.

### ***Dividends***

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are recorded as an appropriation of retained earnings in the period when they are declared.

## **Income tax**

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

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Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

Deferred tax assets and deferred tax liabilities emerge in relation to temporary differences arising between the balances of assets (liabilities) taking into account the analytical accounting procedure and their taxable base, which is used for income tax calculation in line with the Russian law on taxes and duties. The taxable base is a sum attributed to an asset or liability for fiscal purposes. Deferred tax assets and deferred tax liabilities are not recognized in respect of balances in passive (active) balance sheet accounts for equity accounting. Deferred tax assets also arise in respect of tax losses carried forward which have not been used to reduce income tax.

Temporary differences are calculated until a complete write-off of balances of assets (liabilities) and until the moment when results of transactions or events recorded (including for previous reporting periods) in the credit institution's accounts no longer affect taxable profit.

A deferred tax liability is recognized in respect of taxable temporary differences. A deferred tax asset is recognized in relation to deductible temporary differences and tax losses carried forward that were not used to reduce income tax.

Deferred tax assets are recorded in case of appearance of deductible temporary differences and the probability that the Bank will receive taxable profit in the future reporting periods.

During the assessment of the probability that the Bank will receive taxable profit (which the Bank has the right to reduce for fiscal purposes by the deduction of deductible temporary differences), the Bank shall verify the following conditions:

- whether the Bank has sufficient taxable temporary differences for the formation of taxable profit, which the Bank may reduce for fiscal purposes by deductible temporary differences;
- whether the Bank forecasts obtaining taxable profit in the reporting period when it has the right to reduce its taxable profit for fiscal purposes by deductible temporary differences.

To the extent the Bank is unable to receive sufficient taxable profit to become entitled to use (fully or partially) the deferred tax asset, such part or entire amount of the deferred tax asset shall not be subject to recognition.

Deferred tax assets formed from the losses carried forward that were not used for income tax reduction shall be recognized in accounting in case there is a probability for the Bank to obtain taxable profit in the future reporting periods.

**Presentation of comparative data**

Accounting for perpetual subordinated loan. As at 1 January 2018 and 31 December 2018 the Bank incorrectly accounted for perpetual subordinated loan denominated in US dollars (as at 31 December 2019 interest rate on perpetual subordinated loan equals to 4.5%, as at 31 December 2018 – 9.0%) for which the Bank has an ability to unilateral refusal to pay interest as a liability. Thus, to conform IFRS requirements those perpetual subordinated loan was reclassified to equity. Correspondingly foreign exchange revaluation of perpetual subordinated loan was reclassified from profit and loss to equity along with tax effect on it. As the Bank has the right on unilateral refusal to pay interest the Bank recovered previously accounted but not declared interest expense on perpetual subordinated loan. Also, the Bank accounted actual interest paid on perpetual subordinated loan in equity. In accordance with terms of Tax code of the Russian Federation interest accrued on perpetual subordinated loan are taken to reduce tax base. The Bank accounted for deferred tax liability on interest on perpetual subordinated loan recovered in profit and loss.

The effect of reclassification on the amounts presented in the statement of financial position as at 31 December 2018 and 1 January 2018 is shown in the tables below:

<b>Statement of Financial Position as at 31 December 2018</b>	<b>Before restatement</b>	<b>Reclassification of perpetual subordinated loan and recovery of accrued interest expenses</b>	<b>Deferred tax charge</b>	<b>Restated data</b>
<b>Liabilities</b>				
Amounts due to customers	48,592,030	(3,584,683)	-	45,007,347
Deferred tax liabilities	84,935	-	22,231	107,166
<b>Equity</b>				
Perpetual subordinated loan	-	3,473,530	-	3,473,530
Retained earnings	2,349,447	111,153	(22,231)	2,438,369

<b>Statement of Financial Position as at 1 January 2018</b>	<b>Before restatement</b>	<b>Reclassification of perpetual subordinated loan and restoration of accrued interest expenses</b>	<b>Deferred tax charge</b>	<b>Restated data</b>	
<b>Liabilities</b>					
Amounts due to customers	45,777,839	(2,972,170)	-	42,805,669	
Deferred tax liabilities	204,140	-	18,432	222,572	
<b>Equity</b>					
Perpetual subordinated loan	-	2,880,010	-	2,880,010	
Retained earnings	2,402,301	92,160	(18,432)	2,476,029	
<b>Statement of profit or loss and other comprehensive income statement for 2018</b>	<b>Before restatement</b>	<b>Recovery of accrued interest expenses and reclassification of payment of accrued interest from profit or loss to equity</b>	<b>Reclassification of revaluation of perpetual subordinated loan</b>	<b>Deferred tax charge</b>	<b>Restated data</b>
Interest expense	(1,472,208)	283,077	-	-	(1,189,131)
Net (loss) gain on revaluation of foreign currency	(1,034,225)	-	593,520	-	(440,705)
<b>Operating income</b>	<b>1,777,765</b>	<b>283,077</b>	<b>593,520</b>	<b>-</b>	<b>2,654,362</b>
Administrative and other operating income	(1,659,330)	-	-	-	(1,659,330)
<b>Profit before tax</b>	<b>118,435</b>	<b>283,077</b>	<b>593,520</b>	<b>-</b>	<b>995,032</b>
Income tax expense	(3,825)	-	-	(175,320)	(179,145)
<b>Net profit for the year</b>	<b>114,610</b>	<b>283,077</b>	<b>593,520</b>	<b>(175,320)</b>	<b>815,887</b>

<b>Statement of cash flows for 2018</b>	<b>Before restatement</b>	<b>Reclassification of interest paid on perpetual subordinated loan</b>	<b>Restated data</b>
Cash used in operating activities	(2,902,091)	264,084	(2,638,007)
Cash received in investing activities	5,613,292	-	5,613,292
Cash used in financing activities	(99,541)	(264,084)	(363,625)

## 4. Financial risk review

This note presents information about the Bank's exposure to financial risks.

### Credit risk - Amounts arising from ECL

#### Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.

#### Significant increase in credit risk

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort. The assessment includes both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses two criteria for determining whether there has been a significant increase in credit risk:

- qualitative indicators based on internal credit rating lowering for 2 step if initial rating was not below BB- and for 1 step if initial rating was below BB-; and
- backstop of 30 days past due.

*Credit risk grades*

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

**Corporate exposure**

**All exposures (corporate and retail clients)**

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections</li> <li>• Information provided by credit reference agencies, press articles, changes in external credit ratings</li> <li>• Quoted bond and credit default swap (CDS) prices for the borrower where available</li> <li>• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities</li> </ul> | <ul style="list-style-type: none"> <li>• Payment record, including overdue status</li> <li>• Requests for and granting of forbearance</li> <li>• Existing and forecast changes in business, financial and economic conditions.</li> </ul> |
|---|---|

*Generating the term structure of PD*

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most positions exposed to credit risk, key macroeconomic indicators are likely to be GDP growth, retail sales index and oil prices.

The Bank uses expert judgment in assessment of forward-looking information. Among other things, this assessment is based on information from external sources (see the information on the incorporation of forward-looking information below). The Bank uses these forecasts to adjust its probability of default (PD) estimates.

*Determining whether credit risk has increased significantly*

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop evidencing a significant increase of credit risk for a financial asset since initial recognition, the Bank considers an overdue period for the asset of over 30 days, or over 7 days for transactions with financial institutions or security issuers. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable.
- exposures are not generally transferred directly from 12-month ECL (Stage 1) measurement to credit-impaired (Stage 3).
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (Stage 1) and lifetime ECL measurements (Stage 2).

#### *Modified financial assets*

The contractual terms of a loan may be modified for several reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 3.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects the comparison of:

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

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3) in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

#### *Definition of default*

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative – e.g. breaches of covenants;
- quantitative – e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

*Incorporation of forward-looking information*

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank uses expert judgment in assessment of forward-looking information. This assessment is also based on external information. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, such as the CBRF and Ministry of Economic Development, and separate individual and academic forecasters.

The Bank periodically performs stress-testing of more extreme shocks to calibrate its determination of other representative scenarios.

At least once a year, the Bank performs stress-testing of more extreme shocks to calibrate its determination of optimistic and pessimistic representative scenarios.

The Bank has determined and documented the list of key factors affecting the credit risk and credit losses assessment for each portfolio of financial instruments and, through the analysis of historical data, has analyzed the relationship between macroeconomic variables, credit risk and credit losses.

GDP and industrial production forecasts were designated as the key factor. The economic basic scenarios used as at 31 December 2019 included the following key indicator values for Russia for years 2020-2022.

<b>Indicators</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP index (deflator)	102.6%	103.7%	103.9%
Industrial production index	102.7%	103.1%	103.1%

Forecast relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on regression analysis of historical data.

*Measurement of ECL*

The key inputs into the measurement of ECLs are the term structures of the following variables:

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

These parameters are usually derived from internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used by the Bank to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn and potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, the EAD is determined by modeling the range of possible positions exposed to credit risk at various points in time using scenarios and statistical methods.

As described above, and subject to using a maximum of a 12-month PD for financial assets, for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grades;

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. Examples of portfolios for which external benchmark information is used as a source for estimating expected credit losses are presented below.

	<b>Position exposed to credit risk at 31 December 2019</b>	<b>External benchmark information PD</b>
Cash and cash equivalents	7,065,221	Default statistics Standard & Poor's
Amounts due to banks and other credit institutions	43,811,355	Default statistics Standard & Poor's
Financial assets at FVOCI	9,039,124	Default statistics Standard & Poor's
Loans to customers (corporate)	9,981,145	Default statistics Standard & Poor's / Internal PD-model

**Loss allowance**

Reconciliation of opening and closing balances of the estimated loss allowance by class of financial instrument is presented in Notes 8, 9 and 25 below.

## 5. Cash and cash equivalents

	<b>31 December 2019</b>	<b>31 December 2018</b>
Cash on hand	2,768,088	3,821,251
Cash balances with the CBRF (other than mandatory reserves)	2,590,002	1,499,404
Correspondent accounts with banks of the Russian Federation	1,197,707	831,452
Correspondent accounts with banks - non-residents	279,932	4,916,883
Interbank deposit	138,669	100,740
Balances on clearing accounts and funds on the exchange to Bank NCC (JSC)	69,430	1,348,343
Transfer settlements	43,770	31,601
Bank cards settlements	18,403	38,929
<b>Cash and cash equivalents before allowance for expected credit losses</b>	<b>7,106,001</b>	<b>12,588,603</b>
Allowance for expected credit losses	(40,780)	(44,543)
<b>Cash and cash equivalents less allowance for expected credit losses</b>	<b>7,065,221</b>	<b>12,544,060</b>

Cash and cash equivalents include cash on hand and on current accounts of the Bank, as well as cash equivalents representing balances on correspondent accounts with banks, which represent, as per the credit quality, unsecured funds of banks of only high category with maturity on demand. The balance of cash on accounts with clearing organizations is measured in the same way. There were no investment and financial transactions that did not require the use of cash and cash equivalents in the reporting period. There were no restricted cash balances.

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The following table provides information on the credit quality of cash and cash equivalents as at 31 December 2019 and 31 December 2018. The amounts in the table present the gross carrying amounts.

	<b>31 December 2019</b>	<b>31 December 2018</b>
Cash on hand	2,768,088	3,821,251
Correspondent account with the CBRF	2,590,002	1,499,404
<i>Correspondent accounts in credit and non-banking institutions</i>		
Rated between AA+ and AA-	-	3,929,094
Rated between A+ and A-	230,808	-
Rated between BBB+ and BBB-	1,433,355	3,262,569
Rated between BB+ and BB-	42,970	31,749
Not rated	40,778	44,536
<b>Total correspondent accounts in credit and non-banking institutions</b>	<b>1,747,911</b>	<b>7,267,948</b>
<b>Total cash and cash equivalents before allowance for expected credit losses</b>	<b>7,106,001</b>	<b>12,588,603</b>
Allowance for expected credit losses	(40,780)	(44,543)
<b>Total cash and cash equivalents less allowance for expected credit losses</b>	<b>7,065,221</b>	<b>12,544,060</b>

Counterparty ratings are based on the Standard&Poor's, Moody's, RAEX and Fitch ratings system.

As at 31 December 2019 and 31 December 2018 the allowance for expected credit losses relating to cash and cash equivalents is created for balances on the Bank's correspondent accounts and for other funds placed with banks. All the balances for the purposes of calculation of expected credit losses refer to Stage 1, except for the balance on the correspondent account of Master Bank (OJSC) in the amount of RUB 40,780 thousand (31 December 2018: RUB 44,536 thousand) that refer to Stage 3, the allowance for expected credit losses was created for 100% (the license of the correspondent bank was revoked).

**Loss allowance**

The following table shows reconciliations of the opening and the closing balances of the loss allowance for cash and cash equivalents:

	<b>2019</b>		
	<b>Stage 1</b>	<b>Stage 3</b>	<b>Total</b>
<b>Cash and cash equivalents</b>			
Balance as at 1 January	(7)	(44,536)	(44,543)
Net change in loss allowance	5	3,758	3,763
<b>Balance as at 31 December</b>	<b>(2)</b>	<b>(40,778)</b>	<b>(40,780)</b>

Comparative data for 2018:

	<b>2018</b>		
	<b>Stage 1</b>	<b>Stage 3</b>	<b>Total</b>
<b>Cash and cash equivalents</b>			
Balance as at 1 January			(38,699)
Effect of transition to IFRS 9 as at 1 January 2018		-	(50)
Restated balance as at 1 January 2018	(50)	(38,699)	(38,749)
Net change in loss allowance	43	(5,837)	(5,794)
<b>Balance as at 31 December</b>	<b>(7)</b>	<b>(44,536)</b>	<b>(44,543)</b>



## 6. Financial assets held-for-trading

	31 December 2019	31 December 2018
Shares	8,381	6,140
Derivative financial instruments	3,938	74,766
<b>Total financial assets held-for-trading</b>	<b>12,319</b>	<b>80,906</b>

As at 31 December 2019 and 31 December 2018 financial assets held for trading are equity securities, which are quoted, represented by ordinary quoted shares of Russian issuers (Sberbank), denominated in Russian Roubles. Other financial assets represent derivative financial instruments (DFI). Derivative financial instruments are disclosed in Note 27 below.

As at 31 December 2019 and 31 December 2018 all financial assets held for trading are current and there are no past due financial assets held-for-trading.

## 7. Amounts due from banks and other credit institutions

	31 December 2019	31 December 2018
Sale and repurchase agreements (reverse repo) with commercial banks and other financial institutions	43,811,355	30,783,149
<b>Total amounts due from banks and other financial institutions before allowance for expected credit losses</b>	<b>43,811,355</b>	<b>30,783,149</b>
Allowance for expected credit losses	-	-
<b>Total amounts due from other banks and financial institutions less allowance for expected credit losses</b>	<b>43,811,355</b>	<b>30,783,149</b>

Amounts due from banks and other financial institutions available at the reporting date by economic substance represent funds placed under exchange reverse REPO transactions with NCC and companies - related parties.

As at 31 December 2019 and 31 December 2018 all amounts due from banks and other financial institutions refer to Stage 1 in accordance with IFRS 9.

As at 31 December 2019 amounts due from banks and other financial institutions in the amount of RUB 43,811,355 thousand were actually secured by securities purchased under reverse repurchase agreements with fair value of RUB 46,551,436 thousand. Among the above securities received under reverse repurchase agreements, securities in the form of clearing certificates of participation for RUB 9,500,000 thousand for the period up to 30 days were in turn pledged as collateral under direct repurchase agreements.

As at 31 December 2018 amounts due from banks and other financial institutions in the amount of RUB 30,783,149 thousand were actually secured by securities purchased under reverse repurchase agreements with fair value of RUB 35,044,162 thousand. Among the above securities received under reverse repurchase agreements, securities in the form of corporate Eurobonds for RUB 1,522,369 thousand for the term up to 30 days were in turn pledged as collateral under direct repurchase agreements. In addition, securities from the Bank's own portfolio of investment financial assets for RUB 3,805,772 thousand for a period of up to 30 days were pledged as collateral under direct repurchase agreements.

It was not permitted to provide funds to other banks at above-market rates during the reporting period. There were no restated (restructured) balances.

### Credit quality analysis

	31 December 2018	31 December 2018
Rated between BBB+ and BBB-	43,811,355	30,783,149
<b>Total amounts due from banks and other financial institutions before allowance for expected credit losses</b>	<b>43,811,355</b>	<b>30,783,149</b>
Allowance for expected credit losses	-	-
<b>Total amounts due from banks and other financial institutions less allowance for expected credit losses</b>	<b>43,811,355</b>	<b>30,783,149</b>

Counterparty ratings are based on the Standard&Poor's, Moody's and Fitch ratings system.

**Loss allowance**

As at 31 December 2019 there is no allowance for expected credit losses on amounts due from banks and other financial institutions.

The table below provides a reconciliation of estimated loss allowance at the beginning and at the end of 2018 for amounts due from banks and other financial institutions.

	Stage 1	Total
<b>Amounts due from banks and other credit institutions</b>		
Balance at 31 December 2017	-	-
Effect of transition to IFRS 9 as at 1 January 2018	(274)	(274)
Net change in loss allowance	274	274
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>-</b>

**8. Loans to customers**

	31 December 2019	31 December 2018
Corporate customers	9,981,145	3,432,279
Retail customers	337,935	314,663
<b>Total loans to customers before allowance for expected credit losses</b>	<b>10,319,080</b>	<b>3,746,942</b>
Allowance for expected credit losses	(428,337)	(201,007)
<b>Total loans to customers less allowance for expected credit losses</b>	<b>9,890,743</b>	<b>3,545,935</b>

**Loss allowance**

The following tables show reconciliations of the opening and closing balances of the loss allowance by types of loans.

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Loans to customers measured at amortized cost</b>				
Balance as at 1 January 2019	(13,532)	(10,794)	(176,681)	(201,007)
Transfer to Stage 1	(1,200)	166	1,034	-
Transfer to Stage 3	-	27	(27)	-
Net change of ECL allowance	12,885	7,042	(234,785)	(214,858)
New financial assets originated or purchased	(28,623)	-	-	(28,623)
Write-offs	-	-	16,151	16,151
<b>Balance of estimated ECL allowance as at the end of the period</b>	<b>(30,470)</b>	<b>(3,559)</b>	<b>(394,308)</b>	<b>(428,337)</b>

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Loans to customers measured at amortized cost – corporate customers</b>				
Balance as at 1 January 2019	(12,300)	(10,377)	(126,496)	(149,173)
Net change of ECL allowance	12,036	6,945	(225,744)	(206,763)
New financial assets originated or purchased	(27,238)	-	-	(27,238)
<b>Balance of estimated ECL allowance as at the end of the period</b>	<b>(27,502)</b>	<b>(3,432)</b>	<b>(352,240)</b>	<b>(383,174)</b>

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**2019**

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to customers measured at amortized cost – retail customers</b>				
Balance as at 1 January 2019	(1,232)	(417)	(50,185)	(51,834)
Transfer to Stage 1	(1,200)	166	1,034	-
Transfer to Stage 3	-	27	(27)	-
Net change of ECL allowance	849	97	(9,041)	(8,095)
New financial assets originated or purchased	(1,385)	-	-	(1,385)
Write-offs	-	-	16,151	16,151
<b>Balance of estimated ECL allowance as at the end of the period</b>	<b>(2,968)</b>	<b>(127)</b>	<b>(42,068)</b>	<b>(45,163)</b>

**2018**

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to customers measured at amortized cost</b>				
Balance at 1 January 2018				(152,209)
Effect of transition to IFRS 9 as at 1 January 2018				35,130
Restated balance as at 1 January 2018	(3,397)	(386)	(113,296)	(117,079)
Transfer to Stage 1	(422)	22	400	-
Transfer to Stage 2	611	(1,426)	815	-
Transfer to Stage 3	4	122	(126)	-
Net change in loss allowance	1,839	(9,126)	(25,953)	(33,240)
New financial assets originated or purchased	(12,167)	-	-	(12,167)
Write-offs	-	-	6,825	6,825
Effect of unwinding of discount for present value of ECL	-	-	(45,346)	(45,346)
<b>Balance at 31 December 2018</b>	<b>(13,532)</b>	<b>(10,794)</b>	<b>(176,681)</b>	<b>(201,007)</b>

**2018**

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans to customers measured at amortized cost – corporate customers</b>				
Balance at 1 January 2018				(97,743)
Effect of transition to IFRS 9 as at 1 January 2018				18,155
Restated balance as at 1 January 2018	(3,150)	(16)	(76,422)	(79,588)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	608	(608)	-	-
Transfer to Stage 3	-	-	-	-
Net change in loss allowance	2,265	(9,753)	(4,728)	(12,216)
New financial assets originated or purchased	(12,023)	-	-	(12,023)
Effect of unwinding of discount for present value of ECL	-	-	(45,346)	(45,346)
<b>Balance at 31 December 2018</b>	<b>(12,300)</b>	<b>(10,377)</b>	<b>(126,496)</b>	<b>(149,173)</b>

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**2018**

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b><i>Loans to customers measured at amortized cost – individuals</i></b>				
Balance at 1 January 2018				(54,466)
Effect of transition to IFRS 9 as at 1 January 2018				16,975
Restated balance as at 1 January 2018	(247)	(370)	(36,874)	(37,491)
Transfer to Stage 1	(422)	22	400	-
Transfer to Stage 2	3	(818)	815	-
Transfer to Stage 3	4	122	(126)	-
Net change in loss allowance	(426)	627	(21,225)	(21,024)
New financial assets originated or purchased	(144)	-	-	(144)
Write-offs	-	-	6,825	6,825
<b>Balance at 31 December 2018</b>	<b>(1,232)</b>	<b>(417)</b>	<b>(50,185)</b>	<b>(51,834)</b>

**Credit quality analysis**

The credit quality disclosure below is based on the Bank's internal borrower ratings. The rating scale presented below corresponds to the S&P international rating scale.

	<b>31 December 2019</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b><i>Loans to customers measured at amortized cost – corporate customers</i></b>				
Rated between BB+ and BB-	4,434,145	-	-	4,434,145
Rated between B+ and B-	4,291,781	110,574	-	4,402,355
Rated D	-	-	1,143,752	1,143,752
Not rated	263	-	630	893
	<b>8,726,189</b>	<b>110,574</b>	<b>1,144,382</b>	<b>9,981,145</b>
<b>Loss allowance</b>	<b>(27,502)</b>	<b>(3,432)</b>	<b>(352,240)</b>	<b>(383,174)</b>
<b>Carrying amount</b>	<b>8,698,687</b>	<b>107,142</b>	<b>792,142</b>	<b>9,597,971</b>

<b><i>Loans to customers measured at amortized cost – individuals</i></b>				
Non-overdue	267,701	168	29,930	297,799
Overdue				
- less than 30 days	84	-	-	84
- from 30 to 90 days	-	26	4	30
- from 90 to 180 days	-	-	708	708
- from 180 to 360 days	-	-	8,905	8,905
- more than 360 days	152	-	30,257	30,409
Total loans to customers – individuals (other than credit institutions), with overdue payment	236	26	39,874	40,136
	<b>267,937</b>	<b>194</b>	<b>69,804</b>	<b>337,935</b>
<b>Loss allowance</b>	<b>(2,968)</b>	<b>(127)</b>	<b>(42,068)</b>	<b>(45,163)</b>
<b>Carrying amount</b>	<b>264,969</b>	<b>67</b>	<b>27,736</b>	<b>292,772</b>

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	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
<b><i>Loans to customers measured at amortized cost – corporate customers</i></b>				
Rated between BB+ and BB-	1,191,335	-	-	1,191,335
Rated between B+ and B-	1,540,127	115,974	-	1,656,101
Rated CCC	70,370	233,436	-	303,806
Rated D	-	-	281,037	281,037
	<b>2,801,832</b>	<b>349,410</b>	<b>281,037</b>	<b>3,432,279</b>
<b>Loss allowance</b>	<b>(12,300)</b>	<b>(10,377)</b>	<b>(126,496)</b>	<b>(149,173)</b>
<b>Carrying amount</b>	<b>2,789,532</b>	<b>339,033</b>	<b>154,541</b>	<b>3,283,106</b>
<b><i>Loans to customers measured at amortized cost – individuals</i></b>				
Not overdue	257,055	2,119	1,096	260,270
Overdue less than 30 days	-	966	33	999
Overdue 30-89 days	-	338	123	461
Overdue 90-179 days	-	-	1,551	1,551
Overdue 180-360 days	-	-	1,371	1,371
Overdue more than 360 days	-	-	50,011	50,011
	<b>257,055</b>	<b>3,423</b>	<b>54,185</b>	<b>314,663</b>
<b>Loss allowance</b>	<b>(1,232)</b>	<b>(417)</b>	<b>(50,185)</b>	<b>(51,834)</b>
<b>Carrying amount</b>	<b>255,823</b>	<b>3,006</b>	<b>4,000</b>	<b>262,829</b>

The following table sets out information about the credit quality of financial assets measured at amortized cost as at 31 December 2019 and as at 31 December 2018. For financial assets, the amounts in the table present the gross carrying amounts.

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
<b><i>Loans to customers measured at amortized cost – corporate customers</i></b>				
Non-overdue	8,726,189	110,574	7,635	8,844,398
Overdue:				
- less than 30 days	-	-	70,675	70,675
- from 90 to 180 days	-	-	785,130	785,130
- more than 360 days	-	-	280,942	280,942
<b>Total loans to customers measured at amortized cost – corporate customers</b>	<b>8,726,189</b>	<b>110,574</b>	<b>1,144,382</b>	<b>9,981,145</b>
<b>Allowance for expected credit losses</b>	<b>(27,502)</b>	<b>(3,432)</b>	<b>(352,240)</b>	<b>(383,174)</b>
<b>Carrying amount</b>	<b>8,698,687</b>	<b>107,142</b>	<b>792,142</b>	<b>9,597,971</b>

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
<b><i>Loans to customers measured at amortized cost – corporate customers</i></b>				
Not overdue	2,777,417	347,778	-	3,125,195
Overdue less than 30 days	-	-	-	-
Overdue 30-89 days	-	-	-	-
Overdue 180-360 days	-	-	855	855
Overdue more than 360 days	-	-	280,182	280,182
	<b>2,777,417</b>	<b>347,778</b>	<b>281,037</b>	<b>3,406,232</b>
<b>Loss allowance</b>	<b>(12,300)</b>	<b>(10,377)</b>	<b>(126,496)</b>	<b>(149,173)</b>
<b>Carrying amount</b>	<b>2,765,117</b>	<b>337,401</b>	<b>154,541</b>	<b>3,257,059</b>

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Changes in the gross carrying amount of loans to customers during 2019 contributed to the change in the estimated loss allowance as follows.

	<b>2019</b>		
	<b>Effect: increase/(decrease)</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
<b>Loans to customers measured at amortized cost - corporate</b>			
Increase in the gross carrying amount of loans issued during the year by RUB 8,306,677 thousand	(27,238)	-	-
Increase in credit risk on loans for RUB 863,439 thousand.	-	-	(225,744)
<b>Loans to customers measured at amortized cost - retail</b>			
Increase in the gross carrying amount of loans issued during the year by RUB 167,077 thousand.	(1,385)	-	-
Increase in credit risk on loans for RUB 30,271 thousand.	-	-	(9,041)
Write-off of loans for RUB 16,151 thousand following the recognition of loans as uncollectable	-	-	(16,151)

Changes in the gross carrying amount of loans to customers during 2018 contributed to the change in the estimated loss allowance as follows.

	<b>2018</b>		
	<b>Effect: increase/(decrease)</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
<b>Loans to customers measured at amortized cost - corporate</b>			
Increase in the gross carrying amount of loans issued during the year by RUB 1,827,679 thousand.	(12,023)	-	-
Change in loans with gross carrying amount of RUB 1,604,600 thousand.	2,265	(9,573)	(4,728)
<b>Loans to customers measured at amortized cost - retail</b>			
Increase in the gross carrying amount of loans issued during the year by RUB 248,775 thousand.	(144)	-	-
Change in loans with gross carrying amount of RUB 59,063 thousand.	(426)	(627)	(21,225)
Write-off of loans for RUB 6,825 thousand following the recognition of loans as uncollectable	-	-	(6,825)

The following table provides information on loans to customers that are credit-impaired as at 31 December 2019, for which collateral is used to reduce expected credit losses (excluding excess collateral):

	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Fair value of collateral</b>	
				<b>Real estate</b>	<b>Total collateral</b>
Loans to corporate customers	1,026,718	(234,577)	792,141	792,141	792,141
Loans to retail customers	34,131	(8,420)	25,711	25,711	25,711
<b>Total credit-impaired loans issued to customers</b>	<b>1,060,849</b>	<b>(242,997)</b>	<b>817,852</b>	<b>817,852</b>	<b>817,852</b>

The following table provides information on loans to customers that are credit-impaired as at 31 December 2018 and on collateral provided for the purposes of mitigation of probable losses:

	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Fair value of collateral</b>	
				<b>Real estate</b>	<b>Total collateral</b>
Loans to corporate customers	281,037	(126,496)	154,541	154,541	154,541
Loans to retail customers	54,185	(50,185)	4,000	3,270	3,270
<b>Total credit-impaired loans issued to customers</b>	<b>335,222</b>	<b>(176,681)</b>	<b>158,541</b>	<b>157,811</b>	<b>157,811</b>

### Industry analysis of the loan portfolio

The structure of the loan portfolio by industry sector (less loss allowance) is presented below:

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Finance industry	2,772,863	26.9	45,388	1.2
Production	2,197,944	21.3	1,327,376	35.4
Real estate	1,779,714	17.2	442,974	11.8
Trade	1,217,490	11.8	653,408	17.4
Construction	1,064,778	10.3	692,190	18.5
Transport	504,240	4.9	-	0.0
Retail loans	337,935	3.3	314,663	8.4
Other	444,116	4.3	161,888	4.3
Services	-	-	109,055	2.9
<b>Total loans to customers before ECL allowance</b>	<b>10,319,080</b>	<b>100.0</b>	<b>3,746,942</b>	<b>100.0</b>
Allowance for expected credit losses	(428,337)		(201,007)	
<b>Total loans to customers less ECL allowance</b>	<b>9,890,743</b>		<b>3,545,935</b>	

As at 31 December 2019 the Bank has four borrowers with a total amount of loans issued exceeding RUB 661,039 thousand (large credit risk exceeding 10% of regulatory capital). The total amount of such loans is RUB 4,004,565 thousand or 38.8% of the total loans issued before ECL allowance.

As at 31 December 2018 the Bank has four borrowers with the total amount of loans issued exceeding RUB 382,907 thousand (large credit risk exceeding 10% of regulatory capital). The total amount of such loans is RUB 2,099,015 thousand or 56.0% of the total loans issued before ECL allowance.

Information on loans to related parties is disclosed in Note 31.

## 9. Financial assets measured at FVOCI

Financial assets measured at FVOCI:

Financial assets measured at FVOCI	31 December 2019	31 December 2018
Corporate Eurobonds	4,706,508	4,625,924
Bonds of the CBRF	4,034,294	-
Bonds of Russian banks	287,456	-
OFZ (federal loan bonds)	10,866	4,329,096
Corporate bonds of residents of Russia	-	542,248
Eurobonds of Russian banks	-	350,836
Eurobonds of Russian Federation	-	87,993
<b>Total financial assets measured at FVOCI</b>	<b>9,039,124</b>	<b>9,936,097</b>

As at 31 December 2019 and 31 December 2018 debt securities measured at FVOCI are classified as Stage 1 under IFRS 9.

There were no reclassifications of securities from one category to another in the reporting period.

As at 31 December 2019, corporate Eurobonds in the total amount of RUB 4,706,508 thousand (31 December 2018: RUB 4,625,924 thousand) include Eurobonds, issued SPV of Russian companies.

As at 31 December 2019, financial assets measured at FVOCI include corporate Eurobonds in the amount of RUB 1,278,541 thousand and bonds issued by the CBRF in the amount of RUB 2,763,805 thousand provided as collateral for overnight and intraday loans from the CBRF.

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As at 31 December 2018, investment financial assets measured at FVOCI include corporate Eurobonds in the amount of RUB 602,655 thousand and corporate bonds of residents of the Russian Federation in the amount of RUB 231,790 thousand issued as collateral for overnight and intraday loans from the CBRF. As at 31 December 2019 and 31 December 2018 there were no overnight loans from the CBRF.

The following is the structure of the securities portfolio by types of economic activities of issuers, classification does not include Eurobonds of the Russian Federation and OFZ:

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Finance industry	6,665,927	73.8	2,248,951	40.7
Non-ferrous metallurgy	790,618	8.8	289,847	5.2
Telecom and communications	677,531	7.5	512,215	9.3
Transport	601,445	6.6	339,794	6.2
Manufacturing	150,446	1.7	-	-
Gold mining	142,291	1.6	574,337	10.4
Ferrous metallurgy	-	-	214,757	3.9
Oil & gas sector	-	-	1,339,107	24.3
<b>Total financial assets measured at FVOCI</b>	<b>9,028,258</b>	<b>100.0</b>	<b>5,519,008</b>	<b>100.0</b>

**Financial assets measured at FVOCI transferred without derecognition**

	31 December 2019	31 December 2018
<i>Financial assets transferred without derecognition</i>		
OFZ (federal loan bonds)	-	2,239,663
Eurobonds of Russian banks	-	712,347
Eurobonds of Russian Federation	-	480,551
Corporate Eurobonds	-	373,211
<b>Total financial assets transferred without derecognition</b>	<b>-</b>	<b>3,805,772</b>

As at 31 December 2019, there are no securities at fair value through profit or loss transferred without derecognition.

As at 31 December 2018 investment financial assets (encumbered) transferred without derecognition include securities pledged under sale and repurchase agreements (reverse repo) with fair value at 31 December 2018 of RUB 3,805,772 thousand (31 December 2017: RUB 987,849 thousand). This collateral has been transferred with the right to sell.

The Bank has transactions to lend securities and to sell securities under sale and repurchase agreements and to purchase securities under purchase and resale agreements. Sale and repurchase agreements are transactions within which the Bank sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a determined future date. Securities lending agreements are transactions in which the Bank lends securities for a fee and receives cash as a collateral.

Securities lent or sold under sale and repurchase agreements are transferred to a third party, and the Bank receives cash. These financial assets may be repledged or resold by counterparties in the absence of any default by the Bank, but the counterparty has an obligation to return the securities when the contract matures. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. These securities are presented as “pledged under sale and repurchase agreements” in Note 9. Cash received is recognized as a financial asset, a financial liability is recognized for the obligation to reimburse the purchase price of this collateral and is included in due to credit institutions (see Note 13).

Since the Bank sells contractual rights to receive cash flows from securities, the Bank is unable to use the transferred assets during the term of the agreement. These transactions are conducted on terms that are usual and generally accepted for standard lending, borrowing and lending of securities.

The methods for measuring these assets at fair value are disclosed in Note 29 below.



**Credit quality analysis**

The credit quality of debt instruments measured at FVOCI is presented below as at 31 December 2019 and 31 December 2018. Unless otherwise stated, for financial assets amounts in the table represent gross carrying amounts. The terms “12-month expected credit losses”, “lifetime expected credit losses” and “credit-impaired financial assets” are explained in Note 3.

**31 December 2019**

	Stage 1	Total
<b><i>Debt securities measured at FVOCI</i></b>		
Rated between BBB+ and BBB-	4,718,541	4,718,541
Rated between BB+ and BB-	3,092,063	3,092,063
Rated between B+ and B-	1,228,520	1,228,520
<b>Carrying amount – fair value</b>	<b>9,039,124</b>	<b>9,039,124</b>
<b>Allowance for expected credit losses</b>	<b>(22,750)</b>	<b>(22,750)</b>

**31 December 2018**

	Stage 1	Total
<b><i>Debt securities measured at FVOCI</i></b>		
Rated between BBB+ and BBB-	10,295,783	10,295,783
Rated between BB+ and BB-	3,446,086	3,446,086
<b>Carrying amount – fair value</b>	<b>13,741,869</b>	<b>13,741,869</b>
<b>Allowance for expected credit losses</b>	<b>(11,846)</b>	<b>(11,846)</b>
<b>Loss allowance</b>		

The following tables show reconciliations of the opening and closing balances of the loss allowance.

	Stage 1	Total
<b>Credit loss allowance at 31 December 2018</b>	<b>(11,846)</b>	<b>(11,846)</b>
Net change in loss allowance	(10,904)	(10,904)
<b>Credit loss allowance at 31 December 2019</b>	<b>(22,750)</b>	<b>(22,750)</b>

	2018	Total
	Stage 1	
<b>Credit loss allowance at 31 December 2017</b>	-	-
Effect of transition to IFRS 9 at 1 January 2018	(74,682)	(74,682)
Net change in loss allowance	62,836	62,836
<b>Credit loss allowance at 31 December 2018</b>	<b>(11,846)</b>	<b>(11,846)</b>

## 10. Property and equipment

The table below shows movements in property, equipment and intangible assets for 2019 and 2018.

	Buildings and facilities	Office equipment and computers	Other	Intangible assets	Right-of-use assets	Total
<b>Carrying amount at 31 December 2017</b>	<b>71,779</b>	<b>38,692</b>	<b>13,398</b>	<b>27,659</b>	<b>-</b>	<b>151,528</b>
<b>Initial cost</b>						
Carrying amount at the beginning of the year	113,803	154,831	29,684	27,683	-	326,001
Additions	-	22,469	1,984	187,927	-	212,380
Disposals	-	(3,095)	(2,457)	(22,895)	-	(28,447)
Transfer to non-current assets classified as "held-for-sale"	(42,439)	-	-	-	-	(42,439)
<b>Balance at 31 December 2018</b>	<b>71,364</b>	<b>174,205</b>	<b>29,211</b>	<b>192,715</b>	<b>-</b>	<b>467,495</b>
<b>Accumulated depreciation</b>						
Opening balance	(42,024)	(116,139)	(16,286)	(24)	-	(174,473)
Depreciation charge	(3,932)	(13,578)	(3,519)	(356)	-	(21,385)
Depreciation disposal	-	2,570	1,401	-	-	3,971
Transfer to non-current assets classified as "held-for-sale"	17,460	-	-	-	-	17,460
<b>Balance at 31 December 2018</b>	<b>(28,496)</b>	<b>(121,147)</b>	<b>(18,404)</b>	<b>(380)</b>	<b>-</b>	<b>(174,427)</b>
<b>Carrying amount at 31 December 2018</b>	<b>42,868</b>	<b>47,058</b>	<b>10,807</b>	<b>192,335</b>	<b>-</b>	<b>293,068</b>
<b>Effect of transition to IFRS 16 at 1 January 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,089</b>	<b>76,089</b>
<b>Carrying amount at 1 January 2019</b>	<b>42,868</b>	<b>47,058</b>	<b>10,807</b>	<b>192,335</b>	<b>76,089</b>	<b>369,157</b>
<b>Initial cost</b>						
Carrying amount at the beginning of the year	71,364	174,205	29,211	192,715	76,089	543,584
Additions	-	21,925	30,487	356,292	374,361	783,065
Disposals	-	(30,651)	(2,714)	-	(40,342)	(73,707)
Impairment of fixed assets	(11,335)	-	-	-	-	(11,335)
<b>Balance at 31 December 2019</b>	<b>60,029</b>	<b>165,479</b>	<b>56,984</b>	<b>549,007</b>	<b>410,108</b>	<b>1,241,607</b>
<b>Accumulated depreciation</b>						
Opening balance	(28,496)	(127,147)	(18,404)	(380)	-	(174,427)
Depreciation charge	(1,713)	(13,817)	(3,157)	(32,789)	(58,490)	(109,966)
Depreciation disposal	-	30,564	2,229	-	1,940	34,733
<b>Balance at 31 December 2019</b>	<b>(30,209)</b>	<b>(110,400)</b>	<b>(19,332)</b>	<b>(33,169)</b>	<b>(56,550)</b>	<b>(249,660)</b>
<b>Carrying amount at 31 December 2019</b>	<b>29,820</b>	<b>55,079</b>	<b>37,652</b>	<b>515,838</b>	<b>353,558</b>	<b>991,947</b>

As at 1 January 2020, the carrying amount of intangible assets created by the credit institution is RUB 126,774 thousand (1 January 2019: none). In 2019, additions of intangible assets created by the credit organization amounted to RUB 127,566 thousand, amortization charge for 2019 amounted to RUB 4,006 thousand.

## 11. Non-current assets classified as held-for-sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. As at 31 December 2019 and 31 December 2018, the composition of non-current assets classified as held for sale is as follows:

	31 December 2019	31 December 2018
Other assets (property and equipment)	14,794	16,444
Other assets (pledged assets)	-	58,997
<b>Total non-current assets held for sale less impairment allowance</b>	<b>14,794</b>	<b>75,441</b>

Movements in non-current assets classified as held for sale for 2019 and 2018 are as follows:

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	2019	2018
<b>Non-current assets classified as held-for-sale at the beginning of the period</b>	<b>75,441</b>	<b>42,415</b>
Disposal of other assets (pledged assets)	(58,997)	-
Costs to sell	(501)	-
Revaluation	(1,159)	(27,633)
Addition (disposal) of investment property	-	(1,813)
Addition of other assets (pledged assets)	-	37,494
Addition of other assets (property and equipment)	-	24,978
<b>Total non-current assets classified as held-for-sale at the end of the period</b>	<b>14,794</b>	<b>75,441</b>

## 12. Other assets

	31 December 2019	31 December 2018 (restated)
<i>Financial assets</i>		
Claims on cash transactions	154,114	67,937
Claims on broker commission return	93,457	-
Bank cards settlements	43,366	3,486
Advance payment for services	22,634	2,230
Claims to payment infrastructure organizations	4,500	5,900
Settlements on guarantees	692	-
Other	11,435	504
Claims on securities coupons	-	17,825
<b>Total financial assets before ECL allowance</b>	<b>330,198</b>	<b>97,882</b>
Allowance for expected credit losses	(96,582)	(51,531)
<b>Total financial assets less ECL allowance</b>	<b>233,616</b>	<b>46,351</b>
<i>Non-financial assets</i>		
Advance payment for services	153,845	144,762
Guarantees costs	47,532	-
Inventories	9,475	9,218
Prepaid taxes other than income tax	2,331	1,919
Payroll settlements	19	30,778
Other	422	403
<b>Total non-financial assets before allowance</b>	<b>213,624</b>	<b>187,080</b>
Provision for non-financial assets	(12,490)	(3,730)
<b>Total non-financial assets less allowance</b>	<b>201,134</b>	<b>183,350</b>
<b>Total other assets less allowances</b>	<b>434,750</b>	<b>229,701</b>

Other assets are measured at amortized cost. A simplified approach is used to calculate the allowance for impairment (expected credit losses) for other assets.

The table below shows the movements in other financial assets by stage at the beginning and end of the period for other financial assets.

	2019			Total
	Stage 1	Stage 2	Stage 3	
<b>Other financial assets</b>				
Balance as at 1 January	46,357	3,835	47,690	97,882
Net change	183,919	-	48,397	232,316
Transfer to Stage 3	-	(3,835)	3,835	-
<b>Balance as at 31 December</b>	<b>230,276</b>	<b>-</b>	<b>99,922</b>	<b>330,198</b>

### Loss allowance

The following table shows reconciliations of the opening and the closing balances of the loss allowance for other financial assets:

	Stage 1	Stage 3	Total
<b>Other financial assets</b>			
Balance as at 1 January	(6)	(51,525)	(51,531)
Net change in loss allowance	2	(55,383)	(55,381)
Write-off	-	10,330	10,330
<b>Balance as at 31 December</b>	<b>(4)</b>	<b>(96,578)</b>	<b>(96,582)</b>

Comparative data for 2018:

	2018			Total
	Stage 1	Stage 2	Stage 3	
<b>Other financial assets</b>				
Balance as at 1 January				-
Effect of transition to IFRS 9 as at 1 January 2018				(45,027)
Restated balance as at 1 January 2018	-	(660)	(44,367)	(45,027)
Transfer to Stage 3	-	660	(660)	-
Net change in loss allowance	(6)	(3,835)	(2,663)	(6,504)
<b>Balance as at 31 December</b>	<b>(6)</b>	<b>(3,835)</b>	<b>(47,690)</b>	<b>(51,531)</b>

## 13. Amounts due to banks and other credit institutions

	31 December 2019	31 December 2018
Funds raised under sale and repurchase agreements	9,501,588	4,993,829
Bank loans and deposits	2,672,513	2,608,000
LORO correspondent accounts with Russian banks	7,649	15,412
<b>Total amounts due to banks and other credit institutions</b>	<b>12,181,750</b>	<b>7,617,241</b>

All accounts of customer that are credit institutions are measured at amortized cost.

As at 31 December 2019, the Bank has one counterparty (31 December 2018: one counterparty), which accounts for more than 10% of regulatory capital. The gross value of balances of this counterparty as at 31 January 2019 is RUB 2,672,513 thousand. (31 December 2018: RUB 2,608,000 thousand).

The fair value of collateral for liabilities on repayment of borrowed securities to the lender that is a credit institution, as at 31 December 2019 was RUB 9,500,000 thousand (31 December 2018: RUB 5,328,141 thousand).

As at 31 December 2019 and 31 December 2018 there were no funds raised from the CBRF.

During the reporting period, attraction of funds from other banks at rates below market ones was not allowed.

## 14. Amounts due to customers

	31 December 2018	31 December 2018 (restated)	1 January 2018 (restated)
<b>State enterprises and public organizations</b>			
• Current accounts	-	-	551
<b>Other legal entities</b>			
• Current accounts	16,476,024	16,354,319	24,271,700
• Term deposits and demand deposits	2,380,905	1,827,175	549,696
• Brokerage deposits	680	14,804	12,028
<b>Individuals</b>			
• Current accounts	12,615,562	11,017,759	8,493,778
• Term deposits and demand deposits	18,135,444	15,793,290	9,477,916
<b>Total amounts due to customers</b>	<b>49,608,615</b>	<b>45,007,347</b>	<b>42,805,669</b>

Amounts due to individuals and legal entities attracted to term deposits and deposits, as well as current accounts and other attracted funds are recognized at amortized cost.

As at 31 December 2019, the Bank has two customers (31 December 2018: three customers), each of which represents more than 10% of regulatory capital. The total balances with these customers as at 31 December 2019 amount to RUB 11,900,685 thousand (31 December 2018: RUB 13,204,056 thousand).

During the reporting period there was no income from term deposits at above/below market rates.

Customer accounts balances by sector and type of economic activity are presented as follows:

	31 December 2019		31 December 2018 (restated)	
	Amount	%	Amount	%
Individuals	30,751,006	62.0	26,811,049	59.6
Financial sector	15,832,244	32.0	16,692,356	37.1
Services	694,949	1.4	523,123	1.2
Insurance	645,255	1.3	111,237	0.2
Construction	536,968	1.1	176,005	0.4
Trade	452,623	0.9	325,751	0.7
Production	311,728	0.6	208,894	0.5
Real estate	141,408	0.3	18,100	0.0
Transport	62,695	0.1	30,370	0.1
Other	179,739	0.3	110,462	0.2
<b>Total amounts due to customers</b>	<b>49,608,615</b>	<b>100.0</b>	<b>45,007,347</b>	<b>100.0</b>

## 15. Other liabilities

	31 December 2019	31 December 2018 (restated)
<i>Financial liabilities</i>		
Lease liabilities	351,912	-
Settlements on guarantees	197,757	-
Suspense accounts	122,265	5,610
Expected credit losses on financial guarantees and other contingent liabilities	40,186	9,385
Other	110,644	46,001
Settlements with customers on purchase/sale of foreign currency	-	1,417,921
<b>Total other financial liabilities</b>	<b>822,764</b>	<b>1,478,917</b>
Payroll settlements	119,967	137,377
Settlements with suppliers, contractors and buyers	93,033	20,037
Settlements on tax with the budget	3,315	1,857
Other	331	128
<b>Total other non-financial liabilities</b>	<b>216,646</b>	<b>159,399</b>
<b>Total other liabilities</b>	<b>1,039,410</b>	<b>1,638,316</b>

As at 31 December 2019, the largest part of other liabilities is represented by lease liabilities in the amount of RUB 351,912 thousand. As at 31 December 2018, the largest part of other liabilities is represented by transactions with related parties - settlements with customers on sale/purchase of foreign currency in the amount of RUB 1,417,921 thousand.

## 16. Share capital and share premium

As at the reporting date, the share capital is fully paid. Information on the composition of shareholders is disclosed in Note 1. Authorized capital issued and fully paid includes the following components:

	31 December 2019		31 December 2018	
	Number of shares	Par value	Number of shares	Par value
Ordinary shares	233,212,933	0.01	155,850,000	0.01
<b>Total share capital</b>		<b>2,332,129</b>		<b>1,558,500</b>

In 2019, the last additional share issue was registered in the amount of 77,362,933 shares with the par value of RUB 0.01 thousand for the total amount of RUB 773,629 thousand.

All ordinary shares have a par value of RUB 0.01 thousand. Each share carries one vote. Each ordinary share confers identical rights on the shareholder. In compliance with the Federal Law on Joint Stock Companies and the Charter of the Bank, shareholders holding ordinary shares of the Bank may participate in the General Meeting of Shareholders with voting rights on all issues within its competence and receive dividends. The above-mentioned rights shall be granted only by fully paid shares.

Share premium is the amount by which contributions to equity resulting from previous issues exceeded the par value of shares issued. As at 31 December 2019 share premium amounts to RUB 1,586,571 thousand (31 December 2018: RUB 60,200 thousand).

## 17. Interest income and expense

	2019	2018 (restated)
<b>Interest income calculated using the effective interest rate method</b>		
Amounts due from banks and other financial institutions	1,846,779	1,511,797
Loans to customers	856,134	407,209
Financial assets measured at FVOCI	658,415	830,484
<b>Total interest income calculated using the effective interest rate method</b>	<b>3,361,328</b>	<b>2,749,490</b>
<b>Other interest income</b>		
Financial assets measured at FVTPL	697	-
<b>Total interest income</b>	<b>3,362,025</b>	<b>2,749,490</b>
<b>Interest expenses</b>		
Term deposits and current accounts of individuals	(1,014,655)	(670,442)
Term deposits and amounts due to legal entities	(370,152)	(351,312)
Term deposits and amounts due to banks	(240,335)	(167,377)
Lease liabilities expense	(24,019)	-
<b>Total interest expenses</b>	<b>(1,649,161)</b>	<b>(1,189,131)</b>
<b>Net interest income</b>	<b>1,712,864</b>	<b>1,560,359</b>

## 18. Net profit (loss) from purchase and sale of financial assets measured at FVOCI

	2019	2018
Bonds of other non-residents	156,569	(258,439)
Bonds of Russian Federation	109,281	(54,829)
Shares of other residents	22,790	(76,860)
Bonds of other residents	(5,023)	22,913
Bonds of the CBRF	(1,006)	-
Bonds of resident banks	(840)	4,120
<b>Total net income (loss) from operations with financial assets measured at FVOCI</b>	<b>281,771</b>	<b>(363,095)</b>

## 19. Net (loss) profit from operations with foreign currency

Foreign currency transactions during the reporting period included purchase and sale of cash and non-cash foreign currency, transactions in the interbank and exchange markets, transactions with derivative financial instruments (forwards, swaps, futures and options). Net (loss) profit from operations with foreign currency is presented as follows:

	2019	2018
Trading operations, net	(716,038)	494,803
Foreign exchange differences, net	95,228	(440,705)
Income (expenses) from derivative financial instruments	365,308	1,046,230
<b>Net (loss) profit from operations with foreign currency</b>	<b>(255,502)</b>	<b>1,100,328</b>

## 20. Fees and commission income and expense

	2019	2018
<b>Fee and commission income</b>		
Settlement transactions commission	347,326	282,740
Commission under brokerage agreements	224,902	201,376
Commission on bank guarantees issue	211,309	18,846
Fees for opening and maintaining accounts	186,816	73,568
Cash and settlement transactions commission	67,815	55,864
Other	2,575	10,625
<b>Total fee and commission income</b>	<b>1,040,743</b>	<b>643,019</b>
<b>Fee and commission expense</b>		
Cash transfer commission	(153,961)	(121,428)
Commission to agents for attracting customers	(49,551)	(1,869)
Commission under brokerage agreements	(41,361)	(152,819)
Cash and settlement transactions commission	(37,056)	(33,925)
Stock exchange commission	(30,017)	(31,686)
Commission for cash transportation	(25,729)	(25,975)
Commission on loyalty programs	-	(36,468)
Other	(17,726)	(25,110)
<b>Total fee and commission expense</b>	<b>(355,401)</b>	<b>(429,280)</b>
<b>Net fee and commission income</b>	<b>685,342</b>	<b>213,739</b>

Fee and commission income that are not integral part of effective interest rate on financial asset or liability are measured based on compensation stated in agreement and recognized depending on type of service at point in time or during the Group implements its liability in terms of agreement depending when the Group transfers control over service to customer:

- commission on bank guarantees issue is accounted on monthly basis based on agreement and recognized over time in process of the Group exercises corresponding service;
- fee for accounts maintenance is accounted on monthly basis based on fixed tariffs depending on counterparty type and recognized over time in process of the Group exercises corresponding service;

- cash and settlement transactions commission and fee for account opening is accounted in the moment of correspondent service provision and recognized as income in time of transaction execution;
- commission under brokerage agreements is fixed under Group's tariffs, is accounted on monthly basis and recognized over time in process of the Group exercises corresponding service.

## 21. Administrative and other operating expenses

	2019	2018
Personnel expenses	1,322,244	991,345
Insurance	456,548	116,734
Advertising	161,188	64,829
Expenses on loyalty programs	136,224	30,899
Royalty	129,113	138,033
Depreciation and amortization	109,966	21,385
Taxes and duties, except for income tax	90,649	48,406
Professional services (communication, information services, computer maintenance, etc.)	89,079	61,368
Disposal of assets and write-off of inventories	67,990	27,966
Expenses for transaction settlement	33,516	-
Information services	21,497	4,313
Repair and maintenance of property and equipment	12,548	11,989
Expenses for revaluation of long-term assets classified as held for sale	12,439	27,633
Representation expenses	10,277	14,061
Security	8,412	3,314
Other expenses related to maintenance activities	5,501	29,870
Audit of the financial statements	5,243	4,095
Lease expenses	4,396	21,529
Other operating expenses	45,080	41,561
<b>Total operating expenses</b>	<b>2,721,910</b>	<b>1,659,330</b>

Total employee benefits included in the item "Administrative and other operating expenses" for 2019 and 2018 can be presented as follows.

	2019	2018
<b>Short-term benefits</b>	<b>1,322,244</b>	<b>991,345</b>
Employees' salaries and wages	1,051,985	791,607
Payroll related taxes	258,357	192,038
Other short-term benefits of employees	11,902	7,700
	<b>1,322,244</b>	<b>991,345</b>

## 22. Income tax

Income tax expense comprises the following components.

	2019	2018 (restated)
Current income tax	(31,124)	(186,160)
Deferred income tax	131,605	7,015
<b>Total income tax refund (expense)</b>	<b>100,481</b>	<b>(179,145)</b>

The current income tax rate applicable in calculating income tax is 20%.



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Calculation of effective income tax rate:

	<b>2019</b>		<b>2018 (restated)</b>	
(Loss) profit before tax	(566,746)	100.0%	995,032	100.0%
Theoretical income tax at 20%	113,349	20.0%	(199,006)	(20.0%)
Difference in tax rates for transactions with securities	27,308	4.8%	22,485	2.3%
Non-deductible expenses	(9,944)	(1.8%)	(2,624)	(0.3%)
Other	(30,232)	(5.3%)	-	-
<b>Total income tax refund (expense)</b>	<b>100,481</b>	<b>17.7%</b>	<b>(179,145)</b>	<b>(18.0%)</b>

	<b>31 December 2018</b>	<b>Reversed (allocated) to profit or loss</b>	<b>Including from transition to IFRS 16</b>	<b>Recognized in equity</b>	<b>Recognized in other comprehensive income</b>	<b>31 December 2019</b>
Cash and cash equivalents	8,909	(753)	-	-	-	8,156
Financial assets measured at FVTPL	(14,837)	12,936	-	-	-	(1,901)
Loans to customers	(24,499)	(43,780)	-	-	-	(68,279)
Financial assets measured at FVOCI	(134,190)	216,413	-	-	(45,354)	36,869
Property, equipment, intangible assets and right-of-use assets	(2,831)	(78,163)	(70,712)	-	-	(80,994)
Other assets	16,268	2,820	-	-	-	19,088
Non-current assets classified as held-for-sale	2,258	630	-	-	-	2,888
Financial liabilities measured at FVTPL	15,446	(12,190)	-	-	-	3,256
Perpetual subordinated loan	(22,231)	(48,922)	-	60,320	-	(10,833)
Other liabilities	30,299	62,693	70,382	-	-	92,992
Tax loss carried forward	18,242	19,921	-	-	-	38,163
<b>Deferred tax liabilities</b>	<b>(107,166)</b>	<b>131,605</b>	<b>(330)</b>	<b>60,320</b>	<b>(45,354)</b>	<b>39,405</b>

	<b>31 December 2017</b>	<b>Reversed/ (allocated) to equity due to implementa- tion of IFRS 9</b>	<b>Reversed (allocated) to profit or loss (restated)</b>	<b>Recognized in equity (restated)</b>	<b>Recognized in other comprehensive income (restated)</b>	<b>31 December 2018 (restated)</b>
Cash and cash equivalents	-	10	8,899	-	-	8,909
Financial assets held-for-trading	(118,957)	-	104,120	-	-	(14,837)
Loans to customers	(76,359)	(6,971)	58,831	-	-	(24,499)
Investment financial assets	(3,825)	-	(183,895)	-	53,530	(134,190)
Property, equipment and intangible assets	8,254	-	(11,085)	-	-	(2,831)
Other assets	(14,590)	21,853	9,005	-	-	16,268
Non-current assets classified as held-for-sale	-	-	2,258	-	-	2,258
Financial liabilities held-for-trading	-	-	15,446	-	-	15,446
Other liabilities	1,337	-	28,962	-	-	30,299
Perpetual subordinated loan	(18,432)	-	(56,616)	52,817	-	(125,511)
Tax loss carried forward	-	-	18,242	-	-	18,242
<b>Deferred tax liabilities</b>	<b>(222,572)</b>	<b>2,044</b>	<b>7,015</b>	<b>52,817</b>	<b>53,530</b>	<b>(107 166)</b>

## 23. Dividends

Following the results of the meeting in 2019 it was decided not to distribute profits for 2018, no contributions to the reserve fund from profit for 2018 were made, and it was also decided not to pay dividends for 2018. In May 2018, the annual general meeting of the Bank's shareholders adopted a resolution to pay dividends to the shareholder. Following the results of the meeting, dividends were accrued and paid to the shareholder in the amount of RUB 99,541 thousand in 2018 (RUB 0.6387 per share), no contributions were made to the reserve fund from profit for 2017.

## 24. Capital management

In accordance with the Bank's capital adequacy management strategy, the objective of capital management is to ensure the Bank's ability to meet its strategic asset growth objectives while unconditionally meeting capital adequacy requirements. The Capital Management Policy is designed to ensure that capital management procedures are consistent with the Bank's development strategy, the nature and scope of its operations.

Internal capital adequacy assessment procedures (hereinafter - "ICAAP") are developed in accordance with the requirements of Instructions of the CBRF No. 3624-U "On the Requirements for the Risk and Capital Management System of a Credit Institution or a Banking Group" and represent the procedures of the Bank's assessment of the available capital adequacy, i.e. capital for covering accepted and potential risks, and also include capital planning procedures based on the established development strategy, business growth guidelines and results of a comprehensive current risk assessment, stress-testing of the internal and external risk factors.

The basic principles according to which the Bank forms a risk and capital management system are defined in the "Risk and Capital Management Strategy" approved by the Board of Directors of the Bank. The objectives of the risk and capital management system are as follows:

- identification, assessment, aggregation of the Bank's significant risks and control over their level;
- ensuring efficient allocation of resources and capital to optimize the Bank's risk/return ratio;
- assessment of capital adequacy to cover significant risks;
- capital planning based on the results of a comprehensive assessment of significant risks, testing of the Bank's stability in relation to internal and external risk factors, guidelines of the Bank's business development strategy, capital adequacy requirements of the CBRF;
- ensuring a uniform understanding of risks at the Bank level and strategic planning with due account for the level of risk assumed;
- ensuring the Bank's ability to achieve its strategic asset growth objectives subject to compliance with capital adequacy requirements in the normal course of business and under stress conditions.

Within ICAAP:

- all significant risks of the Bank are assessed;
- a planned (target) capital level, current capital requirement at the Bank's level are determined;
- methods and procedures are established for managing significant risks, assessing capital adequacy and allocating it by types of significant risks at the Bank level;
- a system for monitoring significant risks, capital adequacy and compliance with risk limits is established;
- reporting at the Bank's level is established;
- the procedures for internal control over implementation of the ICAAP at the Bank level are determined.

To comply with the Bank's capital adequacy standards, the following methods of assessment shall be used:

- forecasting of capital adequacy ratios;
- stress-testing of capital adequacy;
- a system of limits and signal values for monitoring the level of capital adequacy.

The aggregate amount of capital required is determined by the Bank on the basis of an aggregate assessment of capital requirements in respect of risks significant for the Bank. For the purpose of assessing the aggregate amount of the required capital, the Bank has established the following methods:

- a methodology for determining the amount of capital required to cover claims in respect of each of the risks significant for the Bank. Under this methodology, quantitative capital requirements are determined by the Bank in respect of credit, market, operational and interest rate risks as well as concentration risks. In relation to other risks, the Bank does not use quantitative methods to determine the capital requirement. Possible losses from their realization are covered by allocating a certain amount of capital to cover them (capital buffer), while risks are limited by other methods (e.g. by setting limits).
- a methodology for determining the aggregate amount of capital required by the Bank based on aggregation of significant risk assessments. For these purposes, the Bank uses a CBRF method established by CBRF Instruction No. 180-I for assessing the adequacy of the Bank's own funds (capital), since this method considers credit, market and operational risks factors typical for

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operations performed by the Bank. When using this methodology, the total amount of capital required by the Bank is determined by multiplying the total amount of credit, market and operational risks calculated in accordance with this methodology by the planned (target) level of capital adequacy established in the Bank's internal documents.

For the purpose of capital adequacy assessment, the Bank establishes procedures for comparing the total amount of capital required by the Bank with the amount of capital available. These procedures allow the Bank to monitor compliance with mandatory standards.

For the purpose of controlling adequacy of own funds (capital), the Bank establishes capital allocation procedures through a system of limits. In the process of distributing capital by lines of business, types of significant risks, Bank's subdivisions performing functions associated with taking risks, the Bank ensures availability of a capital reserve to:

- cover risks that are not assessed by quantitative methods, as well as risks that cannot be allocated to the Bank's structural subdivisions either;
- implement measures for business development stipulated by the Bank's development strategy.

The Bank exercises control over compliance with the limits. As part of the control over the established limits, the Bank establishes a system of indicators evidencing the high degree of use of the limit (hereinafter - "signal values").

For each of the signal values, an appropriate list of corrective measures is established, depending on the degree of approaching the limit to the signal value, for example,

- decrease in the level of risk taken;
- redistribution of capital allocated to cover significant risks between the Bank's subdivisions;
- increase in the amount of capital.

The results of the limit control (achievement of signal values, cases of exceeding the limits) are included in the Bank's reports generated within the ICAAP and submitted to the Board of Directors, executive bodies of the Bank, heads of the Bank's subdivisions performing functions related to taking risks as well as to management of risks taken.

As at 31 December 2019 the amount of regulatory capital managed by the Bank is RUB 7,602,635 thousand (as at 31 December 2018: RUB 6,683,520 thousand).

In accordance with the existing capital requirements set by the CBRF, including the requirements of the CBRF Instruction 180-I, in 2019 banks are required to maintain a capital to risk weighted assets ratio (H1.0 ratio of capital adequacy) above the mandatory minimum level of 8% of capital.

The Bank classifies items defined as own funds (capital) of credit institutions in accordance with Russian legislation as those that constitute the capital. The Bank calculates the amount of capital in accordance with CBRF Regulation dated 4 July 2018 No. 646-P "On the Methodology for Determining Own Funds (Capital) of Credit Institutions ("Basel III")" (hereinafter referred to as "CBRF Regulation No. 646-P"). The sources of the Bank's capital stock are the authorized capital, share premium and the reserve fund of the Bank composed of profit of previous years, perpetual subordinated loan, as well as profit of previous years confirmed by the audit firm, minus investments in intangible assets (IA) and deferred tax liabilities.

Additional capital includes retained earnings of the current year before confirmation by auditors.

The Bank's capital stock consists of authorized capital and additional capital. The additional capital includes perpetual subordinated loan. The Bank's approaches to capital adequacy assessment for current and future operations are as follows: limitation of transaction volumes or portfolio sizes, as well as modelling of effect of transaction sizes on capital adequacy.

The table below presents regulatory capital on the basis of the Bank's financial statements (Form No. 0409808) prepared in accordance with the requirements of the Russian legislation:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Base capital sources	5,059,389	3,154,612
Amounts deducted from capital	(552,039)	(192,335)
Additional paid-in capital	3,095,285	3,473,530
Additional capital	-	247,713
<b>Total regulatory capital</b>	<b>7,602,635</b>	<b>6,683,520</b>

As at 31 December 2019 and 31 December 2018 all external capital requirements are met. As at 31 December 2019 own funds (capital) adequacy ratio N1.0 is 19.22% (31 December 2018: 27.72%).

## 25. Contingent liabilities

### *Litigations*

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not significantly effect on the financial position or future performance of the Bank. In the reporting period the Bank continued to act as a plaintiff in the processes not causing obligations to anybody. There are no essential judicial disputes. Legal and arbitration costs for 2019 amounted to RUB 631 thousand (2018: RUB 102 thousand).

### **Credit related commitments**

The primary purpose of these credit related commitments is to ensure that funds are available to a customer as required. Financial guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties.

Performance guarantees are represented by contracts which provide compensation payments in case a counterparty fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the guarantee contract is the risk that the other party will fail to perform the obligation set out in the contract. Claims should be submitted before the expiry of the contract, with most claims settled within a short period of time. This enables the Bank to achieve a high degree of certainty regarding settlement payments and, accordingly, future cash flows. The Bank manages these risks by continuously monitoring the level of payments for such products and the Bank can adjust its remuneration in the future to reflect changes in the payment of claims. The existing claims process includes the right to analyze a claim and reject fraudulent or improper claims.

Credit related commitments are presented as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Guarantees issued	16,056,723	696,325
Unused credit facilities	3,541,728	406,755
Unused limits on issue of guarantees	3,392,603	1,339,306
<b>Total credit related commitments</b>	<b>22,991,054</b>	<b>2,442,386</b>
Expected credit losses	(40,186)	(9,385)

As at 31 December 2019, unused limits on guarantees issue amounted to RUB 3,392,603 thousand. (31 December 2018: RUB 1,339,306 thousand). Unused limits on issue of guarantees are a revocable contingent liability, no credit losses are expected, and no allowance is created for unused limits on issue of guarantees.

The Bank also has commitments to issue loans and unused credit facility and overdraft limits. All these commitments are revocable. As at 31 December 2019 loan commitments in the amount of RUB 3,541,728 thousand (31 December 2018: RUB 406,755 thousand) represent unused credit facility limits of RUB 3,447,964 thousand (31 December 2018: unused credit facility limits to legal entities of RUB 174,565 thousand), unused limits on overdrafts to individuals in the amount of RUB 77,573 thousand (31 December 2018: RUB 74,548 thousand), and unused limits on provision of funds to resident banks in the amount of RUB 16,191 thousand (31 December 2018: RUB 157,642 thousand).

### **Insurance**

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection used in other countries are not yet generally available in the Russian Federation. The Bank does not have full coverage for its buildings and equipment, business operations interruption, or third parties liability in respect of property or environmental damage as a result of use of the Bank's property or in other cases relating to the Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material negative effect on the Bank's operations and financial position.

### **Tax contingencies**

In the course of its activities, management has to interpret and apply effective legal norms with regard to third party transactions and own activities. At present, the Russian tax law generally proceeds from how the transactions are documented and recorded in accounting under Russian accounting principles. Interpretation of the Russian tax laws by tax authorities as well as existing judicial practices, which are continuously undergoing changes, may in the future focus on the economic substance of a transaction rather than its form.

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The tax system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes calculation correctness is subject to review and investigation by a number of authorities which have powers to impose significant fines, penalties and interest charges. A tax year remains open for review by tax authorities during three subsequent calendar years. However, under certain circumstances, a tax year may remain open for a longer period. Any changes in the interpretation of legislation or its application practice occurring during this period, even if there are no changes in the Russian tax legislation, may be applied retrospectively.

Recent events in the Russian Federation suggest that tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income etc. These changes may potentially impact the Bank's tax position and create additional tax risks going forward. This legislation is still evolving, and the impact of legislative changes should be considered based on the actual circumstances.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities in these annual consolidated financial statements based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the Bank's annual consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Bank's Management believes that as at 31 December 2019 it interpreted the relevant provisions of the tax legislation accurately and it is highly likely that the Bank's status in terms of tax, currency and customs legislation will be preserved in the future.

#### **Pension payment**

Employees are entitled to pension benefits in accordance with the laws and regulations of the Russian Federation. As at 31 December 2019 and 31 December 2018, the Bank had no liabilities for any supplementary pension payments, post-retirement health care, insurance benefits, or other retirement benefits to its current or former employees.

#### **Loss allowance**

The following table shows reconciliations of the opening and the closing balances of the loss allowance for financial guarantee contracts and other contingencies.

	<b>2019</b>	<b>2018</b>
<b>Credit loss allowance at 1 January</b>	<b>(9,385)</b>	-
Net change in loss allowance	(30,801)	(9,385)
<b>Credit loss allowance at the end of the year</b>	<b>(40,186)</b>	<b>(9,385)</b>

#### **Credit quality analysis**

The following table sets out information about the credit quality of credit-related commitments measured at amortized cost as at 31 December 2019. The data are based on the Bank's internal ratings, the values of which are equivalent to the S&P scale. The amounts of loan commitments and financial guarantees contracts reflect the amounts of the corresponding obligations and guarantees issued.

	<b>31 December 2019</b>			
	<b>Non-financial guarantee contracts</b>	<b>Stage 1</b>	<b>Stage 3</b>	<b>Total</b>
<b>Non-financial guarantee contracts</b>	<b>13,638,823</b>	-		<b>13,638,823</b>
Rated between A+ and AA-	16,200	-	-	16,200
Rated between BBB+ and BBB-	894,794	-	-	894,794
Rated between BB+ and BB-	3,208,097	-	-	3,208,097
Rated between B+ and B-	3,518,319	-	-	3,518,319
Not rated	6,001,413	-		6,001,413
<b>Financial guarantee contracts</b>		<b>2,192,133</b>	<b>225,767</b>	<b>2,417,900</b>
Rated between BB+ and BB-		1,383,700		1,383,700
Rated between B+ and B-		808,433		808,433
Rated D	-	-	225,767	225,767

**31 December 2019**

	<b>Non-financial guarantee</b>			<b>Total</b>
	<b>contracts</b>	<b>Stage 1</b>	<b>Stage 3</b>	
<b>Unused credit facilities of legal entities, except for banks</b>	-	<b>3,447,964</b>	-	<b>3,447,964</b>
Rated between BB+ and BB-	-	2,790,097	-	2,790,097
Rated between B+ and B-	-	657,867	-	657,867
<b>Unused credit facilities of banks</b>	-	<b>16,191</b>	-	<b>16,191</b>
Rated between B+ and B-	-	16,191	-	16,191
<b>Loss allowance</b>	-	<b>(14,455)</b>	<b>(25,731)</b>	<b>(40,186)</b>
<b>Carrying amount</b>	-	<b>(14,455)</b>	<b>(25,731)</b>	<b>(40,186)</b>

The following table sets out information about the credit quality of credit-related commitments measured at amortized cost as at 31 December 2018.

**31 December 2018**

	<b>Non-financial guarantee</b>			<b>Total</b>
	<b>contracts</b>	<b>Stage 1</b>	<b>Stage 3</b>	
<b>Non-financial guarantee contracts</b>	<b>644,983</b>	-	-	<b>644,983</b>
Rated between BB+ and BB-	74,220	-	-	74,220
Rated between B+ and B-	428,849	-	-	428,849
Not rated	141,914	-	-	141,914
<b>Financial guarantee contracts</b>	-	<b>51,342</b>	-	<b>51,342</b>
Rated CCC	-	14,868	-	14,868
Not rated	-	36,474	-	36,474
<b>Unused credit facilities of banks</b>	-	<b>157,642</b>	-	<b>157,642</b>
Rated between BB+ and BB-	-	140,695	-	140,695
Rated between B+ and B-	-	16,947	-	16,947
<b>Loss allowance</b>	-	<b>(4,344)</b>	<b>(5,041)</b>	<b>(9,385)</b>
<b>Carrying amount (provision)</b>	-	<b>(4,344)</b>	<b>(5,041)</b>	<b>(9,385)</b>

## 26. Operating lease

The Bank entered into several operating lease agreements for non-residential premises and equipment for a period from six months to 5.5 years. In most cases, the lease agreements provide for the right to extend the lease agreements by automatic prolongation after the expiry of the agreement. Amounts of future lease payments under short-term leases and under low value lease agreements (2018: future minimum lease payments under operating lease agreements with no right of early termination) by periods when the bank acts as a lessee:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Up to 1 year	49	11,144
1 to 5 years	48	6,224
More than 5 years	11	1,555
	<b>108</b>	<b>18,923</b>

The Bank does not sublease property received under operating lease agreements.

Lease expenses for 2019 amounted to RUB 4,396 thousand and include short-term lease expenses in the amount of RUB 49 thousand, lease expenses for low value assets in the amount of RUB 95 thousand and variable lease payments not included in the measurement of lease liabilities on right-of-use assets in the amount of RUB 4,252 thousand.

Total lease payments recognized as expenses in the statement of profit or loss for 2018 amounted to RUB 21,529 thousand, including minimum lease payments of RUB 21,394 thousand and contingent lease payments of RUB 135 thousand. Lease payment for non-residential premises is established on the basis of the amount of rubles per square meter per month, indicating the total amount of lease payment per month, including value added tax of 20%. In most cases, lease agreements provide for the opportunity of increasing the lease payment on an annual basis.

Amounts of future minimum lease payments under operating lease agreements without the right of early termination by periods when the bank acts as a lessor are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Up to 1 year	243	255
	<b>243</b>	<b>255</b>

Leased property and equipment represent non-residential premises in the regions of the Russian Federation occupied by the Bank, some of which are leased out. Data on measurement bases, gross carrying value and accrued depreciation, useful lives and depreciation method are presented above in Note 3 by class of property and equipment "Buildings". Lease income for 2019 amounted to RUB 519 thousand (2018: RUB 552 thousand). As at 31 December 2019 and 31 December 2018 two property items were leased out. As at 31 December 2019 and 31 December 2018 valid lease agreements were concluded with related parties for up to one year with automatic prolongation.

## 27. Derivative financial instruments

Derivative financial instruments (DFIs) are measured at fair value through profit or loss.

The fair value of DFI recognized as assets or liabilities and their nominal contractual value as at 31 December 2019 are presented below. The nominal contractual value of a DFI represents the cost of the underlying asset of the DFI, provides a basis for changes in measurement of the DFI cost and indicates the volume of transactions that have not been settled at the end of the reporting period. All DFIs are presented with the foreign currency underlying asset.

### 31 December 2019

	Par value		Fair value	
	Asset	Liability	Asset	Liability
Options	396,162	396,477	2,920	2,923
Forwards	125,835	302,115	1,018	13,356
Swaps	-	123,811	-	-
<b>Total derivative financial assets/liabilities</b>	<b>521,997</b>	<b>822,403</b>	<b>3,938</b>	<b>16,279</b>

As at 31 December 2019, the nominal contractual value of a DFI (asset) in the amount of RUB 83,008 thousand and the nominal contractual value of a DFI (liability) in the amount of RUB 313,420 thousand with the fair value of a DFI (liability) in the amount of RUB 2,923 thousand are represented by options with a non-resident - a related party to the Bank with a maturity of up to 30 days.

The fair value of DFI recognized as assets or liabilities and their nominal contractual value as at 31 December 2018 are presented below. All DFIs were presented with the foreign currency underlying asset.

### 31 December 2018

	Par value		Fair value	
	Asset	Liability	Asset	Liability
Swaps	40,037,037	32,046,317	42,058	75,560
Forwards	1,981,859	1,614,526	32,351	1,314
Options	132,216	132,329	357	357
<b>Total derivative financial assets/liabilities</b>	<b>42,151,112</b>	<b>33,793,172</b>	<b>74,766</b>	<b>77,231</b>

As at 31 December 2018, the nominal contractual value of a DFI in the amount of RUB 41,865,912 thousand with the fair value of a DFI (liability) in the amount of RUB 22,200 thousand is represented by option with a non-resident - a related party to the Bank with a maturity of up to 30 days.

## **28. Financial risk management**

### **28.1. Information on risk management objectives and policies**

The risk management system is part of the Bank's overall management system and is aimed at ensuring the Bank's sustainable development within implementation of the development strategy approved by the Bank's Board of Directors. The risk management system is based on standards and instruments recommended by the Basel Committee on Banking Supervision.

As at 1 January 2020, the Bank's internal documentation establishing the procedures and methodologies for identifying, managing and stress-testing the Bank's significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the CBRF.

The Bank's risk management is organized on the basis of the "3 protection lines" principle:

- Risk-taking. Subdivisions that take risks should strive to achieve an optimal yield-risk ratio, follow the set development goals and yield-risk ratio, monitor risk decision-making, take into account customer risk profiles and recommendations of risk management units when performing operations/transactions, implement effective business processes, participate in risk identification and assessment processes, comply with the requirements of internal regulatory documents, including those related to risk management.
- Risk management issues Subdivisions responsible for risk management develop risk management standards, organize the risk management process, define principles, limits and restrictions, monitor the level of risks and generate reports, check compliance of the risk level with the established limits, including risk appetite, advise on risk management issues, develop risk assessment models, ensure identification and assessment of risks, calculate an aggregate risk assessment.
- Audit of the risk management system. The Internal Audit Department assesses the effectiveness of the risk management system and informs the Board of Directors and executive management bodies about identified deficiencies in the risk management system and actions taken to eliminate them.

The risk management system is aimed at limiting the risks taken by the Bank and identifying them in a timely manner. An annual procedure for identifying and assessing the risk significance is performed. In the event of significant changes in external environment that may affect the risk profile, unscheduled identification and assessment of risk significance may be performed. Significant risk management is integrated with the Bank's strategic planning and business planning, is performed considering planned business growth indicators and includes analysis of new risks (potential risks). The following types of risks have been identified as significant in 2019: credit risk, market risk, interest rate risk, operational risk and liquidity risk.

The Bank has a system of limits and restrictions which allow it to ensure an acceptable level of risk - Bank's risk appetite. The Bank considers the need to change its appetite for risk at least 1 (once) per year. If the economic situation changes and/or the CBRF changes the requirements to credit institutions (changes in the meaning of existing regulations and/or introduction of new ones, etc.), the risk appetite may be promptly reviewed.

Risk appetite covers all types of significant risks and lines of business. The system of risk appetite indicators consists of indicators:

- capital adequacy (aggregated assessment of all risks);
- specific quantitative indicators that restrict certain significant risks if additional restrictions are required on certain risk parameters in addition to capital adequacy indicators and a system of capital limits;
- qualitative indicators establishing upper-level requirements for risk and capital management, planning and stress testing.

Among the quantitative indicators of appetite for significant risks are:

- for credit risk - indicators of aggregate credit risk by respective types of credit products, namely, the ratio of NPL - overdue loan debt (overdue debt over 30 calendar days for legal entities/90 calendar days for individuals) to the total volume of the respective portfolio of claims; percentage of utilization of the planned capital limit (determined as the ratio of internal capital to the planned amount of capital established by the Bank's Development Strategy)
- for market risk - sensitivity of the Bank's assets and liabilities to changes in interest rates, changes in net interest income for the year (net interest income at risk, NIIaR), value at Risk (VaR) of the Bank's trading portfolio, value at Risk (VaR) of the Bank's open currency positions;
- for liquidity risk - mandatory liquidity ratios calculated in accordance with the requirement of Instruction No. 180-I and their signal values,



- for concentration risk - indicators of concentration risk on the largest borrowers (ratio of the Bank's requirements volume to the largest borrowers to the total loan portfolio and Bank's capital), indicators of concentration on borrowers (issuers) by types of economic activities, indicators characterizing portfolio concentration degree (Gerfindahl-Hirschman Index);
- for operational risk - amount of losses at performance of bank operations and other transactions as a result of events, number of operational risk events which did not lead to losses.

To determine exposure to possible external and internal shocks, the Bank performs regular stress-testing procedures. Stress testing is performed both in terms of individual and aggregated risks. In terms of organization, it is divided into "top-down" and "bottom-up" stress testing:

- "top-down" - assessment of influence of scenarios on financial and economic indicators of Bank by means of analysis of sensitivity of aggregated characteristics of assets and liabilities portfolios to changes in macroeconomic indicators;
- "bottom-up" - assessment of influence of scenarios on the main characteristics of risk level at the detailed level in terms of the selected risks and assessment on the basis of the received results and models of the Bank's potential losses, economic capital of the Bank, stress indicators of risk.

One of the scenarios is the main one and, in general, is based on the negative forecast of the economy and banking sector development; additional stress scenarios provide for stricter values of stress test parameters, including the stress forecast of the economy and banking sector development.

The Bank has defined the procedure and frequency of risk reporting, as well as the frequency of submitting reports for consideration of the Board of Directors and executive bodies. The reports on significant risks contain the following information: the aggregate volume of significant risks, as well as the accepted volumes of each significant risk, changes in the volume of significant risks and the impact of these changes on capital adequacy; the use of limits, the facts of the established limits, as well as the measures taken to settle identified violations, and other information on significant risks.

The Board of Directors and management bodies of the Bank have responsibility for controlling the Bank's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. In order to monitor the effectiveness of the Bank's risk management procedures and their consistent application the Board of Directors and its executive management bodies periodically discuss reports prepared by the Risk Directorate and Internal Audit Department, consider proposed corrective actions.

In 2019, changes were made to risk management processes and procedures, in particular:

- the Bank's risk and capital management strategy, the methodology for determining significant risks and capital adequacy and the regulation on the organization of credit risk management are updated;
- major risk management methods and procedures are updated.

The Bank manages all significant risks, which are identified by annual identification and assessment of significant risks. Significant risk management is integrated with the Bank's strategic planning and business planning, is performed considering planned business growth indicators and includes analysis of new risks (potential risks). The following types of risks have been identified as significant: credit risk, market risk, interest rate risk, operational risk and liquidity risk.

The Bank calculates mandatory ratios on a daily basis in accordance with the requirement of the CBRF. As at 31 December 2019 and 31 December 2018, the mandatory ratios of the Bank were in compliance with limits set by the CBRF.

Quantitative and qualitative information (taking into account the principle of proportionality) on significant types of risks inherent to the Bank and the reasons for their occurrence, as well as on methods of identification, measurement, monitoring and control over these risks is disclosed below.

## **28.2. Market risk**

One of the main types of risks affecting the Bank's operations is market risk.

Market risk is the risk that the Bank's income or the cost of its financial instruments will decrease due to adverse changes in foreign currency exchange rates, interest rates, share quotations and commodity prices.

Market risks include such types of risks as:

Stock market risk is the risk that the Bank's income or the cost of its financial instruments will decrease as a result of fluctuations in securities quotations caused by factors related both to the issuer of securities and to general fluctuations in market prices of securities.

Currency risk is the risk that the Bank's income or the cost of its financial instruments will decrease due to fluctuations in foreign exchange rates.

Interest rate risk is the risk that the Bank's income or the cost of its financial instruments will decrease due to changes in interest rates.

The objective of market risk management is to maintain the Bank's exposure to market risk at an acceptable level determined by the Bank in accordance with its business strategy. The priority is to ensure maximum safety of the Bank's assets and capital by reducing (excluding) potential losses and shortfalls in profits from the Bank's operations in financial markets, as well as other operations of the Bank related to taking the market risk.

The Bank's market risk management policy (strategy) includes:

- ensuring an integrated approach to market risk management;
- disclosure of general principles of market risk management;
- identification of market risks;
- disclosure of the main methods of market risk management;
- establishment of an information support and reporting system for market risk management;
- establishment of a system of authorities for market risk management.

The Market Risk Department of the Bank is responsible for market risk management. The main functions of this Department are as follows:

- implementation of market risk management rules and procedures;
- measurement and monitoring of market risk and control over compliance with market risk limits;
- preparation of reports on market risks of the Bank;
- participation in discussion of market risk management quality issues.

The process of market risk management consists of the following main stages:

- identification;
- assessment;
- monitoring;
- regulation;
- control;
- information support.

The main instrument for assessing market risks of the Bank's assets, liabilities and off-balance sheet instruments is the Gap-analysis methodology, within which gaps in assets and liabilities for different maturities, performance or revaluation of assets and liabilities are analyzed.

The main instrument for assessing the market risk of the trading portfolio, as well as currency risk of the net foreign exchange position, is the Value-at-Risk (VaR) methodology.

The effectiveness of market risk measurement models is regularly reviewed by the Internal Audit Department as part of the market risk model validation procedure.

Possibility of a higher losses occurring outside the established confidence level is measured separately using different stress-testing scenarios.

The market risk mitigation policy includes:

- Diversification of risk - allocation of the Bank's resources with a certain level of risk concentration in order to obtain the target level of income and maintain the amount of expected losses within acceptable parameters. Risk concentration may occur either for individual assets, liabilities and off-balance sheet instruments or based on the crossover of different risks.
- Limiting positions and transactions that involves setting limits on the amount of risk and then controlling their execution. Limits in each case reflect the Bank's readiness to take the appropriate risk. The Market Risk Department monitors compliance with internal market risk limits on a daily basis. Information on violations, if any, is communicated to the Management Board and the Board of Directors.
- The methodology of market risk management, including interest rate, equity and currency risks, is specified in the Regulations on Market Risk Management and other internal documents of the Bank.
- The level of risk taken is regularly checked for compliance with the established limits, as well as compliance with management decisions to minimize the Bank's market risk.
- Information support - submitting internal reports on the level of market risk taken by the Bank to internal and external users:
- The trading portfolio as the main source of market risks for the Bank is monitored on a daily basis. Following the results of weekly monitoring, the Assets and Liabilities Committee (hereinafter - ALCO) submits a weekly report on trading portfolio monitoring;

- the analysis of interest rate, currency and stock risk for compliance with the limits of market risks established by the Management Board of the Bank is performed as at the 1st date of each month. These reports are submitted to the Management Board of the Bank, Risk Director and heads of departments involved in the Bank's risk management;
- stress testing is performed once every six months based on recommendations of the CBRF. The results of the stress-testing are submitted to the ALCO members, the Bank's Management Board, Risk Director, as well as to the interested departments (the Bank's Treasury, Internal Audit Department);
- once a quarter a comprehensive opinion on the market risk levels assumed by the Bank is prepared. This opinion is submitted to the Board of Directors and Management Board of the Bank;
- if necessary, recommendations for optimization of accepted market risks are developed, and certain products are examined for potential market risks.

#### Market risk

Market risk is assessed by the following three areas:

1. Assessment and control of currency risk of the Bank's balance sheet structure. The system forming element is the concept of an open currency position recognizing the aggregate gap between the balance sheet and off-balance sheet claims and liabilities denominated in the respective foreign currency or the amount of which depends on the exchange rate of the respective foreign currency.

In the course of analyzing the value of the current open currency position and forecasting the future value of the open currency position with the current volatility of currency rates, the requirements of the CBRF for calculation and control of the open currency position are applied. Position exposed to currency risk (percentage of total open positions and own funds (capital)) as at 31 December 2019 is less than 0.8% of capital, which does not exceed the limit set by the CBRF of 20% of the Bank's capital.

Stress testing of the Bank's foreign currency assets and liabilities is performed at least twice a year under scenarios describing extreme changes in currency rates. The stress testing is performed to calculate the impact of possible shock scenarios of changes in foreign currency rates on the Bank's financial performance.

In the course of analysis of probable losses in case of critical changes in currency rates (sensitivity of the Bank to negative changes in currency rates), internal models are used for certain components of the open currency position, which allow to estimate the Bank's exposure to the risk of changes in foreign currency rates. The Bank's Branch has sub-limits for open currency positions as a percentage of the Bank's capital both for individual currencies and for the total currency position.

2. Interest rate risk assessment and control applied by the Bank. They include two fundamentally different approaches to assessing exposure of the Bank's balance sheet structure to interest rate risk.

Within the first approach, GAP-analysis, the exposure of the Bank's net interest income to changes in market interest rate in the short term (up to 1 year) is assessed. It is assumed that imbalance of the Bank's claims and liabilities in terms of maturity/revision of interest rates leads to the risk of a decrease in net interest income due to subsequent placement/raising of funds under various market conditions.

Under the second approach, a sensitivity analysis of market interest rates by duration is performed to assess the exposure of the fair value of the Bank's claims and liabilities (economic capital) to the risk of changes in market interest rates.

3. Assessment of the stock market risk of the Bank's trading portfolio. The methods of assessment determine the list of instruments exposed to stock market risk. The Value-at-Risk (VaR) methodology is accepted as the main stock market risk assessment method.

#### Interest rate risk

In accordance with 511-P, interest rate risk is the market risk of securities and derivatives sensitive to interest rate changes.

In a broader sense, interest rate risk is the risk of adverse changes in the financial position of the Bank resulting from reduction in capital, income, value of assets due to changes in the market interest rates.

The main sources of interest rate risk are:

- differences in maturities of assets, liabilities and off-balance sheet claims and liabilities on instruments with a fixed interest rate;
- differences in maturities of assets, liabilities and off-balance sheet claims and liabilities on instruments with variable interest rate (interest rate risk);
- changes in configuration of the yield curve for long and short positions on financial instruments of the same issuer, creating the risk of losses due to excess of potential expenses over income at closing these positions (yield curve risk);

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- for financial instruments with a fixed interest rate, provided that their maturity dates coincide - a mismatch of the degree of change in interest rates for resources attracted and placed by the Bank; for financial instruments with a variable interest rate, provided that the frequency of floating interest rate revision is the same - a difference in the degree of change in interest rates (basic risk);

The Bank is exposed to the impact of fluctuations of prevailing market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk analysis as at 31 December 2019:

<b>31 December 2019</b>							
	<b>Total carrying amount</b>	<b>Less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>Over 1 year</b>	<b>Interest-free</b>
<b>Financial assets</b>							
Cash and cash equivalents	7,065,221	382,124	-	-	-	-	6,683,097
Mandatory reserves in the CBRF	545,478	-	-	-	-	-	545,478
Amounts due from banks and other financial institutions	43,811,355	38,729,430	5,000,000	-	-	-	81,925
Loans to customers	9,890,743	25,046	770,949	1,968,749	2,483,242	3,796,449	846,308
Financial assets measured at FVOCI	9,039,124	1,014	4,033,280	1,067,185	-	3,937,645	-
Other financial assets	233,616	-	-	-	-	-	233,616
<b>Total financial assets</b>	<b>70,585,537</b>	<b>39,137,614</b>	<b>9,804,229</b>	<b>3,035,934</b>	<b>2,483,242</b>	<b>7,734,094</b>	<b>8,390,424</b>
<b>Financial liabilities</b>							
Amounts due to credit institutions	12,181,750	9,600,000	2,570,000	-	-	-	11,750
Amounts due to customers	49,608,615	5,495,188	5,242,973	7,154,216	4,577,873	1,246,909	25,891,456
Other financial liabilities	822,764	-	-	-	-	-	822,764
<b>Total financial liabilities</b>	<b>62,613,129</b>	<b>15,095,188</b>	<b>7,812,973</b>	<b>7,154,216</b>	<b>4,577,873</b>	<b>1,246,909</b>	<b>26,725,970</b>
<b>Net position</b>	<b>7,972,408</b>	<b>24,042,426</b>	<b>1,991,256</b>	<b>(4,118,282)</b>	<b>(2,094,631)</b>	<b>6,487,185</b>	<b>(18,335,546)</b>

Interest rate risk analysis as at 31 December 2018 (restated):

<b>31 December 2018</b>							
	<b>Total carrying amount</b>	<b>Less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>Over 1 year</b>	<b>Interest-free</b>
<b>Financial assets</b>							
Cash and cash equivalents	12,544,060	4,916,308	-	-	-	-	7,627,752
Mandatory reserves in the CBRF	512,411	-	-	-	-	-	512,411
Amounts due from banks and other financial institutions	30,783,149	30,763,939	-	-	-	-	19,210
Loans to customers	3,545,935	246,520	573,472	730,714	66,304	1,867,988	60,937
Financial assets measured at FVOCI	13,741,869	-	-	786,664	-	12,955,205	-
Other financial assets	46,351	-	-	-	-	-	46,351
<b>Total financial assets</b>	<b>61,173,775</b>	<b>35,926,767</b>	<b>573,472</b>	<b>1,517,378</b>	<b>66,304</b>	<b>14,823,193</b>	<b>8,266,661</b>
<b>Financial liabilities</b>							
Amounts due to credit institutions	7,617,241	4,991,322	-	2,500,000	-	-	125,919
Amounts due to customers	45,007,347	4,984,229	2,680,523	3,914,183	8,052,552	581,137	24,794,723
Other financial liabilities	1,427,306	-	-	-	-	-	1,427,306
<b>Total financial liabilities</b>	<b>54,051,894</b>	<b>9,975,551</b>	<b>2,680,523</b>	<b>6,414,183</b>	<b>8,052,552</b>	<b>581,137</b>	<b>26,347,948</b>
<b>Net position</b>	<b>7,121,881</b>	<b>25,951,216</b>	<b>(2,107,051)</b>	<b>(4,896,805)</b>	<b>(7,986,248)</b>	<b>14,242,056</b>	<b>(18,081,287)</b>

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Interest rate risk is predominantly managed by monitoring of interest rate changes. The following table provides an analysis of interest rates on loans and advances to customers in effect as at 31 December 2019 and 31 December 2018:

per cent per annum	31 December 2019			31 December 2018		
	RUB	USD	EUR	RUB	USD	EUR
<b>Financial assets</b>						
Amounts due from banks and other financial institutions	6.61	-	-	7.80	-	-
Financial assets measured at FVOCI	6.43	5.99	3.17	2.85	6.11	-
Loans to customers, including:	10.95	4.86	-	10.49	-	-
legal entities	10.75	4.86	-	10.31	-	-
individuals	14.17	-	-	14.03	-	-
<b>Financial liabilities</b>						
Amounts due to banks and other credit institutions	6.14	-	-	6.80	-	-
Due to customers, term:	6.34	1.77	2.63	6.88	2.17	1.45
deposits of legal entities	7.18	2.54	6.20	8.43	3.60	4.89
term deposits of individuals	6.23	1.70	0.34	6.71	1.98	0.51

As at 31 December 2019, one of the main sources of interest rate risk for the Bank are investments in bonds of the CBRF and corporate Eurobonds of Russian issuers denominated in USD and EUR. As at 31 December 2019, bonds of the CBRF amounted to RUB 4.03 billion, representing 44.58% of the Bank's securities portfolio; corporate Eurobonds denominated in USD and EUR amounted to RUB 2.97 billion and RUB 1.74 billion, respectively, representing 32.86% and 19.25% of the Bank's securities portfolio.

As at 31 December 2018, one of the main sources of interest risk for the Bank were investments in USD-denominated medium-term corporate Eurobonds of Russian issuers and Russian federal loan bonds. As at 31 December 2018, corporate Eurobonds denominated in USD amounted to RUB 6.06 billion and OFZ amounted to RUB 6.57 billion, representing 44.10% and 47.81% of the Bank's trading portfolio, respectively.

GAP-analysis of assets and liabilities is performed on a monthly basis. The analysis of the balance of interest-bearing assets and liabilities is performed to identify potential sources of risk arising from the mismatch of requirements and obligations for interest-bearing instruments with different maturity, as well as to measure the degree to which the Bank's net interest income is exposed to the risk of changes in market interest rates in the short term and to develop recommendations on how to manage the structure of the Bank's balance sheet structure to minimize probable losses.

The procedure of GAP-analysis includes:

- preparing a balance of assets and liabilities with breakdown by interest bearing and non-interest bearing assets and liabilities. Breakdown of various assets and liabilities exposed to interest rate risk into groups of financial instruments and by maturity / rate revision;
- calculation of internationally accepted indicators of the Bank's net interest income exposure to market interest rate risk;
- analysis of the efficiency of the Bank's interest rate policy by means of a comparative analysis of weighted average interest rates by types of borrowed and placed resources by currencies and maturity groups.

In accordance with recommendations of the Basel Committee on Banking Supervision and the CBRF, different types of assets and liabilities are divided as per time intervals and carrying amounts.

Sensitivity analysis of net interest income to changes in interest rates (risk of interest rate review) based on a simplified scenario of a 100 basis point (bp) parallel shift in yield curves (raise or fall) and revised positions of interest bearing assets and liabilities as at 31 December 2019 and 31 December 2018 is as follows:

	2019	2018
100 bp parallel fall	(216,412)	(175,653)
100 bp parallel rise	216,412	175,653

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A sensitivity analysis of the economic value of capital to changes in the fair value of financial assets measured at fair value through other comprehensive income due to changes in interest rates based on a simplified scenario of a 100 basis point (bp) parallel shift in yield curves (raise or fall) (based on positions effective as at 31 December 2019 and 31 December 2018) is as follows:

	<b>2019, Capital</b>	<b>2018, Capital</b>
100 bp parallel fall	95,525	414,074
100 bp parallel rise	(95,525)	(414,074)

As at 31 December 2019, the debt securities portfolio consists of:

<i>Issuer</i>	<b>Present value</b>	<b>Sensitivity to change of % rate by 1 bp</b>
Bonds of the CBRF, RUB, Russia	4,034,294	3,549
Corporate Eurobonds, USD, Russia	2,965,942	62,146
Corporate Eurobonds, EUR, Russia	1,740,566	22,826
Bonds of banks, RUB, Russia	287,456	6,376
OFZ, RUB, Russia	10,866	628
<b>Total</b>	<b>9,039,124</b>	<b>95,525</b>

As at 31 December 2018, the debt securities portfolio consists of:

<i>Issuer</i>	<b>Present value</b>	<b>Sensitivity to change of % rate by 1 bp</b>
Corporate bonds, Russia	542,248	1,163
Corporate Eurobonds, USD, Russia	6,062,318	161,331
Government Eurobonds, USD, Russia	568,544	35,410
OFZ, RUB, Russia	6,568,759	216,170
<b>Total</b>	<b>13,741,869</b>	<b>414,074</b>

As at 31 December 2019 the fair value sensitivity to changes in interest rates of debt securities measured at fair value amounts to RUB 95,525 thousand with a weighted average portfolio duration of 1.07 years. As at 31 December 2018 the fair value sensitivity to changes in interest rates of debt securities measured at fair value amounts to RUB 414,074 thousand with a weighted average portfolio duration of 3.17 years.

### Currency risk

The currency structure of financial assets and liabilities as at 31 December 2019:

	<b>RUB</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	4,456,805	1,428,725	897,982	281,709	7,065,221
Mandatory reserves in the CBRF	545,478	-	-	-	545,478
Financial assets held-for-trading	12,319	-	-	-	12,319
Amounts due from banks and other financial institutions	43,811,355	-	-	-	43,811,355
Loans to customers	9,524,162	366,581	-	-	9,890,743
Financial assets measured at FVOCI	4,332,616	2,965,942	1,740,566	-	9,039,124
Investments in subsidiaries and associates	8	-	-	-	8
Other financial assets	182,736	41,985	8,895	-	233,616
<b>Total assets</b>	<b>62,865,479</b>	<b>4,803,233</b>	<b>2,647,443</b>	<b>281,709</b>	<b>70,597,864</b>

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	RUB	USD	EUR	Other currencies	Total
<b>LIABILITIES</b>					
Amounts due to banks and other credit institutions	12,174,104	7,646	-	-	12,181,750
Amounts due to customers	25,030,424	18,773,352	5,290,511	514,328	49,608,615
Financial liabilities held-for-trading	16,279	-	-	-	16,279
Other liabilities	687,963	134,350	451	-	822,764
<b>Total liabilities</b>	<b>37,908,770</b>	<b>18,915,348</b>	<b>5,290,962</b>	<b>514,328</b>	<b>62,629,408</b>
<b>Net position</b>	<b>24,956,709</b>	<b>(14,112,115)</b>	<b>(2,643,519)</b>	<b>(232,619)</b>	<b>7,968,456</b>
<b>Effect of derivative financial instruments</b>	<b>(20,182,811)</b>	<b>17,226,660</b>	<b>2,635,762</b>	<b>250,095</b>	<b>(70,294)</b>
<b>Net position taking into account the effect of derivative financial instruments</b>	<b>4,773,898</b>	<b>3,114,545</b>	<b>(7,757)</b>	<b>17,476</b>	<b>7,898,162</b>

The currency structure of financial assets and liabilities as at 31 December 2018 (restated):

	RUB	USD	EUR	Other currencies	Total
<b>ASSETS</b>					
Cash and cash equivalents	2,793,877	6,324,582	3,224,718	200,883	12,544,060
Mandatory reserves in the CBRF	512,411	-	-	-	512,411
Financial assets held-for-trading	80,906	-	-	-	80,906
Amounts due from banks and other financial institutions	30,783,149	-	-	-	30,783,149
Loans to customers	3,545,935	-	-	-	3,545,935
Financial assets measured at FVOCI	4,904,575	5,031,522	-	-	9,936,097
Financial assets measured at FVOCI (encumbered)	2,206,431	1,599,341	-	-	3,805,772
Other assets	7,596	37,287	1,468	-	46,351
<b>Total assets</b>	<b>44,834,880</b>	<b>12,992,732</b>	<b>3,226,186</b>	<b>200,883</b>	<b>61,254,681</b>
<b>LIABILITIES</b>					
Amounts due to banks and other credit institutions	7,608,362	7,487	1,392	-	7,617,241
Amounts due to customers	23,969,344	17,110,385	3,553,942	373,676	45,007,347
Financial liabilities held-for-trading	77,231	-	-	-	77,231
Other liabilities	324,322	786,333	175,389	141,262	1,427,306
<b>Total liabilities</b>	<b>31,979,259</b>	<b>17,904,205</b>	<b>3,730,723</b>	<b>514,938</b>	<b>54,129,125</b>
<b>Net position</b>	<b>12,855,621</b>	<b>(4,911,473)</b>	<b>(504,537)</b>	<b>(314,055)</b>	<b>7,125,556</b>
<b>Effect of derivative financial instruments</b>	<b>(9,374,515)</b>	<b>8,514,219</b>	<b>518,470</b>	<b>335,831</b>	<b>(5,995)</b>
<b>Net position taking into account the effect of derivative financial instruments</b>	<b>3,481,106</b>	<b>3,602,746</b>	<b>13,933</b>	<b>21,776</b>	<b>7,119,561</b>

A weakening of the RUB, as indicated below, against the following currencies at 31 December 2019 and 31 December 2018, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, especially interest rates, remain unchanged.

	2019	2018 (restated)
10% growth of the USD/RUB exchange rate	311,455	360,275
10% growth of the EUR/RUB exchange rate	(776)	1,393

A strengthening of the RUB against the above currencies at 31 January 2019 and 31 December 2018 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remained constant.

## 28.3. Credit risk

The Bank defines credit risk as the probability that the Bank will incur losses as a result of non-fulfillment, untimely or incomplete fulfillment of financial obligations by a client or counterparty of the Bank in accordance with the terms of the contract concluded with the Bank. The purpose of credit risk management is to maintain the risk taken by the Bank at a level determined by the Bank in accordance with its own strategic objectives. The priority is to maintain an optimal ratio of credit risk, required profitability and volume of operations performed by the Bank.

Subdivisions responsible for credit risk management are included in:

- Risk Management Department;
- Corporate Security Department;
- Operational Department of Banking Business.

Additionally, the Retail Credit Committee, the Credit and Investment Committee, the Management Board and the Board of Directors participate in the credit risk management process. The Retail Credit Committee of the Bank takes a decision on the amount and terms of provision of resources for operations to individuals in accordance with the authorities defined in the Regulations on the Retail Credit Committee of the Bank. The Credit and Investment Committee of the Bank takes a decision on placement of resources/ establishing limits on volumes and terms of operations (transactions) in accordance with the authorities determined by the Regulations on the Credit and Investment Committee of the Bank. The Board of Directors of the Bank approves risk management procedures, including credit risk, and exercises control over implementation of these procedures as part of approval of the risk management strategy and the procedure for managing the most significant risks for the Bank in accordance with the authorities delegated to the Board of Directors by the Bank's Charter. The Management Board and the Sole Executive Body of the Bank approve credit risk management procedures and stress-testing procedures for credit risk factors, ensure that these procedures are followed and that the need to amend the prepared documents is considered at least once a year.

Subdivisions managing the credit risk perform the following:

- forming professional judgments on the level of credit risk of the Bank's borrowers and / or counterparties (issuers), as well as the possibility of its taking (with the definition of the appropriate limits on transactions with borrowers and counterparties (issuers)), for approval by the relevant committees; on the size of the estimated allowance and the amount of possible losses (on loans, loan and similar debt) on the elements of the allowance calculation base;
- collection of information and documents confirming the presence (absence) of factors affecting classification of the allowance calculation base elements, assessment of these factors;
- forming and maintaining files for each counterparty (borrower, issuer), the Bank's claims to which are not included in the portfolio of homogeneous claims (loans), as well as files by each portfolio of homogeneous claims (loans); timely forming of orders for creation (reversal) of allowances for possible losses (for loans, loan and similar debt, as well as claims to counterparties (issuers)) in accordance with the category of quality and size of the allowance determined in professional judgment (possible loss allowance (PLA) and possible loan loss allowance (PLLA)); collection of information and assessment of the level of credit risks within monitoring (monthly/quarterly), preparation of professional judgments on the level of credit risk, amount of possible losses (on loans, loan and similar debt, as well as on the requirements to the counterparties (issuers));
- collection of information and assessment within monitoring (quarterly) of the actual availability, condition and market value of collateral accepted as collateral for the Bank's requirements to borrowers and counterparties (issuers);
- development of internal documents reflecting the Bank's procedure for creating allowances for possible losses, the procedure for assessing the financial position of the counterparty, the Bank's Credit Policy, documents within the Internal Capital Adequacy Assessment Procedures (hereinafter - "ICAAP") of the Bank and credit risk management in accordance with the requirements of regulatory acts of the CBRF;
- stress-testing of the Bank's loan portfolio, generation of monthly and quarterly reports on credit risk for the Bank's collegial management bodies as part of the ICAAP.

As part of improving the Bank's internal regulatory framework, the following changes were made to the Bank's credit risk management policy during 2019:

- a new version of the Credit Policy was adopted;
- a new version of the Bank's Risk and Capital Management Strategy was approved;
- a new version of the Regulation on organization of credit risk management was approved;
- a new version of the Methodology for assessing the financial position of legal entities and individual entrepreneurs was approved;
- a new Methodology for calculating limits on issuers and counterparties - non-credit organizations was approved;
- a new version of the Regulation on PLLA of the Bank was approved.

Main provisions of the credit risk management strategy:

The Bank manages credit risks by assessing the level of expected losses, setting limits, monitoring and controlling the level of credit risk, attracting collateral, creating allowances for possible losses, as well as by detailed regulation of the decision-making procedure for granting loans, namely: analysis of the borrower's and guarantor's solvency, inspection by the Bank's Economic



Security Department, allocation of decision-making authorities for loans, improvement of quality and liquidity of collateral, insurance of collateral, monitoring of loan agreements, acceptance of documents indicating forms and terms of loans provision.

Summary of credit risk management procedures:

The Bank has approved the list of documents requested from clients when considering granting a loan, which allows collecting complex information on the risk level of a planned operation. At the same time, the Bank defines a set of requirements and restrictions (stop-parameters), which allow selecting and rejecting loan applications with unreasonably high credit risk based on general positions at early stages. The Bank has established that the collateral value of property and property rights provided as collateral for a loan is a secondary source of repayment of the principal of the loan product, interest and expenses of the Bank on enforcement of the collateral.

Credit risk mitigation policy: in order to ensure repayment of loans and maximum reduction of credit risks, the Bank uses several types of collateral under one loan obligation, giving preference to those that guarantee repayment of the loan to a greater extent. Sureties of business owners and registration of the right for non-acceptance write-off of funds from accounts of a client, legal entity, are used as additional collateral.

The conclusion on the possibility of granting the limit to a Bank's counterparty is drawn up on the basis of the initial selection of clients according to a number of formalized parameters followed by a comprehensive analysis, assessment of its sustainability and solvency, as well as a positive credit history and compliance of the counterparty with the target industry segments and other restrictions established by the Bank's Credit Policy.

The Bank assesses credit risk and sets limits on transactions with counterparties in accordance with the Methodology for calculating limits for credit institutions and the Methodology for calculating limits for issuers and counterparties - non-credit institutions. The Methodologies contain principles for assessing the financial position of counterparties, determining the size of allowances for possible losses, the procedure for calculating, setting and controlling limits on various types of transactions with counterparties.

Interbank loans are granted within risk limits approved by the Credit and Investment Committee (CIC), based on the analysis of financial position of counterparty banks in accordance with the Methodology for calculating limits for credit institutions. Monitoring of the financial position of the banks-counterparties for which the basic limit is set is performed on a monthly basis.

Loans to corporate borrowers - non-credit institutions are granted within the risk limits approved by the Credit and Investment Committee (CIC) based on the conclusions prepared by the Bank's specialized services, as well as the analysis of the financial condition of a corporate borrower in accordance with the Methodology for assessing the financial condition of legal entities and individual entrepreneurs, taking into account the restrictions imposed by the Bank's Credit Policy.

Lending to individuals under retail lending programs, as well as taking a decision to provide the product "electronic bank guarantees" to the participants of the state order market and small business clients is performed on the basis of standard procedures and rules for Customer and transaction structure assessment. During the assessment, the data provided by the Customer is verified by the Economic Security Service, the Underwriting and Verification Department, requests to external data sources are made with subsequent analysis of the data received (to the Bureau of Credit Histories, Federal Bailiff Service, Federal Migration Service), as well as a scoring assessment of the borrower's risk is performed, etc.

The Bank has defined the conditions under which a decision on approval of an individual's loan application is taken, namely, there are no deviations from the loan conditions, there is a positive opinion of an underwriter, a positive opinion of the Economic Security Department, limits are set on the loan amount, no real estate pledge is provided. Decisions on granting loan products as per individuals' loan applications considered under retail lending programs that do not meet the above criteria, as well as decisions on granting the product "electronic bank guarantees" to participants of the state order market, small business customers, are taken by a persons responsible for decision making, who are delegated these authorities by the Bank's collegial body. At the same time, a mandatory condition for making such a decision is that there are no deviations from standard requirements for a customer and/or transaction structure, no signs of increased risk, positive conclusions of the Bank's services involved in a transaction analysis process and no deviations from standard procedures and rules.

For transactions that have deviations from standard procedures and/or transactions that involve increased risk, the decision is made by the Bank's collegial bodies.

When analyzing, controlling and managing credit risk concentration, criteria for legal and economic relations of borrowers are identified, followed by maintaining a list of groups of related borrowers. In addition, the parameters defined by the Risk and Capital Management Strategy of the Bank in terms of limiting various types of credit risk concentration (the same types of activities, borrower's collateral, assessment of the level of concentration risk in relation to individual large counterparties (borrowers) are monitored with the established frequency.

In accordance with the current regulations, the Bank establishes allowances for possible losses on loans, loan and similar debts. In addition to the credit risk assessment methods applied, the Bank has developed a Methodology for assessing credit risk on loans granted to borrowers-developers using escrow accounts.

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For the purpose of early identification of signs of financial difficulties of a customer and taking measures to protect the Bank's interests, the Bank's credit department employees regularly monitor quality and repayment of loans. In case of occurrence of overdue debts, the Bank's economic security service, as well as specialists of collateral and legal departments are involved in the process.

The Internal Audit Department continuously monitors loans with a high credit risk (over 5% of the Bank's own funds (capital)) and loans to the Bank's related parties that constitute 1% or more of the Bank's own funds (capital).

The following are the ratios of maximum exposure per borrower or group of related borrowers (N6) and maximum exposure to major credit risks (N7) and maximum exposure to related party risk (N25) as at the reporting dates of 2019 and 2018 year:

Standard value	Maximum value set by the CBRF	31 December 2019	31 December 2018
N6	less than 25%	18.80%	16.15%
N7	less than 800%	275.20%	110.25%
N25	less than 20%	6.47%	12.12%

Composition and frequency of the Bank's internal reporting on credit risk.

The Credit Portfolio and the Securities Portfolio are prepared on a daily basis (on working days) and on a monthly basis; the List of groups of related borrowers and lenders is maintained on a constant basis; the report on observance of established limits for counterparties (issuers) is prepared on a daily basis; the report on the credit risk level of the Bank and the report on the risk appetite indicators level of the Bank in respect of the credit risk and concentration risk is prepared on a monthly/quarterly basis; the report on stress-testing of the credit portfolio is prepared on an annual basis. The quality category and percentage of reserve for loans subject to additional control in accordance with the requirements of CBRF Regulation No. 590-P are reviewed and approved at a monthly meeting of the Bank's Credit and Investment Committee.

#### **Offsetting of financial assets and liabilities**

The disclosures presented in the tables below include information on financial assets and financial liabilities that:

- are offset in the statement of financial position of the Bank or
- are subject to a legally effective master netting agreement or similar agreements that apply to similar financial instruments, regardless of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Information on such financial instruments as loans and deposits is not disclosed in the tables below, except for the cases when they are set in the statement of financial position. The Bank enters into transactions with derivatives that are not traded on the exchange through its central counterparty. Management believes that such agreements are substantially equivalent to offsetting and that the Bank qualifies for offsetting because the full settlement mechanism has features that exclude or minimize credit and liquidity risks, thus the Bank will be able to settle accounts receivable and payable within a single settlement process or cycle.

The Bank receives and accepts collateral in the form of cash and securities traded in the market regarding the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements; and
- securities lending and borrowing.

Such agreements are subject to the standard terms of the Credit Support Annex of the International Swaps and Derivatives Association (ISDA). This means that the specified securities received as collateral / pledged may be pledged or sold during the term of the transaction, but should be returned before the maturity date of the transaction. The terms of the transaction also provide each counterparty with the right to terminate the relevant transactions as a result of the counterparty's inability to provide security.

The following table shows the financial assets and financial liabilities that are subject to legally valid general offset agreements and similar agreements as at 31 December 2019.

Types of financial assets/financial liabilities	Full amounts of recognized financial assets/financial liabilities	Gross amount of recognized financial assets/financial liabilities offset in the statement of financial position	Net amount of financial assets/financial liabilities in the statement of financial position	Amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Derivative assets held-for-trading	969	-	969	(969)	-	-
Reverse repurchase agreements, agreements on securities borrowing or similar agreements	43,811,355	-	43,811,355	(43,811,355)	-	-
<b>Total financial assets</b>	<b>43,812,324</b>	-	<b>43,812,324</b>	<b>(43,812,324)</b>	-	-
Derivative liabilities held-for-trading	(16,272)	-	(16,272)	16,272	-	-
Repurchase agreements, agreements on securities lending or similar agreements	(9,501,588)	-	(9,501,588)	9,501,588	-	-
<b>Total financial liabilities</b>	<b>(9,517,860)</b>	-	<b>(9,517,860)</b>	<b>9,517,860</b>	-	-

The following table shows the financial assets and financial liabilities that are subject to legally valid general offset agreements and similar agreements as at 31 December 2018.

Types of financial assets/financial liabilities	Full amounts of recognized financial assets/financial liabilities	Gross amount of recognized financial assets/financial liabilities offset in the statement of financial position	Net amount of financial assets/financial liabilities in the statement of financial position	Amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Derivative assets held-for-trading	74,674	-	74,674	(74,674)	-	-
Reverse repurchase agreements, agreements on securities borrowing or similar agreements	30,783,149	-	30,783,149	(30,783,149)	-	-
<b>Total financial assets</b>	<b>30,857,823</b>	-	<b>30,857,823</b>	<b>(30,857,823)</b>	-	-
Derivative liabilities held-for-trading	(77,147)	-	(77,147)	77,147	-	-
Repurchase agreements, agreements on securities lending or similar agreements	(4,993,829)	-	(4,993,829)	4,993,829	-	-
<b>Total financial liabilities</b>	<b>(5,070,976)</b>	-	<b>(5,070,976)</b>	<b>5,070,976</b>	-	-

The full amounts of financial assets and financial liabilities and their net amounts presented in the statement of financial position and disclosed in the tables above are measured in the statement of financial position on the following basis:

- Derivative assets and financial liabilities - fair value;
- Assets and liabilities arising from "repo", "reverse repo", agreements on borrowing and lending of securities - amortized cost.

The amounts shown in the tables above, which are offset in the statement of financial position, are measured on a similar basis.

The table below presents a reconciliation of the net amounts of financial assets and financial liabilities presented in the statement of financial position as previously presented and the amounts presented in the statement of financial position as at 31 December 2019.

Types of financial assets/financial liabilities	Net amount	Line item in the statement of financial position	Carrying amount in the statement of financial position	Financial asset/financial liability not in the scope of offsetting disclosure	Note
Derivative assets held-for-trading	969	Financial assets at FVTPL	3,938	2,969	27
Repurchase and reverse repurchase agreements	43,729,430	Net loan measured at amortized cost	43,729,430	-	7
Derivative liabilities held-for-trading	(16,272)	Financial liabilities held-for-trading	(16,279)	(7)	27
Sale and repurchase agreements	(9,501,588)	Amounts due to credit institutions	(9,501,588)	-	13

The table below presents a reconciliation of the net amounts of financial assets and financial liabilities presented in the statement of financial position as previously presented and the amounts presented in the statement of financial position as at 31 December 2018.

<b>Types of financial assets/financial liabilities</b>	<b>Net amount</b>	<b>Line item in the statement of financial position</b>	<b>Carrying amount in the statement of financial position</b>	<b>Financial asset/financial liability not in the scope of offsetting disclosure</b>	<b>Note</b>
Derivative assets held-for-trading	74,674	Financial assets held-for-trading	74,766	92	27
Repurchase and reverse repurchase agreements	30,783,149	Amounts due from banks and other financial institutions	30,783,149	-	7
Derivative liabilities held-for-trading	(77,147)	Financial liabilities held-for-trading	(77,231)	(84)	27
Sale and repurchase agreements	(4,993,829)	Amounts due to banks and other credit institutions	(4,993,829)	-	13

## 28.4. Liquidity risk

Liquidity risk is the risk of the Bank's inability to ensure timely performance of its obligations in full without incurring losses in an amount that threatens its financial stability due to the imbalance of financial assets and financial liabilities and/or the unforeseen need for the Bank to immediately and once fulfill its financial obligations.

The objective of liquidity risk management is to ensure the Bank's ability to perform its liabilities in a timely and full manner. Liquidity risk management procedures consider the following factors that may occur:

- structural liquidity risk resulting from mismatch between amounts and dates of cash inflows and outflows;
- risk of unforeseen liquidity requirements, i.e. consequence that unforeseen events in the future may require greater resources than foreseen;
- market liquidity risk, i.e., possibility of losses upon disposal of assets or inability to close an existing position due to insufficient market liquidity or limited market access;
- the risk of concentration of a passive base arising in case of simultaneous request for repayment of funds (deposits, funds from current accounts) by several large creditors of the Bank;
- operational liquidity risk (impossibility for the Bank to fulfill its current obligations in due time due to the existing structure of current additions and write-offs of funds);
- funding risk (adverse changes in funding costs (own and market credit spreads) affecting the Bank's future income).

The liquidity risk of the Bank is managed on three levels ("protection lines"):

- Risk-taking. Level of risk owners who directly perform business processes and manage risks associated with them (responsible subdivision - Treasury)
- Risk management. Level of subdivisions performing methodological and control functions for risk management (including development and implementation of common approaches and methodologies for risk management, development of limits and restrictions, verification of compliance of the risk level with the appetite for risk, risk level monitoring and reporting) (responsible subdivision - Risk Management Department)
- Independent assessment. Level of subdivisions performing internal audit functions (responsible subdivision - Internal Control Department).

Additionally, the Assets and Liabilities Committee (ALCO), the Bank's Management Board and the Board of Directors participate in the liquidity risk management process. The ALCO approves liquidity risk assessment methods, sets internal liquidity risk metrics and limits on them, sets placement, attraction and funding rates and performs other functions. The Board of Directors approves the Bank's Risk and Capital Management Strategy, monitors compliance with the Bank's risk appetite and achievement of target risk levels, considers stress-testing results, and performs other functions related to risk management. The Bank's Management Board ensures conditions for effective implementation of the Bank's risk and capital adequacy strategy, approves the procedure for applying banking risk management methodologies and quantitative risk assessment models, ensures performance of ICAAP and maintenance of capital adequacy and performs other functions.

Liquidity risk management is performed on the basis of analysis of the Bank's balance sheet and off-balance sheet claims and liabilities. In order to assess the liquidity position, the Bank takes into account actual, planned and probable cash inflows and outflows, as well as term and currency distributed cash flows generated under various scenarios, including stress testing.

In the process of liquidity risk management, the Bank performs liquidity analysis for various time periods: during the operational day - instant liquidity, up to 1 month - current liquidity, from 1 month - long-term liquidity.

### Instant liquidity

The Treasury Department is the center of daily and continuous instant liquidity management. Management is based on real-time monitoring of incoming payments and requests from the Bank's customers and subdivisions, calculation of the Bank's current payment position. Instant liquidity management is based on monitoring of balances on NOSTRO correspondent accounts, data on the Bank's payment position known at the beginning of the day (crediting / debiting: debiting customers' accounts, interbank settlements, etc.), data on the estimated volume of banknote transactions in US dollars and currencies of the European Union countries, data on the Bank's active and passive term transactions falling on that day, data on other transactions that may affect the Bank's payment position. In case of identification of surplus funds, the Treasury Department shall arrange measures for their efficient placement in financial markets; in case of identification of shortage of funds, the Treasury Department shall arrange measures for restoration of immediate liquidity, in particular, ensure attraction of the required volume of funds in the interbank market, Forex market (including SWAP operations in case of surplus of one currency and deficit of another), direct REPO and securities markets, crediting of surplus funds to the correspondent accounts in the CBRF or correspondent banks, raising the

required amount of funds in the CBRF, other transactions.

#### Current and long-term liquidity

For the purpose of comprehensive and prompt quantitative assessment of liquidity risk, the Bank calculates, analyzes and controls both mandatory liquidity ratios (N2, N3, N4) and internal risk metrics: liquidity buffer, cumulative cash outflow in stress scenario, survival horizon.

#### Mandatory liquidity risk metrics

Mandatory liquidity ratios N2, N3, N4 are calculated on a daily basis. The Bank monitors compliance of the mandatory ratios with the requirements of the regulatory documents of the CBRF as part of its daily reporting in accordance with the requirements of its Risk and Capital Management Strategy. The Risk Management Department monitors compliance with the mandatory ratios on a daily basis. The Bank's liquidity risk appetite established by the Risk and Capital Management Strategy includes requirements for liquidity ratios N2, N3 and N4. The Bank complies with these ratios with a significant reserve, their values as at the reporting dates are shown below:

Liquidity ratio	Maximum value set by the CBRF	31 December 2019	31 December 2018
N2	more than 15%	97.9%	137.8%
N3	more than 50%	227.7%	288.6%
N4	less than 120%	6.4%	4.8%

In 2019, the Bank revised the signal values of mandatory ratios N2, N3 to strengthen conservatism of liquidity risk management. Yellow risk appetite level values for the ratios were established so that the reserve to the minimum levels set by the CBRF would be sufficient to cover the stress outflows of a significant part of funds of legal entities due to the risk of resource base concentration.

#### Internal liquidity risk metrics

When calculating internal risk metrics and setting limits on them, the Bank analyzes the liquidity of assets, stability of liabilities and off-balance sheet liabilities, and assesses the availability of borrowings from financial markets depending on the scenario. The Risk Management Department informs ALCO members on a regular basis on the calculated liquidity buffer, cumulative cash outflow in the stress scenario and survival horizon. The stress-testing scenario used for calculation of liquidity buffer and cumulative cash outflow implies simultaneous realization of market and name crisis events.

The liquidity buffer shows the volume of unencumbered highly liquid assets available for use in the stress scenario (cash, NOSTRO and correspondent accounts balances (minus conditionally irreducible level); net positions on short-term money market operations (repo, interbank lending operations); securities from the CBRF Lombard list, taking into account their possible decrease in market value during the crisis).

When calculating cumulative cash outflows in the stress scenario, the Bank takes into account possible outflow of funds under medium and long-term repo transactions and interbank lending operations, growth of the share of defaults/extensions in repayments of loans to individuals and legal entities, outflow from LORO accounts, outflow of a part of term deposits of individuals (including as regards realization of concentration risk) and legal entities, outflow of funds from current and settlement accounts, and lack of possibility to attract funds from capital markets, outflow of 100% of funds from large (top 10) legal entities depositors, growth of cash outflows on off-balance sheet credit related commitments (credit lines, overdrafts, guarantees).

Survival horizon shows the period of time during which the volume of liquidity buffer exceeds the cumulative cash outflow in a stress scenario. According to the ALCO decision dated on 28 October 2019, the survival horizon has a limit.

As at 31 December 2019, the liquidity buffer is sufficient to cover the stress outflows over the entire considered stress horizon, which indicates the Bank's ability to fully meet its obligations to its lenders and depositors in case of occurrence of crisis events considered in the stress scenario. The limit on the survival horizon has not been violated.

In the process of quantitative assessment of liquidity risk, the Bank uses methods of mathematical and statistical analysis, which allow to model the behavior of customers and assess the stability of liabilities and off-balance sheet liabilities, as well as liquidity of assets and availability of borrowings from financial markets. The Bank analyses the sensitivity of the applied methodology to changes in the established assumptions at least once a year, and at least once a year independently validates the methodology of modeling the status of assets and liabilities. On the basis of the independent validation of parameters of the model of quantitative assessment of liquidity risk in 2019, the following changes have been made to the Methodology of analysis

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of liquidity position in the stress scenario of BCS Bank JSC: the approach to calculation of market liquidity risk for the portfolio of securities has been revised; the approach to calculation of stress outflows of funds of individuals has been revised taking into account the structure of attraction typical for the Bank (ratio of term and demand accounts, the share of large customers in the portfolio); in stress liquidity outflow the risk of part of bank guarantees portfolio disclosure was included in calculation.

The following is a maturity analysis of financial liabilities based on contractual undiscounted cash flows as at 31 December 2019:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total liabilities
<b>Non-derivative financial liabilities</b>					
Due to banks	9,614,535	2,586,005	-	-	12,200,540
Due to customers - individuals	13,937,698	11,450,979	4,632,371	1,105,931	31,126,979
Due to customers - legal entities	17,224,143	1,359,832	79,554	231,036	18,894,565
Financial liabilities measured at FVTPL	2,930	13,349	-	-	16,279
Lease liabilities on right-of-use assets	3,471	39,233	47,080	346,478	436,262
Other liabilities	296,899	66,479	60,606	46,868	470,852
Operating lease commitments	7	29	13	59	108
<b>Derivative financial assets</b>					
Derivative financial assets executed in full amounts					
- additions	641,022	194,598	-	-	835,620
- disposals	(638,410)	(182,317)	-	-	(820,727)
<b>Derivative financial liabilities</b>					
Derivative financial liabilities executed in full amounts					
- additions	397,036	123,811	-	-	520,847
- disposals	(398,567)	(138,595)	-	-	(537,162)
<b>Total potential future payments for liabilities</b>	<b>41,080,764</b>	<b>15,513,403</b>	<b>4,819,624</b>	<b>1,730,372</b>	<b>63,144,163</b>
Unused credit facilities and guarantees issued	19,598,451	-	-	-	19,598,451

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The following is a maturity analysis of financial liabilities based on contractual undiscounted cash flows as at 31 December 2018 (restated):

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total liabilities
<b>Non-derivative financial liabilities</b>					
Due to banks	5,009,241	2,682,500	-	-	7,691,741
Due to customers - individuals	12,871,497	6,690,550	7,057,184	603,127	27,222,358
Due to customers - legal entities	16,643,795	243,973	1,386,375	13,177	18,287,320
Financial liabilities held-for-trading	77,231	-	-	-	77,231
Other liabilities	1,427,306	-	-	-	1,427,306
Operating lease commitments	2,031	6,965	2,148	7,779	18,923
<b>Derivative financial assets</b>					
Derivative financial assets executed in full amounts					
- additions	30,635,351	392,328	-	-	31,027,679
- disposals	(30,590,946)	(366,465)	--	-	(30,957,411)
<b>Derivative financial liabilities</b>					
Derivative financial liabilities executed in full amounts					
- additions	44,861,379	-	-	-	44,861,379
- disposals	(44,937,641)	-	--	-	(44,937,641)
<b>Total potential future payments for liabilities</b>	<b>35,999,244</b>	<b>9,649,851</b>	<b>8,445,707</b>	<b>624,083</b>	<b>54,718,885</b>
Unused credit facilities and guarantees issued	1,103,080	-	-	-	1,103,080

**Liquidity gap**

The Bank also calculates and analyzes liquidity gap - a report containing information on contractual terms/maturity of balance sheet items in rubles. In constructing the liquidity gap, all term assets and liabilities are classified in accordance with contractual terms/maturities into certain maturity baskets. The liquidity gap, i.e. the difference between cash inflows and outflows, is determined for each maturity basket. In addition, the liquidity gap is calculated on an accrual basis (cumulative gap) starting from the earliest maturity basket.



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The following is an analysis of financial assets and financial liabilities by expected contractual maturities as at 31 December 2019:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Indefinite term and overdue	Total
<b>Assets</b>						
Cash and cash equivalents	7,065,221	-	-	-	-	7,065,221
Mandatory reserves in the CBRF	-	-	-	-	545,478	545,478
Financial assets measured at FVTPL	3,729	209	-	-	8,381	12,319
Amounts due from banks and other financial institutions	38,758,615	5,052,740	-	-	-	43,811,355
Loans to customers	34,245	2,742,102	2,495,138	3,821,043	798,215	9,890,743
Financial assets measured at FVOCI	9,039,124	-	-	-	-	9,039,124
Other assets	233,616	-	-	-	-	233,616
<b>Total financial assets</b>	<b>55,134,550</b>	<b>7,795,051</b>	<b>2,495,138</b>	<b>3,821,043</b>	<b>1,352,074</b>	<b>70,597,856</b>
<b>Liabilities</b>						
Amounts due to banks and other credit institutions	9,609,496	2,572,254	-	-	-	12,181,750
Amounts due to customers	31,156,293	12,605,381	4,595,838	1,251,103	-	49,608,615
Financial liabilities measured at FVTPL	2,930	13,349	-	-	-	16,279
Lease liabilities on right-of-use assets	5,685	23,309	32,580	290,338	-	351,912
Other liabilities	296,899	66,479	60,606	46,868	-	470,852
<b>Total liabilities</b>	<b>41,071,303</b>	<b>15,280,772</b>	<b>4,689,024</b>	<b>1,588,309</b>	<b>-</b>	<b>62,629,408</b>
<b>Net liquidity gap</b>	<b>14,063,247</b>	<b>(7,485,721)</b>	<b>(2,193,886)</b>	<b>2,232,734</b>	<b>1,352,074</b>	<b>7,968,448</b>
<b>Cumulative liquidity gap as at 31 December 2019</b>	<b>14,063,247</b>	<b>6,577,526</b>	<b>4,383,640</b>	<b>6,616,374</b>	<b>7,968,448</b>	

Financial assets classified as investment financial assets are investment securities with different maturities, for the purposes of this table are recognized as demand.

Time deposits of individuals are recognized in accordance with the contractual terms. At the same time, it should be taken into account that in accordance with the legislation of the Russian Federation, individuals have the right to withdraw their term deposits from the bank at any time, and in most cases they lose the right to receive accrued interest income.

Information on contractual maturities of these deposits is as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
On demand and less than 1 month	1,318,594	1,841,607
From 1 to 6 months	11,265,236	6,355,761
From 6 to 12 months	4,518,274	6,767,657
Over 1 year	1,033,340	569,457
	<u><b>18,135,444</b></u>	<u><b>15,534,482</b></u>

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The following is an analysis of financial assets and financial liabilities by expected contractual maturities as at 31 December 2018 (restated data):

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Indefinite term	Total
<b>Assets</b>						
Cash and cash equivalents	12,544 060	-	-	-	-	12,544 060
Mandatory reserves in the CBRF	-	-	-	-	512,411	512,411
Financial assets held-for-trading	74,766	-	-	-	6,140	80,906
Amounts due from banks and other financial institutions	30,783 149	-	-	-	-	30,783 149
Loans to customers	307,457	1,304,186	66,304	1,867,988	-	3,545 935
Investment financial assets	9,936 097	-	-	-	-	9,936 097
Investment financial assets (encumbered)	3,805,772	-	-	-	-	3,805,772
Other assets	46,351	-	-	-	-	46,351
<b>Total financial assets</b>	<b>57,497,652</b>	<b>1,304,186</b>	<b>66,304</b>	<b>1,867,988</b>	<b>518,551</b>	<b>61,254,681</b>
<b>Liabilities</b>						
Amounts due to banks and other credit institutions	5,009,241	2,608 000	-	-	-	7,617,241
Amounts due to customers	29,507,681	6,811,169	8,105,569	582,928	-	45,007,347
Financial liabilities held-for-trading	77,231	-	-	-	-	77,231
Other liabilities	1,427,306	-	-	-	-	1,427,306
<b>Total liabilities</b>	<b>36,021,459</b>	<b>9,419,169</b>	<b>8,105,569</b>	<b>582,928</b>	<b>-</b>	<b>54,129,125</b>
<b>Net liquidity gap</b>	<b>21,476,193</b>	<b>(8,114,983)</b>	<b>(8,039,265)</b>	<b>1,285,060</b>	<b>518,551</b>	<b>7,125,556</b>
<b>Cumulative liquidity gap as at 31 December 2018</b>	<b>21,476,193</b>	<b>13,361,210</b>	<b>5,321,945</b>	<b>6,607,005</b>	<b>7,125,556</b>	

**Stress testing of liquidity risk**

In order to identify sources of potential liquidity problems and to confirm that the current liquidity position meets an acceptable level of liquidity risk, the Bank at least once a year evaluates the potential impact of negative scenarios of changes in the volume and maturity of the Bank's financial assets and financial liabilities on the Bank's liquidity as part of the general bank-wide integrated stress testing process. The result of the Bank's general bank-wide liquidity risk stress testing is the calculation of the Bank's mandatory liquidity ratios.

The Bank ensures that both direct and reverse stress testing of liquidity risk is performed. The results of direct stress testing of liquidity risk show changes in the Bank's mandatory liquidity ratios as a result of implementation of the stress scenarios under consideration. The results of the reverse stress testing of liquidity risk show a critical amount of outflows of the Bank's lenders' funds that result in violation of mandatory liquidity ratios, as well as the achievement of signal values of risk appetite indicators.

The results of stress-testing are reported to the Board of Directors, Management Board and ALCO in accordance with the Risk and Capital Management Strategy.

## **29. Financial assets and liabilities: fair values and accounting classifications**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

However, taking uncertainty and subjective judgements into account, fair value should not be interpreted as realized under an immediate sale of assets or liability transfer.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing.

The Bank recognizes the following financial assets and liabilities at fair value:

- derivative financial assets;
- securities measured at fair value through profit or loss;
- securities measured at fair value through other comprehensive income;
- derivative financial liabilities.

Fair value of financial assets which are traded in the active market is based on market quotations or dealer prices. The Bank measures the fair value of all other assets of the Bank using other valuation methods.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

**Level 1:** quoted market price (unadjusted) in an active market for an identical instrument

**Level 2:** data that is not quoted prices included in level 1 and that is observable for the asset or liability, either directly or indirectly:

- quoted prices in active markets for identical assets or liabilities;
- quoted prices for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability:
- interest rates and yield curves that are observable at typically quoted intervals;
- implied volatility; and
- credit spreads.
- market-confirmed inputs.

**Level 3:** data for the asset or liability:

- historical volatility;
- agreed-upon (optional) average market price adjustment developed using data that is not observable and cannot be supported by observable market data;
- financial forecast of cash flows or profit or loss developed using the Bank's own data, if there is no reasonably available information indicating that market participants would use different assumptions.

The Bank measures the fair value of securities classified as investment financial assets, securities classified as measured at fair value through profit or loss, and exchange-traded derivatives using the quoted market price method based on level 1 observable inputs from active market, and similar securities using level 2 inputs. During 2018, the fair value of individual securities was measured using a net discounted cash flow method based on level 3 unobservable inputs. The rates of the zero-coupon yield curve for government securities calculated by the Moscow Stock Exchange were used as the risk-free interest rate. The probability of default in the calculation is compared, based on the ratings of international rating agencies, according to the internal methodology for determining the fair value of securities. As at 31 December 2019 and 31 December 2018 there are no securities which were measured using the valuation method based on Level 3 data.

The Bank measures the fair value of over-the-counter derivatives using valuation techniques based on unobservable level 2 inputs such as interest rates, yield curves for non-deliverable forwards and the surface of implied volatility. Data on the yield curves of non-deliverable forwards and the implied volatility surface are obtained using the Bloomberg information and analytical system. Mosprime, LIBOR and EUR LIBOR rates of the corresponding period were used as the risk-free interest rate. The official rates set by the CBRF were used as exchange rates to eliminate accounting discrepancies in asset and liability valuation.

The fair value hierarchy levels for assets and liabilities measured at fair value as at 31 December 2019 are presented below:

<b>31 December 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Fair value</b>
<b>Financial assets</b>			
Financial assets held-for-trading, including:	8,381	3,938	<b>12,319</b>
- <i>Shares</i>	8,381	-	8,381
- <i>Derivative financial instruments</i>	-	3,938	3,938
Financial assets measured at FVOCI, including:	9,039,124	-	<b>9,039 124</b>
- <i>Eurobonds</i>	4,706,508	-	4,706,508
- <i>Bonds</i>	4,332,616	-	4,332,616
<b>Total assets</b>	<b>9,047,505</b>	<b>3,938</b>	<b>9,051,443</b>
<b>Financial liabilities</b>			
Financial liabilities held-for-trading	-	16,279	16,279
<b>Total financial liabilities</b>	<b>-</b>	<b>16,279</b>	<b>16,279</b>

The amount of balances at fair value of non-financial assets and liabilities using valuation models that use significant amounts of unobservable data during the reporting period was insignificant.

As at 31 December 2019, there were no securities in Level 3 of the fair value hierarchy. A reconciliation of movements in Level 3 of the fair value hierarchy during 2018 is presented below:

<b>Financial assets at FVOCI</b>	
<b>Fair value at 31 December 2017</b>	<b>-</b>
Purchase	845,237
Sale and other disposals	(914,010)
Income or expenses recognized in profit or loss	68,773
<b>Fair value at 31 December 2018</b>	<b>-</b>

The fair value hierarchy levels for assets and liabilities carried at fair value as at 31 December 2018 are presented below by their fair value hierarchy levels:

<b>31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Fair value</b>
<b>Financial assets</b>			
Financial assets held-for-trading, including:	6,140	74,766	<b>80,906</b>
- <i>Shares</i>	6,140	-	6,140
- <i>Derivative financial instruments</i>	-	74,766	74,766
Financial assets measured at FVOCI, including:	13,741,869	-	<b>13,741,869</b>
- <i>Eurobonds</i>	6,630,862	-	6,630,862
- <i>Bonds</i>	7,111,007	-	7,111,007
<b>Total assets</b>	<b>13,748,009</b>	<b>74,766</b>	<b>13,822,775</b>
<b>Financial liabilities</b>			
Financial liabilities held-for-trading	-	77,231	77,231
<b>Total financial liabilities</b>	<b>-</b>	<b>77,231</b>	<b>77,231</b>

As at 31 December 2019, the estimated fair value of assets and liabilities not measured at fair value approximates their carrying amount.

As at 31 December 2018, the estimated fair value of assets and liabilities not measured at fair value approximates their carrying amount.

## **30. Corporate governance and internal control system**

### **Corporate governance structure**

The Bank was established as a joint stock company in compliance with the requirements of the legislation of the Russian Federation. The General Meeting of Shareholders is the supreme management body of the Bank.

The Board of Directors of the Bank provides general management of the Bank's activities, except for any issues referred by the Federal Law on Joint-Stock Companies to the competence of the General Meeting of Shareholders.

The executive bodies responsible for managing the Bank's current operations are the following:

- Chairman of the Management Board - the sole executive body;
- Management Board - collegial executive body.

Competence of management bodies is determined by the legislation of the Russian Federation and the Bank's Charter.

#### **Internal control policies and procedures**

Internal control in the Bank is performed to ensure:

- Efficiency and effectiveness of financial and operational activity of banking and other transactions, effectiveness of assets and liabilities management, including safeguarding of assets, banking risk management;
- reliability, completeness, objectivity and timeliness of preparation and submission of financial, accounting, statistical and other statements (for external and internal users) as well as information security (protection of the Bank's interests (goals) in the information sphere representing a set of information, information infrastructure, entities collecting, forming, distributing and using information as well as the system for regulating relations arising therefrom);
- compliance with regulations, standards of self-regulating organizations, constituent and internal documents of a credit organization;
- prevention of involvement of the Bank and participation of its employees in illegal activities, including money laundering and terrorism financing, as well as timely submission in accordance with the legislation of the Russian Federation of information to government authorities and the CBRF.

In accordance with the powers determined by the Charter and the Bank's internal documents, the internal control is exercised by:

- Board of Directors;
- Management Board;
- Chairman of the Management Board (his/her deputies);
- Reviewer;
- Chief Accountant (his deputies);
- Director of the Branch;
- Chief accountant of the Branch (his/her deputies);
- Internal Audit Department;
- Compliance Control Department
- Risk Department;
- Responsible Officer for Combating Money Laundering and Terrorism Financing;
- Professional Securities Market Participant Controller.

The management bodies of the Bank as part of their internal control shall:

- assess risks affecting the achievement of its objectives and take measures to respond to changing circumstances and conditions in order to ensure the effectiveness of bank risk assessment. In order to effectively identify and monitor new or previously uncontrolled bank risks, the organization of the Bank's internal control system should be timely reviewed;
- to ensure participation in internal control of all employees of the Bank in accordance with their job duties;
- to establish a procedure whereby employees bring to the attention of management bodies and heads of structural subdivisions of the Bank (branch) all violations of laws of the Russian Federation, constituent and internal documents, cases of abuse and non-compliance with professional ethics standards;
- adopt documents on interaction between the Internal Audit Department and the Bank's departments and employees and monitor compliance therewith;
- to exclude the adoption of rules and/or practices that may encourage the commission of acts contrary to Russian law and the objectives of internal control.

The powers of the Board of Directors of the Bank include:

- establishment and operation of effective internal control;
- establishment of committees on various control issues of the Bank;
- regular review at its meetings of the efficiency of internal control and discussion with the Bank's executive bodies of the organization of internal control and measures to improve its efficiency;
- review of documents on organization of the internal control system prepared by the Bank's executive bodies, the Internal Audit Department, other structural divisions of the Bank, the audit company conducting the audit;
- taking measures to ensure prompt implementation by the Bank's executive bodies of recommendations and comments made by the Internal Audit Department, the audit organization conducting the audit and supervising bodies;
- timely verification of the compliance of the internal control with the nature, scope and conditions of the Bank's operations in case of changes in them.
- appointment and dismissal of the head of the Internal Audit Department;
- approval of "Regulations on internal control of BCS Bank JSC", adoption of documents on interaction of internal control bodies with departments and employees of the Bank.

The powers of the Management Board of the Bank include:

- establishment of responsibility for implementation of decisions of the Board of Directors, implementation of the Bank's strategy and policy regarding organization and implementation of internal control;

- inspection of compliance of the Bank's activities with the internal documents defining the procedure of internal control and assessment of compliance of the content of the said documents with the nature and scale of operations performed;
- review of the results of periodic assessments of the effectiveness of internal control;
- establishment of effective systems for the transmission and exchange of information, ensuring that the necessary information reaches the users interested in it. The information transfer and exchange systems include all documents defining the Bank's operating policies and procedures;
- establishment of a control system for eliminating detected violations and shortcomings of internal control and measures taken to eliminate them.

The powers of the Chairman of the Management Board of the Bank (its deputies) include:

- delegation of authority to develop and monitor the implementation of internal control rules and procedures to the heads of relevant departments;
- the segregation of duties between departments and employees responsible for specific areas (forms, means of implementation) of internal control;
- providing participation in the internal control of all employees of the Bank in accordance with their job duties;
- establishment of a procedure whereby employees bring to the attention of management bodies, internal control bodies and heads of the Bank's structural subdivisions information on all violations of laws of the Russian Federation, constituent and internal documents, cases of abuse and non-compliance with professional ethics standards.

The powers of Director of the Branch include:

- the segregation of duties between the departments and employees of the branch responsible for specific areas (forms, means of implementation) of internal control;
- providing participation in the internal control of all employees of the Bank in accordance with their job duties;
- establishment of a procedure whereby employees bring to the attention of management bodies, internal control bodies and heads of the Bank's structural subdivisions information on all violations of laws of the Russian Federation, constituent and internal documents, cases of abuse and non-compliance with professional ethics standards.

The powers of Chief accountant of the Branch include:

- control over implementation of the accounting policy, maintenance of accounting in the Branch, timely submission of full and reliable accounting reports of the Branch;
- ensuring compliance of the operations performed by the Branch with the legislation of the Russian Federation, regulatory acts of the CBRF, control over the movement of property and performance of the Bank's obligations.

In order to exercise internal control and assist the Bank's management bodies in ensuring efficient functioning of the Bank, the Bank's Internal Audit Department and the Compliance Department are established.

The Internal Audit Department performs the functions of the Internal Audit Service provided for in Regulation of the CBRF No. 242-P dated 16.09.2013 "On Organization of Internal Control in Credit Institutions and Bank Groups". The Internal Audit Department operates on a permanent basis, employees of the Internal Audit Department are full-time employees of the Bank, the number of employees of the Internal Audit Department corresponds to the nature and scale of operations, the level and combination of accepted risks. The Internal Audit Department of the Bank operates under direct control of the Board of Directors. The Bank's Internal Audit Department is subject to independent audit by an audit organization or the Bank's Board of Directors.

The structure, status of the Internal Audit Department in the organizational structure of the Bank, its tasks, authorities, rights and obligations, as well as relations with other subdivisions of the Bank, including those performing control functions, are regulated by the "Regulation on the Internal Audit Department of BCS Bank JSC", approved by the Bank's Board of Directors.

The Bank shall ensure continuity of activity, independence and impartiality of the Internal Audit Department, professional competence of its head and employees, create conditions for unimpeded and efficient performance by the Internal Audit Department of its functions.

The main functions of the Internal Audit Department are:

- auditing and evaluation of the efficiency of the internal control system as a whole, implementation of resolutions of the Bank's management bodies (general meeting of shareholders, Board of Directors, executive bodies of the Bank).
- auditing the efficiency of the banking risks assessment methodology and risk management procedures, stipulated by internal documents of the Bank (methods, programs, rules and procedures for banking operations and transactions, and for the the management of banking risks), as well as the completeness of these documents application.
- auditing the reliability of the functioning of the internal control system for the use of automated information systems, including control of the integrity of databases and their protection from unauthorized access and (or) use, taking into account measures taken in the event of unforeseen circumstances in accordance with the action plan aimed at ensuring the continuity of activities and (or) the restoration of the credit organization in the event of non-standard and emergency situations.
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and reliability (including trustworthiness, completeness and timeliness) of the collection and submission of information and financial statements.
- auditing of the methods (methods) used to ensure safety of the Bank's property.
- assessment of economic reasonability and efficiency of operations and other deals conducted by the Bank.
- auditing of internal control processes and procedures.

- auditing of the activities of subdivisions that perform the functions of the Bank's internal control service and risk management service.
- other issues provided for in the Bank's internal documents.

The Compliance Department performs the functions of the internal control service provided for in Regulation of the CBRF 16.09.2013 "On Organization of Internal Control in Credit Institutions and Bank Groups". The structure, status of the Compliance Department in the organizational structure of the Bank, its tasks, authorities, rights and obligations, as well as relations with other subdivisions of the Bank, including those performing control functions, are regulated by the Regulations on the Compliance Control Department approved by the Chairman of the Management Board of the Bank. The Head of the Compliance Department is appointed by the Chairman of the Bank's Management Board.

The Compliance Department performs its functions in the Bank on an ongoing basis. The number, structure and material and technical resources of the Compliance Department shall be established by the Bank in accordance with the nature and scale of operations, the level of regulatory risk accepted by the Bank.

The Risk Department develops a risk and capital management system for the Bank, including through internal capital adequacy assessment procedures, and ensures risk management in the Bank. The Head of Risk Department is responsible for the overall risk management and compliance functions as well as for monitoring the application of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Bank's Management Board. The Risk Department is not subordinate or accountable to the departments taking the respective risks.

Responsible Officer for Combating Money Laundering and Terrorism Financing is an officer responsible for the development and implementation of internal control rules to combat legalization (laundering) of illegal proceeds and financing of terrorism, programs for its implementation and other internal organizational measures for these purposes, as well as for organizing the submission of information to the authorized body responsible for combating legalization (laundering) of illegal proceeds and financing of terrorism in accordance with the Federal Law No. 115-FZ dated 07.08.2001 "On Combating Money Laundering and Terrorism Financing" and regulations of the CBRF.

Professional Securities Market Participant Controller is a responsible employee who checks compliance of the Bank's activities as a professional participant of the securities market with the requirements of the legislation of the Russian Federation on securities and protection of rights and legal interests of investors in the securities market, regulatory legal acts of the CBRF.

Legislation of the Russian Federation, including Federal Law No. 395-1 dated 2 December 1990 "On Banks and Banking Activities", Instruction of the CBRF dated 25 December 2017, No. 4662-U "On qualification requirements for the head of the risk management service, internal control service and internal audit service of a credit institution, a person responsible for the organization of the risk management system and a controller of a non-state pension fund, an auditor of an insurance institution, on the procedure for notifying the CBRF of the appointment (dismissal) of the above persons (except for the controller of a non-state pension fund), special officials responsible for the implementation of internal control rules for combating laundering and terrorism financing of a credit organization, a non-state pension fund, an insurance organization, an investment fund management company, mutual investment funds and non-state pension funds, a microfinance company, an employee of the internal control service of the investment fund management company, mutual investment funds and non-state pension funds as well as the procedure for the CBRF's assessment of the compliance of the above persons (except for the controller of a non-state pension fund) with qualification and business reputation requirements" (prior to entry into force of Instruction of the CBRF dated 25 December 2017 No. 4662-U— Instruction of the CBRF dated 01 April 2014 No. 3223-U "On Requirements to the Heads of Risk Management Service, Internal Control Service, Internal Audit Service of a Credit Institution") sets out requirements for professional qualification, business reputation and other requirements to the members of the Board of Directors, Management Board, heads of Internal Audit Department, Internal Control Department, Risk Department and other key management personnel. All members of the Bank's governing bodies and management bodies comply with the above requirements.

Management believes that the Bank complies with the requirements of the CBRF for the risk management system and organization of the internal control system, including requirements for the Internal Audit Service (Internal Audit Department), Internal Control Service (Compliance Department) and Risk Management Service (Risk Department). The organized internal control system, including the risk management system, corresponds to the scale, nature and level of complexity of the Bank's operations.

## **31. Related party transactions**

For the purposes of these consolidated financial statements, the term "parties related to the credit institution" is applied in the meaning "related parties" as defined in IAS 24 Related Party Disclosures. As at 31 December 2019 Siberian Investments LLC is 100% parent company of the Bank (31 December 2018: BKS Company LLC), actual control over the Bank is exercised by an individual (beneficiary) O.V. Mikhasenko.

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In the course of business, the Bank conducts transactions with its principal shareholder, companies in which the Bank's shareholder has a significant interest (other related parties), individuals associated with the Bank, as well as with key management personnel, which includes members of the Board of Directors, members of the Management Board, the Chief Accountant of the Bank and his/her deputy. As at 31 December 2019, key management personnel comprise 11 employees (31 December 2018: 9 employees), key management personnel do not own any shares of the Bank. Other parties related to the Bank include entities controlled by the person exercising control over the Bank and entities controlled or jointly controlled by persons who are key management personnel of the Bank and members of the Board of Directors of the parent company. Transactions with related parties include making settlements, granting loans, attracting deposits.

The balances of transactions with related parties as at 31 December 2019, including interest rates on deposits, income and expenses for 2019 with related parties are as follows:

<b>31 December 2019</b>	<b>Parent company</b>	<b>Subsidiary</b>	<b>Other related parties</b>	<b>Key management personnel</b>	<b>Total</b>
<b>Balance</b>					
Loans to customers other than reverse repurchase agreements	-	-	368	26,070	26,438
<i>Interest rate, RUB</i>	-	-	<i>0,1%</i>	<i>8,0%-26,0%</i>	
Allowance for expected credit losses on loans to customers	-	-	-	(158)	(158)
Amounts due from banks and other credit institutions	-	-	36,538,211	-	36,538,211
<i>Interest rate, RUB</i>	-	-	<i>6,26%-7,45%</i>	-	
Property, equipment, intangible assets and right-of-use assets	-	-	29,967	-	29,967
Other assets	-	25,000	212,628	-	237,628
Amounts due to customers	120	57,441	14,951,761 <sup>1</sup>	54,446	15,063,768
<i>Interest rate, RUB</i>	-	-	<i>0,00%-7,90%</i>	<i>0,01%-5,70%</i>	-
<i>Interest rate, USD</i>	-	-	<i>1,38%-0,00%</i>	<i>0,10%-1,20%</i>	
<i>Interest rate, EUR</i>	-	-	-	<i>0,01%-0,10%</i>	
Amounts due to banks and other credit institutions	-	-	9,501,588	-	9,501,588
<i>Interest rate, RUB</i>	-	-	<i>6,10%</i>	-	
Other liabilities	-	-	113,297	972	114,269
<b>Income and expense</b>					
Interest income calculated using the effective interest rate method	1	-	874,180	3,752	877,933
Interest expenses	(117,820)	-	(508,631)	(2,586)	(629,037)
Income less losses on foreign exchange transactions (except for swaps up to 3 days)	83	-	385,044	162	385,289
Income less losses on foreign currency swaps up to 3 days	-	-	(1,954,367)	-	(1,954,367)
Income less losses from transactions with securities	(1,325)	-	262,215	-	260,890
Fee and commission income	30,288	22	290,953	28	321,291
Fee and commission expense	(13,772)	-	(22,119)	(811)	(36,702)
Net income (expenses) on provision	-	-	-	(123)	(123)
Administrative and other operating expenses	(27,182)	-	(40,147)	(45,290)	(112,619)

Financial result from swaps up to three days in the amount of RUB (6,336,391) thousand is excluded from Income less losses on foreign exchange transactions. This financial result is generated solely due to the specifics of the accounting recognition of swap transactions and arises in the event of a strong change in the foreign currency exchange rate set by the CBRF as of the date of execution of the second part of the transaction against the CBRF as of the date of the first part of the transaction. The net swap difference on these transactions is RUB (1,954,367) thousand. These transactions, for the most part, were concluded in order to

<sup>1</sup> Amounts due to customers include RUB 9,247,628 thousand belonging to related parties, residents of other countries (Cyprus, etc.).



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attract liquidity in the currency of the Russian Federation, which is subsequently placed in swap and reverse repurchase transactions with NCC, which together give a positive financial result.

Key management personnel remuneration received (salaries, social security contributions, annual paid leave) in 2019 amounted to RUB 43,465 thousand, and during the reporting period a severance payment of RUB 1,671 thousand was made. In the reporting period no remuneration was paid to key management personnel based on performance results for 2019.

There were no write-offs of amounts of bad receivables from related parties. In the reporting period there were no transactions with related parties on terms and conditions different from those with other counterparties.

During 2019 the Bank sold securities measured at FVOCI to the parent company for RUB 391,692 thousand, and purchased securities measured at FVOCI from other related parties for RUB 63,972,06 thousand and sold in the amount of RUB 69,068,390 thousand.

The balances of transactions with related parties as at 31 December 2018, including interest rates on deposits, income and expenses for 2018 with related parties are as follows:

<b>31 December 2018</b>	<b>Parent company</b>	<b>Other related parties</b>	<b>Key management personnel</b>	<b>Total</b>
<b>Balance</b>				
Loans to customers	496	829,376	50,268	880,140
<i>Interest rate, RUB</i>	<i>0,1%</i>	<i>11,0%</i>	<i>8%-19,9%</i>	
Allowance for expected credit losses on loans to customers	-	(8,565)	(35)	(8,600)
Amounts due from banks and other credit institutions	-	24,654,831	-	24,654,831
<i>Interest rate, RUB</i>	-	<i>7,70%-8,00%</i>	-	
Other assets	-	221	237	458
Amounts due to customers	4,111,853	11,591,404 <sup>2</sup>	92,179	15,795,436
<i>Interest rate, RUB</i>	<i>7,60%</i>	<i>0,00%-9,0%</i>	<i>0,01%-6,60%</i>	-
Amounts due to banks and other credit institutions	-	4,991,322	-	4,991,322
<i>Interest rate, RUB</i>	-	<i>6,55%-7,10%</i>	-	
Guarantees granted	-	14,868	-	14,868
Other liabilities	3,598	1,418,866	9	1,422,473
<b>Income and expense</b>				
Interest income calculated using the effective interest rate method	4,303	556,362	2,450	563,115
Interest expenses	(291,539)	(377,749)	(2,782)	(672,070)
Income less losses on foreign exchange transactions	400	1,498,473	4,132	1,503,005
Income less losses on transactions with securities	(8,889)	99,154	-	90,265
Fee and commission income	57,871	262,015	17	319,903
Fee and commission expense	(147,564)	107	(333)	(147,790)
Net income (expenses) from allowances for expected credit losses	-	(12,213)	-	(1,213)
Administrative and other operating expenses, incl. lease	(30,161)	(19,493)	(41,521)	(91,175)

Key management personnel remuneration received (salaries, social security contributions, annual paid leave) in 2018 amounted to RUB 41,328 thousand.

There were no write-offs of amounts of bad receivables from related parties. In the reporting period there were no transactions with related parties on terms and conditions different from those with other counterparties.

During 2018 the Bank purchased securities measured at FVOCI from the parent company for 1,418,041 thousand and sold for RUB 3,887,585 thousand, and purchased securities measured at FVOCI from other related parties for RUB 50,178,254 thousand and sold them for RUB 52,998,038 thousand.

<sup>2</sup> Amounts due to customers include RUB 9,630,102 thousand belonging to related parties, residents of other countries (Cyprus, etc.).