

Independent auditor's report  
on the financial statements of  
**Joint Stock Company RN Bank**  
for the year ended 31 December 2019

*March 2020*

**Translation of the original Russian version**

**Independent auditor's report  
on the financial statements of  
Joint Stock Company RN Bank**

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**Translation of the original Russian version**

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## **Independent auditor's report**

### **Translation of the original Russian version**

To the Shareholder and the Board of Directors of  
Joint Stock Company RN Bank

#### **Report on the audit of the financial statements**

##### ***Opinion***

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for 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 (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including international independence standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context. We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to that matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<b><i>Allowance for expected credit losses</i></b>	
Estimation of the allowance for expected credit losses is a key area of judgment for the Bank's management.	Our audit procedures included the analysis of the methodology for assessing expected credit losses on loans to customers.
The identification of indications of a significant increase in credit risk, assessment of the probability of a borrower's default and estimation of the allowance require the significant use of professional judgment, the use of assumptions and analysis of various factors.	In testing the allowance for expected credit losses, we analyzed the underlying statistical models, key inputs and assumptions, as well as forecasts used to calculate expected credit losses.
The use of different models and assumptions can significantly affect the level of the allowance for expected credit losses. Due to the significant amounts of loans issued, and because the allowance estimation process involves an extensive use of judgment that is subjective, estimation of the allowance for expected credit losses was a key audit matter.	For the selected significant loans to legal entities, we tested their classification by stage, credit risk factor and internal credit rating assigned.
The information on the allowance for expected credit losses on loans to customers, and the Bank's management approach to assessing and managing credit risk is provided in Notes 7 and 17 to the financial statements.	For loans to individuals, we analyzed their classification by stage, probability of default calculated on the basis of the migration model, loss given default, including the value of collateral, and information on any amounts overdue.  We performed procedures in respect of the information on expected credit losses on loans to customers disclosed in the notes to the financial statements.

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### ***Other information included in the Bank's 2019 Annual Report***

Other information consists of the information included in the 2019 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### ***Responsibilities of management and the Board of Directors for the financial statements***

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

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect 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 financial statements.

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

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

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

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Translation of the original Russian version

### **Report in accordance with the requirements of Article 42 of Federal Law of the Russian Federation No. 395-1 *On Banks and Banking Activities* of 2 December 1990**

Management of the Bank is responsible for the compliance of the Bank with the mandatory prudential ratios established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia") and for conformity of the Bank's internal control and organization of the risk management systems with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of Federal Law of the Russian Federation No. 395-1 *On Banks and Banking Activities* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's financial statements for the year ended 31 December 2019, we determined:

- 1) Whether the Bank complied as at 1 January 2020 with the obligatory ratios established by the Bank of Russia
- 2) Whether the internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
  - ▶ Subordination of the risk management departments;
  - ▶ The existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
  - ▶ Consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
  - ▶ Oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

## **Translation of the original Russian version**

### ***Compliance by the Bank with the obligatory ratios established by the Bank of Russia***

We found that the values of the obligatory ratios of the Bank as at 1 January 2020 were within the limits established by the Bank of Russia.

We did not perform any procedures in respect of the accounting data of the Bank, except for the procedures we considered necessary to express our opinion on the fair presentation of the Bank's financial statements.

### ***Conformity of the internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems***

- ▶ We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2019, the Bank's internal audit function was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- ▶ We found that the Bank's internal documents effective as at 31 December 2019 that establish the methodologies for detecting and managing credit risk, market risk, interest rate risk of the banking book, operational risk (including legal risk), liquidity risk and concentration risk that are significant to the Bank and stress-testing had been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2019, the Bank had a reporting system pertaining to credit risk, market risk, operational risk (including legal risk), liquidity risk, concentration risk and interest rate risk of the banking book that were significant to the Bank and pertaining to its capital.
- ▶ We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit function during the year ended 31 December 2019 with regard to the management of credit risk, market risk, operational risk (including legal risk), interest rate risk of the banking book, liquidity risk and concentration risk of the Bank complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit function in respect of the effectiveness of the relevant risk management methodologies.
- ▶ We found that, as at 31 December 2019, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance by the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2019, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit function.



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The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Bank, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

The partner in charge of the audit resulting in this independent auditor's report is A.F. Lapina.

A.F. LAPINA  
Partner  
Ernst & Young LLC

12 March 2020

### ***Details of the audited entity***

Name: Joint Stock Company RN Bank  
Record made in the State Register of Legal Entities on 6 November 2002,  
State Registration Number 1025500003737.  
Address: Russia 109028, Moscow, Serebryanicheskaya naberezhnaya, 29.

### ***Details of the auditor***

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

Translation of the original Russian version

JSC RN Bank

Financial statements

**Statement of financial position**

**as at 31 December 2019**

(thousands of Russian rubles)

	Notes	31 December 2019	31 December 2018
<b>Assets</b>			
Cash and cash equivalents	5	5,843,069	9,593,279
Obligatory reserve with the Bank of Russia		490,450	318,510
Derivative financial assets	6	868,323	1,082,686
Loans to customers	7	97,617,417	79,088,188
Investment securities – debt securities at FVOCI	8	1,004,477	439,648
Property and equipment and right-of-use assets		224,652	60,892
Intangible assets		146,025	148,867
Current income tax asset		208,462	–
Deferred income tax assets	9	660,193	1,008,353
Other assets	10	201,519	111,106
<b>Total assets</b>		<b>107,264,587</b>	<b>91,851,529</b>
<b>Liabilities</b>			
Amounts due to credit institutions	11	32,994,792	42,686,949
Debt securities issued	13	39,886,928	18,685,486
Derivative financial liabilities	6	154,064	279,679
Amounts due to customers	12	11,850,158	11,898,945
Current income tax liability		–	41,426
Other liabilities	10	2,970,778	2,027,780
<b>Total liabilities</b>		<b>87,856,720</b>	<b>75,620,265</b>
<b>Equity</b>			
Share capital	14	6,133,091	6,133,091
Share premium		5,780,800	5,780,800
Retained earnings / (accumulated deficit)		7,491,534	4,323,404
Unrealized gain/(loss) on revaluation of investment securities – debt securities at FVOCI		2,442	(703)
Unrealized loss on cash flow hedges		–	(5,328)
<b>Total equity</b>		<b>19,407,867</b>	<b>16,231,264</b>
<b>Total equity and liabilities</b>		<b>107,264,587</b>	<b>91,851,529</b>

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

  
 Chairman of the Management Board  
 Derot Xavier Gerard



  
 Chief Accountant  
 Daria Vladislavovna Dolgorukova

12 March 2020

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JSC RN Bank

Financial statements

**Statement of profit or loss and comprehensive income  
for the year ended 31 December 2019**

(thousands of Russian rubles)

	Notes	2019	2018
<b>Interest income calculated using the EIR method</b>			
Loans to customers		12,174,439	10,884,576
Amounts due from credit institutions		488,235	460,580
Gains from securities		31,663	32,800
<b>Total interest income</b>		<b>12,694,337</b>	<b>11,377,956</b>
<b>Interest expense</b>			
Amounts due to customers		(850,336)	(478,462)
Amounts due to credit institutions		(3,008,863)	(3,615,589)
Debt securities issued		(3,405,335)	(1,239,923)
<b>Total interest expense</b>		<b>(7,264,534)</b>	<b>(5,333,974)</b>
<b>Net interest income</b>		<b>5,429,803</b>	<b>6,043,982</b>
Credit loss expense	7	(621,537)	(736,224)
<b>Net interest income after allowance for loan impairment</b>		<b>4,808,266</b>	<b>5,307,758</b>
Fee and commission income		146,682	119,244
Fee and commission expense		(162,542)	(190,977)
<b>Net fee and commission expense</b>		<b>(15,860)</b>	<b>(71,733)</b>
Net losses from derivative financial instruments at fair value through profit or loss for the period		812,798	206,678
Net gains (losses) from foreign currencies:		18,523	(565,237)
- Dealing		(21)	76
- Translation differences		18,544	(565,313)
Other income		2,734	3,065
<b>Non-interest income (expense)</b>		<b>834,055</b>	<b>(355,494)</b>
Personnel expenses	16	(636,870)	(566,444)
Other administrative expenses	16	(777,126)	(768,380)
Depreciation of property and equipment		(91,460)	(27,962)
Amortization of intangible assets		(136,241)	(222,631)
<b>Operating expense</b>		<b>(1,641,697)</b>	<b>(1,585,417)</b>
<b>Profit before income tax expense</b>		<b>3,984,763</b>	<b>3,295,114</b>
Income tax expense	9	(816,634)	(688,271)
<b>Total net profit for the year</b>		<b>3,168,130</b>	<b>2,606,843</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items which may be reclassified to profit or loss in subsequent periods</i>			
Revaluation reserve for investment securities – debt securities at FVOCI		3,145	(3,026)
Unrealized gain/(loss) on cash flow hedges	6	5,328	80,024
<b>Other comprehensive income/(loss), net of tax</b>		<b>8,473</b>	<b>76,998</b>
<b>Total comprehensive income</b>		<b>3,176,603</b>	<b>2,683,841</b>

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

Chairman of the Management Board  
Derot Xavier Gerard

Chief Accountant  
Daria Vladislavovna Dolgorukova

12 March 2020

The accompanying notes 1-22 are an integral part of these financial statements.

Translation of the original Russian version

JSC RN Bank

Financial statements

**Statement of changes in equity  
for the year ended 31 December 2019**

(thousands of Russian rubles)

	<i>Share capital</i>	<i>Share premium</i>	<i>Retained earnings (accumulated deficit)</i>	<i>Unrealized gain on securities revaluation</i>	<i>Provision for hedges</i>	<i>Total equity</i>
<b>31 December 2017</b>	<b>3,333,091</b>	<b>5,580,800</b>	<b>1,716,561</b>	<b>2,323</b>	<b>(85,352)</b>	<b>10,547,423</b>
Profit for the year	-	-	2,606,843	-	-	2,606,843
Other comprehensive income/(loss)	-	-	-	(3,026)	80,024	76,998
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>-</b>	<b>2,606,843</b>	<b>(3,026)</b>	<b>80,024</b>	<b>2,683,841</b>
Capital contribution from shareholder	2,800,000	200,000	-	-	-	3,000,000
<b>31 December 2018</b>	<b>6,133,091</b>	<b>5,780,800</b>	<b>4,323,404</b>	<b>(703)</b>	<b>(5,328)</b>	<b>16,231,264</b>
Profit for the year	-	-	3,168,130	-	-	3,168,130
Other comprehensive income	-	-	-	3,145	5,328	8,473
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>3,168,130</b>	<b>3,145</b>	<b>5,328</b>	<b>3,176,602</b>
<b>31 December 2019</b>	<b>6,133,091</b>	<b>5,780,800</b>	<b>7,491,534</b>	<b>2,442</b>	<b>-</b>	<b>19,407,867</b>

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

Chairman of the Management Board  
Derot Xavier Gerard

12 March 2020



Chief Accountant  
Daria Vladislavovna Dolgorukova

Translation of the original Russian version

JSC RN Bank

Financial statements

**Statement of cash flows**

**for the year ended 31 December 2019**

(thousands of Russian rubles)

	Notes	31 December 2019	31 December 2018
<b>Cash flows from operating activities</b>			
Interest received		12,331,065	11,749,401
Interest paid		(5,445,288)	(4,536,359)
Fees and commissions received		144,494	116,435
Fees and commissions paid		(162,802)	(191,131)
Results of operations with financial instruments at fair value		(1,089,844)	(828,127)
Realized gains less losses from dealing in foreign currencies		(21)	76
Other income received		2,734	3,064
Personnel expenses paid		(568,071)	(535,519)
Other operating expenses paid		(821,566)	(692,189)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>4,390,701</b>	<b>5,085,651</b>
<i>Net (increase)/decrease in operating assets</i>			
Obligatory reserve with the Bank of Russia		(171,940)	71,739
Amounts due from credit institutions		-	-
Loans to customers		(18,982,374)	(13,619,790)
Other assets		(469,329)	(186,568)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to the Bank of Russia		-	-
Amounts due to credit institutions		(8,801,146)	6,413,832
Amounts due to customers		464,253	(1,925,561)
Other liabilities		1,294,283	470,583
<b>Net cash used in operating activities before income tax</b>		<b>(22,275,552)</b>	<b>(3,690,114)</b>
Income tax expense		(718,413)	(521,990)
<b>Net cash used in operating activities</b>		<b>(22,993,965)</b>	<b>(4,212,104)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment, intangible assets		(189,477)	(182,260)
Purchase of securities available for sale		(1,001,289)	-
Proceeds from sale and redemption of securities and other financial assets at FVOCI		439,780	153,031
<b>Net cash used in investing activities</b>		<b>(750,986)</b>	<b>(29,229)</b>
<b>Cash flows from financing activities</b>			
Proceeds from increase in share capital	14	-	3,000,000
Debt securities issued		20,000,000	3,308,535
<b>Net cash from financing activities</b>		<b>20,000,000</b>	<b>6,308,535</b>
Effect of exchange rate changes on cash and cash equivalents		(5,259)	12,396
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(3,750,210)</b>	<b>2,079,598</b>
Cash and cash equivalents, beginning		9,593,279	7,513,681
<b>Cash and cash equivalents, ending</b>	5	<b>5,843,069</b>	<b>9,593,279</b>

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

Chairman of the Management Board  
Derot Xavier Gerard

12 March 2020



Chief Accountant  
Daria Vladislavovna Dolgorukova

## Translation of the original Russian version

*(thousands of Russian rubles)*

### 1. Principal activities

These are the financial statements of JSC RN Bank (hereinafter, the “Bank”).

The Bank (former CJSC Bank Sibir) was formed in the Russian Federation (the city of Omsk) on 9 March 1989. In 1998, in order to align the legal structure with the legislation, the Bank was reorganized into a limited liability company – LLC OCB Sibir. In 2002, the Bank changed its legal form to a closed joint stock company. Since May 2013, the Bank has been registered and located in Moscow. On 5 September 2013, following the decision of the sole shareholder (Decision No. 1 of 5 September 2013), the Bank changed its name as follows:

Full corporate name of the Bank: Joint Stock Company RN Bank.

Short name: JSC RN Bank.

Location (legal address): Russia 109028, Moscow, Serebryanicheskaya naberezhnaya, 29.

Main State Registration Number: 1025500003737.

The record concerning the establishment was made in the Uniform State Register of Legal Entities on 6 November 2002.

Bank’s identification code (BIC): 044583105.

Taxpayer identification number (TIN): 5503067018.

Contact telephone number: + 7 (495) 775-40-68.

Contact fax number: + 7 (495) 775-40-67.

Email address: help@rn-bank.ru.

Web-site: www.rn-bank.ru.

In 2014, the Bank changed its legal form from a closed joint stock company to a joint stock company. The decision was approved by the shareholders on 31 October 2014. The change was made to the Uniform State Register of Legal Entities on 9 December 2014.

The Bank carries out its activities based on the following licenses:

- ▶ License No. 170 issued on 6 November 2013 to carry out banking operations in rubles and foreign currencies (without the right to accept deposits from individuals);
- ▶ License No. 170 issued on 6 November 2013 to accept deposits from individuals denominated in rubles and foreign currencies.

The Bank is a member of the deposit insurance system and was included in the register of banks participating in the obligatory insurance system on 3 February 2005 (Certificate No. 551). The system operates under the federal laws and regulations and is governed by the State Corporation “Agency for Deposits Insurance”. Insurance covers the Bank’s liabilities to individual depositors in the amount up to RUB 1,400 thousand both in 2019 and 2018 per each individual in case of a business failure or revocation of the banking license issued by the Bank of Russia.

As at 1 January 2020, the Bank:

- ▶ Is a member (an associate) of a banking group with Joint Stock Company “UniCredit Bank” as a parent;
- ▶ Is not a professional participant of the securities market;
- ▶ Has no branches or representative offices in the Russian Federation;
- ▶ Has no subsidiaries or associates.

On 28 February 2019, Analytical Credit Rating Agency (ACRA) upgraded the national credit rating of the Bank to the maximum of AAA(RU) with a stable outlook. The ratings of exchange-traded bond issues of the Bank were also upgraded to AAA(RU).

On 24 April 2019, International Credit Rating Agency S&P Global Ratings confirmed the Bank’s long-term credit rating at BB+ with a stable outlook.

## Translation of the original Russian version

(thousands of Russian rubles)

### 1. Principal activities (continued)

As at 1 January 2020 and 1 January 2019, the headcount of the Bank was 263 employees and 195 employees, respectively.

As at 1 January 2020 and 1 January 2019, Limited Liability Company BARN B.V., the Netherlands, is the sole shareholder of the Bank. Its ownership in the share capital of the Bank is 100.00%.

The executive body as represented by the Chairman of the Management Board of JSC RN Bank approves the annual financial statements for issue. The IFRS annual financial statements of the Bank are published in full on the Bank's official website ([www.rn-bank.ru/about/investors/отчетность](http://www.rn-bank.ru/about/investors/отчетность)).

### 2. Basis of preparation

#### Statement of compliance with International Financial Reporting Standards

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions (RAL). These financial statements are based on RAL, as adjusted and reclassified in order to comply with IFRS.

#### Basis of measurement

These financial statements have been prepared under the historical cost convention except for financial instruments at fair value. For example, derivative financial instruments have been measured by the Bank at fair value. The historical cost is generally estimated based on the fair value of consideration transferred in exchange of goods and services.

#### Presentation currency

These financial statements are presented in thousands of Russian rubles (RUB).

#### Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

The application of this standard resulted in an increase in the share capital by RUB 64,091 thousand and a decrease in retained earnings / (accumulated deficit) by the same amount.

### 3. Summary of accounting policies

#### Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Bank has not adopted early standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each new amendment are described below.

##### *IFRS 16 Leases*

IFRS 16 supersedes 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 standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

## Translation of the original Russian version

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Notes to the 2019 financial statements

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### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact on leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to apply recognition exemptions for leases with a lease term of 12 months or less at the commencement date which do not contain a purchase option (short-term leases), as well as for leases in which the underlying asset is of low value (leases of 'low-value' assets).

The effect of adopting IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

<b>Assets</b>	
Property and equipment	208,794
<b>Total assets</b>	<b>208,794</b>
<b>Liabilities</b>	
Lease liabilities	208,794
<b>Total liabilities</b>	<b>208,794</b>
<b>Total adjustment to equity</b>	<b>-</b>

#### (a) Nature of the effect of adopting IFRS 16

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise, it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and the reduction in the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as lease expenses in profit or loss on a straight-line basis over the lease term. Any prepaid and accrued lease payments were recognized in other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients which have been applied by the Bank.

The Bank has no leases classified as finance leases prior to 1 January 2019.

#### Leases previously classified as operating leases

The Bank recognized right-of-use assets and lease liabilities for leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Right-of-use assets for most leases were measured at their carrying amounts as if the standard had always been applied, apart from the use of the incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.



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### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

The Bank also applied the available practical expedients wherein it:

- ▶ Used a single discount rate for a portfolio of leases with reasonably similar characteristics;
- ▶ Analyzed onerous lease agreements immediately before the date of initial application as an alternative to review for impairment;
- ▶ Applied the short-term leases exemption to leases with a lease term that ends within 12 months from the date of initial application;
- ▶ Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- ▶ Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- ▶ Right-of-use assets of RUB 208,794 thousand were recognized and included in property and equipment and right-of-use assets;
- ▶ Additional lease liabilities of RUB 208,794 thousand (included in other liabilities) were recognized.

Lease liabilities as at 1 January 2019 can be reconciled to operating lease commitments as at 31 December 2018 as follows:

<b>Operating lease commitments as at 31 December 2018</b>	<b>404,926</b>
Weighted average incremental borrowing rate as at 1 January 2019	11.24%
<b>Discounted operating lease commitments as at 1 January 2019</b>	<b>331,274</b>
Less:	
Commitments relating to short-term leases and leases of low-value assets	(122,480)
<b>Lease liabilities as at 1 January 2019</b>	<b>208,794</b>

#### (b) Summary of new accounting policies

Summarized below are the new accounting policies of the Bank upon adoption of IFRS 16, which have been applied since the date of initial application.

#### Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset becomes available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment testing.

#### Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in in-substance fixed lease payments or a change in the assessment of the option to purchase the underlying asset.

## Translation of the original Russian version

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

##### Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that is considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

##### Significant judgment in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

##### Amounts recognized in the statement of financial position and statement of profit or loss

Set out below are the carrying amounts of the Bank's right-of-use assets and lease liabilities and their movements during the period.

	<i>Right-of-use assets</i>			<i>Lease liabilities</i>
	<i>Buildings</i>	<i>Motor vehicles</i>	<i>Total</i>	
<b>1 January 2019</b>	198,484	10,310	<b>208,794</b>	208,794
Additions	12,064	7,364	<b>19,428</b>	19,428
Depreciation expense	(48,874)	(7,923)	<b>(56,797)</b>	-
Interest expense	-	-	-	21,577
Payments	-	-	-	(71,555)
<b>31 December 2019</b>	<b>161,674</b>	<b>9,751</b>	<b>171,425</b>	<b>178,244</b>

For the year ended 31 December 2019, the Bank recognized expenses from leases of low-value assets and variable lease payments of RUB 20,353 thousand and RUB 6,617 thousand, respectively.

##### *Amendments to IFRS 9: Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments had no impact on the Bank's financial statements.

##### *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the Bank's financial statements.

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

##### *Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity should apply IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarify that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the financial statements of the Bank as the Bank does not have any long-term interests in its associates or joint ventures.

##### **Annual improvements 2015-17 cycle**

##### *IFRS 3 Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it should apply the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer should remeasure its entire previously held interest in the joint operation.

An entity should apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the Bank's financial statements, as it was not involved in any transactions where joint control is obtained.

##### *IFRS 11 Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity should apply those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the Bank's financial statements, as it was not involved in any transactions where joint control is obtained.

##### *IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity should apply those amendments to annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it should apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

Since the Bank's current practice is in line with these amendments, they had no effect on its financial statements.

##### *IAS 23 Borrowing Costs*

The amendments clarify that an entity should treat as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

An entity should apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity should apply those amendments to annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Bank's current practice is in line with these amendments, they had no effect on its financial statements.

#### Financial assets

##### Initial recognition

The Bank recognizes an asset in its statement of financial position when it becomes party to the contractual provisions of the financial instrument.

The Bank classifies its financial assets at initial recognition.

##### Classification of financial assets

The Bank classifies its financial assets as subsequently measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss, based on the following:

- (a) The Bank's business model for managing the financial assets; and
- (b) The financial asset's contractual cash flow characteristics (SPPI test).

The Bank measures a financial asset at amortized cost if both of the following conditions are met:

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

As a second step of its classification process, the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Included in this category are the Bank's loans to individuals and legal entities, as the Bank does not expect its loan portfolios to be regularly sold without any deterioration in their credit quality. Gains and losses on such assets are recognized in profit or loss.

##### Debt instruments at FVOCI

Since 1 January 2018, the Bank has applied the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

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

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Financial assets (continued)

The Bank includes its issued securities classified as available for sale within the FVOCI category, since the Bank plans to hold these assets not only to collect contractual cash flows, but also for the purpose of relatively frequent significant sales. After initial recognition, the Bank measures the securities at fair value recording the revaluation gains and losses in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired. However, interest calculated using the effective interest rate method is recognized in profit or loss.

The Bank measures financial assets at fair value through profit or loss unless they are measured at amortized cost or FVOCI. For financial assets at fair value through profit or loss, the business model does not meet the SPPI criterion.

Financial instruments at fair value through profit or loss represent financial assets and liabilities, which are:

- ▶ Acquired principally for the purpose of reselling or repurchasing in the near term;
- ▶ Part of a portfolio of identified financial instruments that are managed as a single portfolio and for which there is evidence of a recent actual pattern of near-term profit-taking;
- ▶ Derivative financial instruments (except for derivative financial instruments designated as a hedging instrument in an effective hedge); or
- ▶ Classified by the Bank as financial instruments at fair value through profit or loss at initial recognition.

Financial assets and liabilities are classified by the Bank as financial assets and liabilities at fair value through profit or loss if:

- ▶ These assets or liabilities are managed and evaluated on a fair value basis;
- ▶ Designation of these assets and liabilities into the category of assets and liabilities at fair value through profit or loss eliminates or significantly reduces the mismatch which otherwise would arise; or
- ▶ The corresponding asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Gains or losses on financial assets not held for trading are recognized in profit or loss.

#### **Disposal of financial assets**

The Bank derecognizes a financial asset in the statement of financial position where:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement;
- ▶ The Bank either (a) has transferred substantially all the risks and rewards of the asset or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

#### **Fair value measurements**

The Bank measures financial instruments, which are recorded at FVPL and FVOCI, at fair value at each reporting date.

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.

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Financial assets (continued)

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers should occur between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### **Reclassification of financial assets**

Starting 1 January 2018, the Bank does not reclassify financial assets after their initial recognition, apart from exceptional cases when the Bank changes the business model for managing the financial assets (2017: the Bank did not reclassify financial assets).

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, amounts due from the Bank of Russia, excluding obligatory reserves, and amounts due from credit institutions that mature within 90 days of the date of origination and are free from contractual encumbrances.

#### **Obligatory cash balances with the Central Bank of the Russian Federation**

The Bank cannot use obligatory cash balances with the Bank of Russia to finance its day-to-day operating activities.

#### **Derivative financial instruments**

In the normal course of business, the Bank enters into various derivative financial instruments, including interest rate and cross-currency interest rate swaps. Such financial instruments are not held for trading and are entered into to hedge the Bank's liabilities denominated in foreign currency and fixed-rate liabilities, and recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss for the period.

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Financial assets (continued)

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contracts were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host contract were carried at fair value in the trading portfolio with changes in fair value recognized in the statement of profit or loss.

Since 1 January 2018, with the introduction of IFRS 9, the Bank has accounted in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

#### Hedge accounting

The objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income).

At its discretion, the Bank designates a hedging relationship between a hedging instrument and a hedged item.

#### Hedging instruments

The standard does not limit the circumstances in which the derivative may be designated as a hedging instrument, provided the hedge criteria are met.

#### Hedged items

A hedged item may be:

- (a) A separate asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation;
- (b) A group of assets, liabilities, firm commitments, highly probable forecast transactions or net investments in foreign operations with similar risk characteristics; or
- (c) For a portfolio hedge of interest rate risk only, a component of the portfolio of financial assets or financial liabilities with the same hedged risk.

#### Hedge accounting

Two types of hedging relationships are determined:

- (a) Fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified component of any such item, that is attributable to a particular risk and could affect profit or loss;
- (b) Cash flow hedge: a hedge of the exposure to variability in cash flows that:
  - (i) Is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable-rate debt); or
  - (ii) Could affect profit or loss.

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Financial assets (continued)

A hedging relationship qualifies for hedge accounting if, and only if, all of the following criteria are met:

- (a) At the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedge effectiveness to compensate for the exposure to changes in the fair value of the hedged item or cash flows associated with the risk being hedged;
- (b) Hedges are expected to compensate for changes in the fair value or cash flows associated with the risk being hedged in accordance with the originally documented risk management strategy for the related hedging relationship;
- (c) For cash flow hedges, future transactions being hedged must be highly probable, and such transactions must give rise to the exposure to variability in cash flows that could affect profit or loss;
- (d) The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- (e) The hedge is assessed on an ongoing basis, and the effectiveness of the hedge is assessed for all reporting periods for which the hedge is designated.

#### Fair value hedges

As long as a fair value hedge meets the qualifying criteria (see above) during the period, it should be accounted for as follows:

- ▶ The gain or loss on the fair value revaluation of the hedging instrument is recognized in profit or loss;
- ▶ The gain or loss on the hedged item associated with the risk being hedged adjusts the carrying amount of the hedged item and is recognized in profit or loss. This method is applied where the hedged item is measured at cost.

A fair value hedge is discontinued when the following criteria are met:

- (a) A hedging instrument expires or is terminated, sold or exercised;  
For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of the entity's documented hedging strategy;
- (b) The hedge ceases to meet the criteria for hedge accounting;
- (c) The entity revokes its previous designation of a hedge relationship.

#### Cash flow hedges

As long as a cash flow hedge meets the qualifying criteria (see above) during the period, it should be accounted for as follows:

- (a) The portion of the gain or loss on the hedging instrument that was determined to be an effective hedge should be recognized in other comprehensive income;
- (b) The ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss.

In greater detail, cash flow hedges are accounted for as follows:

- (a) Separate components of equity associated with the hedged item are adjusted to the lower of the following (in absolute amounts):
  - (i) The cumulative gain or loss on the hedging instrument from inception of the hedge; and
  - (ii) The cumulative change in fair value (present value) of the hedged expected future cash flows from inception of the hedge;
- (b) Any remaining gain or loss on the hedging instrument or certain component of the hedging instrument (that is not an effective hedge) is recognized in profit or loss.



(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Financial assets (continued)

If a hedged forecast transaction subsequently results in the recognition of a financial asset or financial liability, the respective gain or loss recognized in other comprehensive income shall be removed from equity and recognized in profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, in the periods when interest income or interest expense is recognized). However, if the entity expects that all or a portion of the loss recorded within other comprehensive income will not be recovered in one or more future periods, it shall reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment to which fair value hedge accounting is applied, the entity shall:

- (a) Reclassify the related gain or loss recorded in other comprehensive income into profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss (for example, in the periods when the depreciation or cost or sales was recognized). However, if the entity expects that all or a portion of the loss recorded within other comprehensive income will not be recovered in one or more future periods, it shall transfer the amount that is not expected to be recovered from equity into profit or loss as a reclassification adjustment;
- (b) Remove the associated gain or loss recognized in other comprehensive income and include it in the initial cost or other carrying amount of the asset or liability.

A cash flow hedge is discontinued when the following criteria are met:

- (a) A hedging instrument expires or is terminated, sold or exercised. In this case, the cumulative gain or loss on the hedging instrument recorded in other comprehensive income from the period during which the hedge was effective shall continue to be recognized in equity as a separate item until the forecast transaction is completed. For the purpose of this paragraph, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of the entity's documented hedging strategy;
- (b) The hedge ceases to meet the criteria for hedge accounting listed above. In this case, the cumulative gain or loss on the hedging instrument recorded in other comprehensive income from the period during which the hedge was effective shall continue to be recognized in equity as a separate item until the forecast transaction occurs;
- (c) The transaction is no longer expected to occur, in which case the cumulative gain or loss on the hedging instrument recorded in other comprehensive income from the period during which the hedge was effective shall be removed from equity and recognized in profit or loss as a reclassification adjustment. A future transaction that is no longer highly probable to occur may still be expected to occur;
- (d) The entity revokes its previous designation of a hedge relationship. For a hedged future transaction, the cumulative gain or loss on the hedging instrument recorded in other comprehensive income from the period during which the hedge was effective shall continue to be recognized in equity as a separate item until the transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain or loss recorded in other comprehensive income shall be removed from equity and recognized in profit or loss as a reclassification adjustment.

#### Hedge effectiveness calculations

Hedge effectiveness assessment is based on the hypothetical derivative method (a variety of the dollar compensation method in IAS 39 IG F5.5).

Under this method, an ideal hypothetical derivative is determined that would be an ideal hedging instrument to hedge against particular risks. The fair value of the ideal hypothetical instrument shall be used instead of the net discounted value of future cash flows being hedged. It is that fair value that is compared to fair value changes in the actual hedging instrument.

The actual hedge effectiveness ratio shall be within the range of 80% to 125%.

Hedge effectiveness shall be assessed monthly at each reporting date.

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Financial assets (continued)

IFRS 9 gives a choice to continue applying the hedge accounting requirements of IAS 39 instead of the new requirements set out in IFRS 9. The Bank decided not to apply IFRS 9 for hedge accounting when IFRS 9 becomes effective.

#### Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to realize the asset and settle the liabilities simultaneously.

The right to set-off must not be contingent on a future event and should be enforceable in all the following circumstances:

- ▶ In the normal course of business;
- ▶ In the event of default; and
- ▶ In the event of insolvency or bankruptcy of an entity or any of its counterparties.

These conditions are not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

#### Restructured loans

Provided that an income source is available to the borrower, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

From 1 January 2018, the Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been revised to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- ▶ A change in the currency of the loan;
- ▶ A change in the counterparty;
- ▶ If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within interest revenue calculated using EIR in the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

#### Non-financial assets

Other non-financial assets, excluding deferred taxes, are assessed for any indications of impairment at each reporting date.

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Financial liabilities

Financial liabilities are recorded in the Bank's statement of financial position when the Bank becomes a party to the contract for the respective financial instrument.

#### Initial recognition

The Bank classifies all financial liabilities as subsequently measured at amortized cost, except:

- (a) Financial liabilities at fair value through profit or loss (the Bank includes derivative financial instruments in this category);
- (b) Financial liabilities arising when the transfer of a financial asset does not qualify for derecognition or the principle of accounting for continuing involvement is applied (not applicable to the Bank);
- (c) Financial guarantee contracts (not applicable to the Bank);
- (d) Loan commitments at below-market interest rates (not applicable to the Bank);
- (e) Contingent consideration recorded by the acquirer upon the business combination (not applicable to the Bank).

Included in the Bank's financial liabilities at amortized cost are amounts due to credit institutions, amounts due to customers, subordinated debt and debt securities issued. After initial recognition, borrowings are subsequently recorded at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

Included in the Bank's financial liabilities at amortized cost are debt securities issued, i.e. bonds. Pursuant to Article 2 of Federal Law No. 39-FZ *On the Securities Market* of 22 April 1996, circulation of securities shall mean the conclusion of civil transactions which entail the transfer of ownership rights to securities. Thus, securities mature within a period from the moment they originate as objects of civil rights, during which parties to civil transactions may conclude transactions or perform other legal acts therewith. Debt securities issued by the Bank are recorded at their nominal cost, whether upon the initial placement or sale in the secondary market.

#### Reclassification of liabilities

Financial liabilities are not reclassified (the Bank did not reclassify its financial liabilities in 2018).

#### Disposal of financial liabilities

A financial liability is derecognized when it is discharged or canceled or expires.

Where an existing financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

#### Operating leases

Where the Bank is a lessee under lease agreements where the lessor retains substantially all the risks and benefits of ownership of the assets, such leases are classified as operating leases. Leased assets are not recognized in the financial statements and lease payments are recognized in profit or loss on a straight-line basis over the lease period.

Where the operating lease terminates prior to the expiration of the lease term, any fines and forfeits due to the lessor are expensed in the period when such an operating lease was terminated.

#### Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

## Translation of the original Russian version

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Taxation (continued)

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available in the future, against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax regulations that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes that are assessed on the Bank's activities. These taxes are recorded as a component of other operating expenses.

#### Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation of property and equipment begins when they become available for use. Depreciation is accrued on a straight-line basis over the following estimated useful lives:

<b><i>Property and equipment</i></b>	<b><i>Depreciation period</i></b>
Furniture	5-7 years
Equipment	2-5 years
Computer equipment	2 years
Capital investments in leased property and equipment	3-6 years
Light vehicles	3 years
Other property and equipment	3-5 years

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to current and capital repairs are charged when incurred and included in other operating expenses unless they qualify for capitalization.

An item of property and equipment is derecognized upon sale or when no future economic benefits are expected from its continuing use. Gains or losses on sale or other disposal of property and equipment are determined as the difference between the sale price and the carrying amount of property and equipment and are recognized in profit or loss.

#### Intangible assets and goodwill

Intangible assets other than goodwill include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is accrued on a straight-line basis over the useful life of an intangible asset. The useful lives of intangible assets are assessed to be either finite or indefinite. At present, the useful life of intangible assets with finite useful lives is estimated as not exceeding 5 years.

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

*(thousands of Russian rubles)*

### 3. Summary of accounting policies (continued)

#### **Collateral**

The Bank obtains collateral against customers' obligations where necessary. Collateral is generally the pledge of the customer's assets entitling the Bank to claim such assets with regard to the customers' current and future obligations.

#### **Other provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

#### **Pension obligations and other employee benefits**

The Bank does not have any pension arrangements separate from the state pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-employment benefits.

#### **Share capital**

##### *Share capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as share premium (additional paid-in capital).

##### *Dividends*

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

#### **Contingencies**

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

#### **Recognition of income and expenses**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

##### ***Interest and similar income and expense***

From 1 January 2018, the Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying the effective interest rate to the amortized cost of financial assets). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest revenue or expense.

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Recognition of income and expenses (continued)

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

##### *Fee and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income can be divided into the following two categories:

##### Fee and commission income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

##### Fee and commission income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Bank's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognized after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

#### Foreign currency translation

The financial statements are presented in Russian rubles, which are the Bank's functional and presentation currency. Transactions in foreign currencies are translated into the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the presentation currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation are recognized in profit or loss as gains/losses from translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the rate of exchange ruling at the date of the initial transaction. Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the Bank of Russia on the date of the transaction are included in profit or loss.

The official exchange rates of the Bank of Russia at 31 December 2019 and 31 December 2018 were RUB 61.9057 and RUB 69.4706 to 1 USD, respectively.

The official exchange rates of the Bank of Russia at 31 December 2019 and 31 December 2018 were RUB 69.3406 and RUB 79.4605 to 1 EUR, respectively.

The official exchange rates of the Bank of Russia at 31 December 2019 and 31 December 2018 were RUB 56.7032 and RUB 62.9976 to 100 JPY, respectively.

#### Government grants

Since 2013, the Bank has participated in a government-sponsored program launched on 3 December 2012 by the Government of the Russian Federation for a partial reimbursement of interest income on loans issued to individuals for the purchase of Russian-produced cars.

Since 2017, the Bank has participated in government lending programs (My First Car, Family Car) providing for an additional discount for the initial installment of 10% of the cost of the purchased car.

All the government grant programs were closed as at 31 December 2019. Income for 2013-19 from government lending programs for subsidizing loan interest rates was recorded within interest income.

(thousands of Russian rubles)

### 3. Summary of accounting policies (continued)

#### Standards issued but not yet effective

The standards and interpretations that have been issued, but are not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards when they become effective.

##### *IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- ▶ A specific adaptation for contracts with direct participation features (the variable fee approach);
- ▶ A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. In 2019, the Bank will continue to assess the potential effect of IFRS 17 on its financial statements.

##### *Amendments to IFRS 3 Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of their first application, the Bank will not be affected by these amendments on the date of transition.

##### *Amendments to IAS 1 and IAS 8 Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of material across the standards and to clarify certain aspects of the definition. The new definition states that 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material are not expected to have any significant impact on the Bank's financial statements.

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

The amendments to IFRS 9, IAS 39 and IFRS 7 include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The interest rate benchmark reform may give rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. This may lead to uncertainty over whether a forecast transaction is probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect on 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have any significant impact on the Bank's financial statements.

(thousands of Russian rubles)

#### 4. Significant accounting judgments and estimates

##### Estimation uncertainty

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

##### *Fair values of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. More details are provided in Note 20.

##### *Expected credit losses/impairment losses on financial assets*

The measurement of losses under IFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL/impairment losses and assessing a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- ▶ The Bank's internal credit grading model, which assigns PDs to individual grades;
- ▶ The Bank's criteria for assessing if there has been a significant increase in credit risk; so, allowances for financial assets should be measured on a lifetime ECL basis, and the qualitative assessment;
- ▶ The segmentation of financial assets when their ECL are assessed on a collective basis;
- ▶ Development of ECL models, including various formulae and the choice of inputs;
- ▶ Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of the allowance recognized in the statement of financial position at 31 December 2019 was RUB 3,833,499 thousand (2018: RUB 3,273,741 thousand). More details are provided in Notes 7 and 17.

##### Deferred income tax asset recognition

The recognized deferred income tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position.

The deferred income tax asset is recorded to the extent that the realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are forecast probable in the future are based on management's estimates.

The Bank recognized a tax asset equal to its estimated sufficient taxable profit available in the foreseeable future to realize the deferred tax asset in accordance with the Bank's business plan which is adjusted for expected adverse economic changes in the market where the Bank operates.



## Translation of the original Russian version

JSC RN Bank

Notes to the 2019 financial statements

(thousands of Russian rubles)

### 5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Cash on hand	10	10
Current accounts with the Bank of Russia	2,186,720	1,141,839
Balances on nostro accounts with other credit institutions	56,339	47,129
Term deposits (up to 90 days) with the Bank of Russia	3,600,000	6,403,710
Term deposits (up to 90 days) with other banks	–	2,000,591
<b>Total cash and cash equivalents</b>	<b>5,843,069</b>	<b>9,593,279</b>

Cash and cash equivalents are neither impaired nor past due.

As at 31 December 2019, the Bank had balances with one counterparty (2018: two counterparties).

As at 31 December 2018, total balances of deposits placed with each counterparty comprised 66.75% and 20.86% of the total cash and cash equivalents, respectively.

### 6. Derivative financial instruments

The Bank does not enter into derivative financial instruments for trading purposes. Derivative financial instruments represent hedges. The table below shows the fair values of derivative financial instruments recorded in the financial statements as assets or liabilities.

The Bank measures derivative financial instruments using valuation techniques based on market interest rates. Significant changes in the specified variables may produce materially different estimates of fair values.

Below are the fair values of derivative financial instruments recognized in assets or liabilities and their nominal values as at 31 December 2019.

	<b>31 December 2019</b>			
	<b>Nominal value</b>		<b>Fair value</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Cross-currency interest rate contracts</b>				
Swaps	10,219,852	(11,577,515)	–	(154,064)
<b>Interest rate contracts</b>				
Swaps	4,033,622	(3,311,710)	868,323	–
	<b>14,253,474</b>	<b>(14,889,225)</b>	<b>868,323</b>	<b>(154,064)</b>

Below are the fair values of derivative financial instruments recognized in assets or liabilities and their nominal values as at 31 December 2018.

	<b>31 December 2018</b>			
	<b>Nominal value</b>		<b>Fair value</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Cross-currency interest rate contracts</b>				
Swaps	13,111,414	(14,691,431)	1,082,686	(164,191)
<b>Interest rate contracts</b>				
Swaps	1,813,348	(556,132)	–	(115,488)
	<b>14,924,762</b>	<b>(15,247,563)</b>	<b>1,082,686</b>	<b>(279,679)</b>

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### 6. Derivative financial instruments (continued)

As at 31 December 2019, the Bank had positions in cross-currency interest rate swaps, which are contractual agreements stipulating that on a fixed date a party shall pay a fixed or floating interest on a certain amount in RUB to the other party and shall receive a payment of the interest at a floating or fixed rate in foreign currency, and non-deliverable interest rate swaps, which are contractual agreements that on a fixed date a party shall pay a fixed interest on a certain amount in RUB to the other party and shall receive a payment of the interest at a floating rate in RUB.

As at 31 December 2019, the Bank entered into derivative transactions with five counterparties, all of which are resident counterparties.

As at 31 December 2018, the Bank entered into derivative transactions with four counterparties. As at 31 December 2018, total balances with all counterparties were as follows: 4% with a non-resident counterparty and 96% with resident counterparties.

To manage exposure to currency and interest rate risks, the Bank continued to apply hedge accounting in 2019 in relation to all derivative transactions that were concluded after 1 January 2015 and passed the hedge effectiveness test.

The table below shows non-trading derivative financial instruments, by hedge, included in assets or liabilities as at 31 December 2019 and 2018, respectively.

	<b>31 December 2019</b>	
	<b>Assets</b>	<b>Liabilities</b>
<b>Hedging instruments</b>		
<b>Cross-currency interest rate contracts</b>	-	<b>(154,064)</b>
Fair value hedges	-	(154,064)
Cash flow hedges	-	-
<b>Interest rate contracts</b>	<b>868,323</b>	-
Fair value hedges	868,323	-
Cash flow hedges	-	-
<b>Non-hedging derivatives</b>	-	-
<b>Total</b>	<b>868,323</b>	<b>(154,064)</b>
	<b>31 December 2018</b>	
	<b>Assets</b>	<b>Liabilities</b>
<b>Hedging instruments</b>		
<b>Cross-currency interest rate contracts</b>	<b>875,558</b>	<b>(164,191)</b>
Fair value hedges	-	(164,191)
Cash flow hedges	875,558	-
<b>Interest rate contracts</b>	-	<b>(115,488)</b>
Fair value hedges	-	(115,488)
Cash flow hedges	-	-
<b>Non-hedging derivatives</b>	<b>207,128</b>	-
<b>Total</b>	<b>1,082,686</b>	<b>(279,679)</b>

Non-hedging derivatives comprise derivative transactions that have not passed the hedge effectiveness test.

Cash flow hedges:

- ▶ As at 31 December 2019, the Bank had no derivative financial instruments, which qualify for recognition in other comprehensive income.
- ▶ During 2019, RUB (135,743) thousand were recognized in other comprehensive income, RUB (135,743) thousand were reclassified to profit or loss with RUB (34,419) thousand of interest expense on amounts due to banks, RUB (107,984) thousand of translation differences and RUB 6,660 thousand of the ineffective portion.
- ▶ During 2018, RUB 381,526 thousand were recognized in other comprehensive income, RUB 281,498 thousand were reclassified to profit or loss with RUB (409,788) thousand included in interest expense on amounts due to banks. Translation differences amounted to RUB 691,286 thousand.

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Notes to the 2019 financial statements

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### 6. Derivative financial instruments (continued)

Fair value hedges:

- ▶ During 2019, RUB (1,872,627) thousand were recognized in profit or loss, including RUB (1,201,349) thousand of translation differences, RUB (654,299) thousand of interest expense on amounts due to banks and RUB (16,979) thousand of the ineffective portion.
- ▶ During 2018, RUB 632,118 thousand were recognized in profit or loss, including RUB 1,180,578 thousand of translation differences, RUB (417,972) thousand of interest expense on amounts due to banks and RUB (130,488) thousand of the ineffective portion.

### 7. Loans to customers

Loans to customers comprise:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Loans to legal entities</b>		
Factoring	42,679,478	32,512,088
<b>Total gross loans to legal entities</b>	<b>42,679,478</b>	<b>32,512,088</b>
<b>Loans to individuals</b>		
Car loans	58,771,438	49,849,841
<b>Total gross loans to individuals</b>	<b>58,771,438</b>	<b>49,849,841</b>
Allowance for expected credit losses	(3,833,499)	(3,273,741)
<b>Total loans to customers</b>	<b>97,617,417</b>	<b>79,088,188</b>

Movements in the gross carrying amount of loans to legal entities measured at amortized cost for the year ended 31 December 2019 are provided below.

<b>Loans to legal entities</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>28,170,682</b>	<b>4,341,406</b>	-	<b>32,512,088</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets recognized during the period	381,703,013	3,785,218	-	<b>385,488,231</b>
Assets disposed or redeemed (except for write-offs)	(370,972,823)	(4,348,018)	-	<b>(375,320,841)</b>
Write-offs	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>38,900,872</b>	<b>3,778,606</b>	-	<b>42,679,478</b>

Movements in the gross carrying amount of loans to legal entities measured at amortized cost for the year ended 31 December 2018 are provided below.

<b>Loans to legal entities</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	<b>18,804,576</b>	<b>2,286,702</b>	<b>483,559</b>	<b>21,574,837</b>
Transfers to Stage 1	1,995	(1,647)	(348)	-
Transfers to Stage 2	(1,868)	1,868	-	-
Transfers to Stage 3	-	1,570	(1,570)	-
Assets recognized during the period	214,702,949	49,046,436	-	<b>263,749,385</b>
Assets disposed or redeemed (except for write-offs)	(205,342,071)	(46,989,423)	(473,988)	<b>(252,805,482)</b>
Write-offs	-	-	(7,652)	<b>(7,652)</b>
<b>Balance at 31 December 2018</b>	<b>28,165,581</b>	<b>4,346,506</b>	-	<b>32,512,088</b>

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### 7. Loans to customers (continued)

Movements in the gross carrying amount of loans to individuals measured at amortized cost for the year ended 31 December 2019 are provided below.

<b>Loans to individuals</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>47,917,263</b>	<b>1,004,157</b>	<b>928,421</b>	<b>49,849,841</b>
Transfers to Stage 1	152,839	(152,839)	-	-
Transfers to Stage 2	(442,511)	466,983	(24,472)	-
Transfers to Stage 3	(259,210)	(113,139)	372,349	-
Assets recognized during the period	48,815,348	225,650	81,335	<b>49,122,333</b>
Assets disposed or redeemed (except for write-offs)	(39,301,734)	(635,671)	(157,668)	<b>(40,095,073)</b>
Write-offs	-	-	(105,662)	<b>(105,662)</b>
<b>Balance at 31 December 2019</b>	<b>56,881,995</b>	<b>795,141</b>	<b>1,094,303</b>	<b>58,771,439</b>

Movements in the gross carrying amount of loans to individuals measured at amortized cost for the year ended 31 December 2018 are provided below.

<b>Loans to individuals</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	<b>47,925,660</b>	<b>1,209,100</b>	<b>783,614</b>	<b>49,918,374</b>
Transfers to Stage 1	5,874	(5,874)	-	-
Transfers to Stage 2	(15,003)	15,003	-	-
Transfers to Stage 3	(262,257)	(214,647)	476,904	-
Assets recognized during the period	29,040,123	33,171	-	<b>29,073,294</b>
Assets disposed or redeemed (except for write-offs)	(28,777,133)	(32,596)	(304,601)	<b>(29,114,330)</b>
Write-offs	-	-	(27,497)	<b>(27,497)</b>
<b>Balance at 31 December 2018</b>	<b>47,917,264</b>	<b>1,004,157</b>	<b>928,420</b>	<b>49,849,841</b>

Loans to individuals are carried with the discounted value of future cash flows from Minpromtorg related to loans of RUB 273,816 thousand issued under state programs in 2015-19 (2015-18: RUB 988,274 thousand).

Movements in ECL (expected credit losses) on loans to legal entities measured at amortized cost for the year ended 31 December 2019 are provided below.

<b>Loans to legal entities</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>752,328</b>	<b>850,548</b>	-	<b>1,602,876</b>
Transfers to Stage 1	1,239	(1,239)	-	-
Transfers to Stage 2	(6,251)	6,251	-	-
Transfers to Stage 3	-	-	-	-
Charge/(reversal) for the period of expected credit losses	599,415	(472,690)	-	<b>126,725</b>
Write-offs	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>1,346,731</b>	<b>382,870</b>	-	<b>1,729,601</b>

Movements in ECL (expected credit losses) on loans to legal entities measured at amortized cost for the year ended 31 December 2018 are provided below.

<b>Loans to legal entities</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	<b>738,139</b>	<b>472,364</b>	<b>151,781</b>	<b>1,362,284</b>
Transfers to Stage 1	36,224	(35,276)	(948)	-
Transfers to Stage 2	(121,030)	121,030	-	-
Transfers to Stage 3	-	-	-	-
Charge/(reversal) for the period of expected credit losses	98,995	292,730	(143,180)	<b>248,545</b>
Write-offs	-	-	(7,653)	<b>(7,653)</b>
<b>Balance at 31 December 2018</b>	<b>752,328</b>	<b>850,848</b>	-	<b>1,603,176</b>

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### 7. Loans to customers (continued)

Movements in ECL (expected credit losses) on loans to individuals measured at amortized cost for the year ended 31 December 2019 are provided below.

<b>Loans to individuals</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>497,274</b>	<b>191,298</b>	<b>982,293</b>	<b>1,670,865</b>
Transfers to Stage 1	2,029	(2,029)		-
Transfers to Stage 2	(81,991)	87,378	(5,387)	-
Transfers to Stage 3	(211,965)	(92,179)	304,143	-
Charge/(reversal) for the period of expected credit losses	759,212	(20,481)	(243,919)	<b>494,812</b>
Write-offs	-	-	(61,779)	<b>(61,779)</b>
<b>Balance at 31 December 2019</b>	<b>964,559</b>	<b>163,987</b>	<b>975,351</b>	<b>2,103,898</b>

Movements in ECL (expected credit losses) on loans to individuals measured at amortized cost for the year ended 31 December 2018 are provided below.

<b>Loans to individuals</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	<b>239,906</b>	<b>315,088</b>	<b>655,989</b>	<b>1,210,983</b>
Transfers to Stage 1	33	(33)	-	-
Transfers to Stage 2	(7,347)	7,347	-	-
Transfers to Stage 3	(2,029)	-	2,029	-
Charge/(reversal) for the period of expected credit losses	266,711	(131,104)	351,772	<b>487,379</b>
Write-offs	-	-	(27,497)	<b>(27,497)</b>
<b>Balance at 31 December 2018</b>	<b>497,274</b>	<b>191,298</b>	<b>982,293</b>	<b>1,670,865</b>

#### Key assumptions and judgments in loan impairment assessment

A loan is impaired as a result of one or more events that occurred after the initial recognition of the loan and had an impact on estimated future cash flows from the loan that can be reliably estimated. There is no direct objective evidence of impairment for loans not individually impaired.

Objective evidence of impairment of loans to legal entities and individuals is in particular associated with the following:

- ▶ At least one of the loan-related payments is over 90 days overdue (fully or partially).
- ▶ The client is subject to legal actions and complaints as a defendant in cases related to unsettled loans with the Bank.
- ▶ The loans of the client were written off from the Bank's balance sheet.
- ▶ The client's debt was restructured and the outstanding amount was reduced through forgiving or postponement of the principle and/or interest and/or commission payment (as appropriate).
- ▶ The client is subject to the insolvency (liquidation/ bankruptcy) procedure.

The Bank determines the impairment allowance for loans to legal entities based on the following major assumptions:

- ▶ The financial position of the client and its ability to fulfill its obligations to the Bank;
- ▶ The collateral considered in the future cash flows assessment can be sold on the market.

#### Modified and restructured loans

As at 31 December 2019 and during the year then ended, no significant modifications occurred to loans to customers, as restructured loans did not result in any material movements in cash flows and the net loss/gain on loans restructuring was insignificant. Loans restructured by the Bank are not material to the total portfolio of loans to individuals.

As at 31 December 2019, 130 restructured loans to individuals, with a carrying amount of RUB 46,415 thousand, are recognized on the balance sheet.

As at 31 December 2018, 117 restructured loans to individuals, with a carrying amount of RUB 38,900 thousand, are recognized on the balance sheet.

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### 7. Loans to customers (continued)

#### Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- ▶ Corporate lending: charges over vehicles, charges over spare parts, bank guarantees, corporate or personal sureties, the rights of claim under corporate deposits;
- ▶ Retail lending: charges over vehicles, personal sureties.

The main purpose of collateral agreements is to reduce possible loan losses when settling obligations under credit agreements.

For loans secured by several types of collateral, all types of collateral at their contractual value are listed.

Below are the total values of collateral, by group of loans to customers and type of collateral, as at 31 December 2019 and 31 December 2018, respectively.

	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>Contractual amount of collateral (as at the reporting date)</b>	<b>Carrying amount of loans to customers</b>	<b>Contractual amount of collateral (as at the reporting date)</b>	<b>Carrying amount of loans to customers</b>
<b>Loans to legal entities</b>				
- Vehicles	40,257,931	-	30,689,943	-
- Guarantees of credit institutions	603,760	-	1,912,280	-
- Pledge of goods in turnover	481,085	-	212,200	-
- Corporate sureties	84,956,678	-	68,176,198	-
- Personal sureties	58,666,454	-	38,724,404	-
<b>Total loans to legal entities</b>	<b>184,965,908</b>	<b>42,679,478</b>	<b>139,715,025</b>	<b>32,512,088</b>
<b>Loans to individuals</b>				
- Vehicles	110,860,894	-	105,772,648	-
- Personal sureties	5,098	-	18,516	-
<b>Total loans to individuals</b>	<b>110,865,992</b>	<b>58,771,439</b>	<b>105,791,164</b>	<b>49,849,841</b>
<b>Total loans to customers</b>	<b>295,831,900</b>	<b>101,450,916</b>	<b>245,506,189</b>	<b>82,361,929</b>

#### Concentration of loans to customers

As at 31 December 2019, the concentration of loans issued to the ten largest groups of interrelated parties amounted to RUB 10,465,735 thousand (10.32% of the total loan portfolio). An allowance of RUB 286,223 thousand was charged against these loans.

As at 31 December 2018, the concentration of loans issued to the ten largest groups of interrelated parties amounted to RUB 13,218,099 thousand (16.05% of the total loan portfolio). An allowance of RUB 661,903 thousand was charged against these loans.

### 8. Investment securities

Investment securities comprise:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Debt securities at FVOCI</b>		
Treasury bills of the Russian Ministry of Finance	1,004,477	439,648
<b>Total debt securities at FVOCI</b>	<b>1,004,477</b>	<b>439,648</b>

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### 9. Taxation

The corporate income tax expense comprises:

	<b>2019</b>	<b>2018</b>
Current income tax expense	(470,517)	(584,900)
Deferred tax expense – (origination)/reversal of temporary differences	(346,117)	(103,371)
<b>Income tax expense</b>	<b>(816,634)</b>	<b>(688,271)</b>

Russian legal entities must file income tax declarations. The standard income tax rate for companies (including banks) was 20% for 2019 and 2018.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<b>2019</b>	<b>2018</b>
<b>Profit before tax</b>	<b>3,984,763</b>	<b>3,295,114</b>
Statutory tax rate	20%	20%
<b>Income tax at the applicable income tax rate</b>	<b>(796,953)</b>	<b>(659,023)</b>
Non-deductible expenditures and non-taxable income	(16,315)	(20,655)
Unrecognized deferred tax asset movement	–	–
Other	(4,967)	(10,104)
Income taxed at a lower rate	1,601	1,510
<b>Income tax expense</b>	<b>(816,634)</b>	<b>(688,271)</b>

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	<b>1 January 2019</b>	<b>Recognized in profit or loss</b>	<b>Recognized in other comprehensive income</b>	<b>31 December 2019</b>
Allowance for expected credit losses	92,452	(522,650)	–	(430,198)
Derivative financial instruments	82,172	(104,757)	–	(22,585)
Loans to customers	583,460	284,508	–	867,968
Other assets	968	(30,730)	(710)	(30,473)
Other liabilities	249,301	26,180	–	275,481
<b>Total deferred tax assets/(liabilities)</b>	<b>1,008,353</b>	<b>(347,450)</b>	<b>(710)</b>	<b>660,193</b>

	<b>1 January 2018</b>	<b>Recognized in profit or loss</b>	<b>Recognized in other comprehensive income</b>	<b>31 December 2018</b>
Allowance for impairment	128,345	(35,893)	–	92,452
Derivative financial instruments	306,857	(204,678)	(20,007)	82,172
Loans to customers	706,376	(122,916)	–	583,460
Other assets	(5,290)	6,258	–	968
Other liabilities	(5,314)	254,615	–	249,301
<b>Total deferred tax assets/(liabilities)</b>	<b>1,130,974</b>	<b>(102,614)</b>	<b>(20,007)</b>	<b>1,008,353</b>

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### 10. Other assets and liabilities

Other assets comprise:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Prepayments under business contracts	143,207	50,114
Other taxes prepaid	47,519	39,597
Guarantee deposits under lease agreements	4,379	4,379
Other	6,414	17,016
<b>Other assets</b>	<b>201,519</b>	<b>111,106</b>

Other liabilities comprise:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Payroll payable	266,193	197,394
Trade payables	658,424	358,227
Agency fees under insurance agreements	710,214	442,323
Lease liabilities	178,973	–
Taxes payable	305,117	329,479
Provision for contingent liabilities	852,587	700,357
<b>Other liabilities</b>	<b>2,970,778</b>	<b>2,027,780</b>

### 11. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Deposits received from banks and maturing within 1 year	27,196,105	41,181,740
Deposits received from banks and maturing after 1 year	5,798,687	1,505,209
<b>Amounts due to credit institutions</b>	<b>32,994,792</b>	<b>42,686,949</b>

As at 31 December 2019, the Bank raised RUB 28,808,149 thousand (2018: RUB 36,317,389 thousand) as deposits of resident banks and RUB 4,186,643 thousand (2018: RUB 6,369,560 thousand) as deposits of non-resident banks (a non-resident bank from France).

As at 31 December 2019, the Bank had balances on short-term and long-term deposits with eight counterparties. As at 31 December 2019, total balances with all counterparties were as follows: 87.31% with resident banks and 12.69% with a non-resident bank (a non-resident bank from France).

As at 31 December 2018, the Bank had balances on short-term and long-term deposits with eight counterparties. As at 31 December 2018, total balances with all counterparties were as follows: 85.08% with resident banks and 14.92% with a non-resident bank.

### 12. Amounts due to customers

Amounts due to customers comprise:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Current accounts and demand deposits		
- Corporate customers	24,290	10,875
- Retail customers	2,558,745	2,135,735
Assigned rights of claim for factoring transactions	–	44,453
Deposits of legal entities maturing within 1 year	3,474,260	2,734,670
Deposits of legal entities maturing after 1 year	5,792,863	6,973,212
<b>Amounts due to customers</b>	<b>11,850,158</b>	<b>11,898,945</b>



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### 12. Amounts due to customers (continued)

As at 31 December 2019, the Bank raised RUB 3,474,260 thousand (2018: RUB 3,348,403 thousand) as deposits of resident legal entities and RUB 5,792,862 thousand (2018: RUB 6,359,478 thousand) as deposits of non-resident legal entities (a non-resident legal entity from Japan).

As at 31 December 2019, the Bank had balances on short-term deposits with multiple counterparties. As at 31 December 2019, total balances with all counterparties were as follows: 62.51% of total short-term deposits for non-resident legal entities (a non-resident legal entity from Japan) and 37.49% of total short-term deposits for resident legal entities.

As at 31 December 2018, the Bank had balances on short-term deposits with multiple counterparties. As at 31 December 2018, total balances with all counterparties were as follows: 65.51% and 34.49% of total short-term deposits for non-resident and resident legal entities, respectively.

### 13. Debt securities issued

	<b>31 December 2019</b>	<b>31 December 2018</b>
Debt securities issued	39,886,928	18,685,486
<b>Debt securities issued</b>	<b>39,886,928</b>	<b>18,685,486</b>

The table below presents the structure of securities issued as at 31 December 2019.

<u>Bonds</u>		<u>Placement</u>	<u>Maturity</u>	<u>Annual</u>		<u>Interest</u>	
<u>Series</u>	<u>Number</u>	<u>date</u>	<u>date</u>	<u>coupon</u>	<u>Principal</u>	<u>accrued/</u>	<u>Total</u>
				<u>rate, %</u>		<u>discounts</u>	
1	40100170B	5 July 2016	9 July 2021, offer on 7 January 2020	7.9	3,431,228	131,450	<b>3,562,678</b>
BO-001R-01	4B020100170B001P	14 April 2017	16 April 2020	9.45	5,000,000	99,700	<b>5,099,700</b>
BO-001R-02	4B020200170B001P	12 October 2017	14 October 2020	8.45	5,000,000	86,803	<b>5,086,803</b>
BO-001R-03	4B020300170B001P	20 November 2018	22 November 2021	9.25	5,000,000	287,064	<b>5,287,064</b>
BO-001R-04	4B020400170B001P	14 February 2019	16 February 2022	9.15	5,000,000	296,094	<b>5,296,094</b>
BO-001R-05	4B020500170B001P	23 April 2019	25 April 2022	8.9	8,000,000	288,281	<b>8,288,281</b>
BO-001R-06	4B020600170B001P	24 September 2019	24 September 2022	7.65	7,000,000	266,308	<b>7,266,308</b>

In 2019, changes in liabilities arising from financing activities and disclosed in the statement of cash flows in cash flows from financing activities result only from cash flows from debt securities issued, payments on securities and accrued interest.

### 14. Equity

The authorized, issued and fully paid share capital comprises:

	<b>2019</b>			<b>2018</b>		
	<b>Number of shares</b>	<b>Nominal value</b>	<b>Inflation- adjusted amount</b>	<b>Number of shares</b>	<b>Nominal value</b>	<b>Inflation- adjusted amount</b>
Ordinary shares	4,335,000	6,069,000	6,133,091	4,335,000	6,069,000	6,133,091
<b>Total share capital</b>	<b>4,335,000</b>	<b>6,069,000</b>	<b>6,133,091</b>	<b>4,335,000</b>	<b>6,069,000</b>	<b>6,133,091</b>

The sole shareholder of JSC RN Bank made a decision on 14 March 2018 to increase the share capital of the Bank by placing an additional issue of ordinary registered non-documentary shares for a total amount of RUB 3 billion through a private subscription in favor of BARN B.V., a private limited liability company that owns all voting shares of JSC RN Bank.

JSC RN Bank completed the procedure for increasing its share capital in the second quarter of 2018. The report on the issue of additional shares by JSC RN Bank was registered with the Corporate Affairs Department of the Bank of Russia on 9 June 2018; the additional issue was registered under No. 10200170B005D.

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## 14. Equity (continued)

The additional issue through a private placement includes 2,000,000 ordinary registered non-documentary shares with a nominal value of RUB 1,400 each (the placement price of one share was RUB 1,500).

As a result of the additional issue of shares, the share capital of JSC RN Bank amounted to RUB 6,069,000 thousand.

Share premium represents the excess of contributions to the share capital over the nominal value of shares issued. As at 31 December 2019, the share premium amounted to RUB 5,780,800 thousand.

In 2019 and 2018, the Bank neither declared nor paid any dividends to its shareholders.

## 15. Commitments and contingencies

### Operating environment

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

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

### Legal

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

### Taxation

A significant part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is not clear and unambiguous enough, which often results in varying interpretations, selective and inconsistent application, as well as frequent and, at times, highly unpredictable changes, which may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. The tax authorities may be taking a more assertive position in their interpretation and application of the legislation and in performing tax reviews. As a result, the Bank's approaches to tax liability calculations that have not been challenged in the past may be challenged during future tax audits. As such, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

The Russian transfer pricing tax legislation allows the Russian tax authorities to apply transfer pricing adjustments and impose additional income tax and value added tax liabilities in respect of all controlled transactions if the transaction price differs from the market price and unless the Bank is able to demonstrate the use of market prices with respect to the controlled transactions. Security transactions, payments and receipts of interest on debt, as well as derivative transactions are subject to special transfer pricing rules. In 2019, the Bank determined its tax liabilities arising from controlled transactions using actual transaction prices.

The majority of the Bank's transactions with related parties carried out under the effective legislation are not deemed controlled.

Management believes that the Bank complies with the requirements of the Russian transfer pricing legislation with regard to transactions that qualify for recognition as controlled transactions, including proper preparation and presentation of notifications and, if necessary, transfer pricing documentation to the tax authorities, confirming that the Bank used market prices in performing controlled transactions.

Tax legislation introduced special rules for recognizing income and expenses arising from hedging transactions. In accordance with the existing Russian tax legislation, the Bank may classify derivative transactions as hedging transactions on condition that the proper documentation is in place to confirm, inter alia, the nature and rationale for hedging transactions. Management believes that the Bank has sufficient evidence to recognize hedging transactions for taxation purposes.

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### 15. Commitments and contingencies (continued)

#### Taxation (continued)

Currently, the Russian tax legislation requires compliance with the taxation rules for controlled foreign companies and the concept of tax residency of legal entities; in addition, foreign entities receiving income from Russian sources must have an actual right to such income. Overall, the adoption of these concepts should increase the administrative and, in some cases, tax burden on Russian taxpayers that form part of an international group and/or conduct transactions with foreign companies. In some cases, the Bank paid income to foreign entities using reduced rates of the Russian withholding tax based on the provisions of international tax treaties concluded by the Russian Federation. Given that the above rules have not been applied consistently with regard to the confirmation of the foreign entities' actual right to income, there is uncertainty regarding the procedure for the application of these rules and their possible interpretation by the Russian tax authorities and the effect on the amount of tax liabilities. Management believes it possible that with the evolution of these rules and changes in the approach of the Russian tax authorities and/or courts to their interpretation and enforcement, additional taxes and related fines and penalties may be assessed, which could negatively impact the financial position of the Bank.

The introduction of these regulations and the interpretation of some other provisions of Russian tax legislation together with the latest trends in the application and interpretation of certain provisions of Russian tax legislation suggest that the tax authorities may take a more assertive position in their interpretation and application of the legislation, conducting tax audits and imposing additional tax requirements. At the same time, it is impossible to evaluate the potential impact the adoption of these norms will have and the probability of negative outcome of litigations if challenged by the Russian tax authorities. Consequently, the tax authorities may challenge the transactions and methods of accounting which have not been challenged before. As a result, significant additional taxes, penalties and fines may be assessed. Tax field audits of the accuracy of tax calculation and payments conducted by tax authorities may cover three calendar years preceding the year during which the tax audit decision was made. Under certain circumstances, tax reviews may cover longer periods.

As at 31 December 2019, the Bank's management holds a conservative position when interpreting applicable legislation and creates a provision for undetermined tax liabilities.

#### Commitments and contingencies

As at 31 December, the Bank's commitments and contingencies comprised the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Less than 1 year	–	100,156
From 1 to 5 years	–	304,770
<b>Operating lease commitments</b>	<b>–</b>	<b>404,926</b>

In 2019, RUB 26,970 thousand are recognized as operating lease expenses in profit or loss (2018: RUB 70,249 thousand) (Note 16).

### 16. Personnel and other administrative expenses

Personnel and other operating expenses comprise:

#### Personnel expenses

	<b>2019</b>	<b>2018</b>
Personnel benefits	534,497	482,056
Payroll related taxes and charges	102,373	84,388
<b>Total personnel expenses</b>	<b>636,870</b>	<b>566,444</b>

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### 16. Personnel and other administrative expenses (continued)

#### Other general and administrative expenses

	<b>2019</b>	<b>2018</b>
Promotion expenses	183,691	195,710
State duties and taxes other than income tax	144,814	88,338
Communications and information services	130,495	95,460
Personnel expenses	60,436	48,280
Telecommunication services	55,678	52,110
Professional services	66,759	71,596
Advisory services	31,609	31,464
Lease expenses (Note 15)	26,970	70,249
Business travel	21,362	22,652
Audit	18,019	17,331
Advertising, marketing and entertainment expenses	16,044	39,632
Repair and maintenance of property and equipment	8,027	21,126
Low-value items, expenses on materials for administrative and other needs	6,840	5,760
Other	6,382	8,672
<b>Total general and administrative expenses</b>	<b>777,126</b>	<b>768,380</b>

### 17. Risk management

#### Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other internal controls. This process of risk management is critical to the Bank's continuing profitability, and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

Given the Bank's business strategy and activities, it identifies a number of significant risks, including:

- ▶ Credit risk;
- ▶ Market risk;
- ▶ Interest rate risk of the banking book;
- ▶ Operational risk (including legal risk);
- ▶ Liquidity risk;
- ▶ Concentration risk.

The Bank is exposed to both financial and non-financial risks. The Bank's non-financial risks include strategic risk, reputational risk, compliance (regulatory) risk and operational risk (risk, threat). The Bank's financial risks include credit risk, market risk, interest rate risk of the banking book, liquidity risk and concentration risk.

Risks that the Bank is exposed to can be interrelated, i.e. once materialized, a certain risk may cause another risk to change or materialize.

The independent risk control process does not include business risks such as changes in the environment, technology or industry. They are monitored through the Bank's strategic planning process.

(thousands of Russian rubles)

## 17. Risk management (continued)

### 17.1 Internal control

The Bank has established internal control that is harmonized with the nature and scale of transactions and the level and combination of the risks assumed.

Internal control is aimed at, among other things, ensuring the following:

- ▶ Appropriate and comprehensive risk assessment and management process, effectiveness of financial and operating activities, efficiency of asset and liability management;
- ▶ Appropriate reliability, security and stability of the Bank in line with the nature and scale of transactions, protection of the rights of shareholders, customers and creditors of the Bank;
- ▶ Accuracy, completeness and objectivity as well as timely preparation and presentation of (statutory) financial statements, statistical and other reports and safeguarding information security;
- ▶ Compliance with statutory regulations, as well as the Bank's founding and internal documents;
- ▶ Non-involvement of the Bank and its personnel in illegal activities, including money laundering and terrorism financing, as well as ensuring timeliness of data submitted to the state agencies and the Bank of Russia.

Internal control management is performed by the following bodies within the scope of their powers as set forth in the Bank's founding and internal documents:

- ▶ General Shareholders' Meeting;
- ▶ Board of Directors;
- ▶ Management Board;
- ▶ Chairman of the Management Board;
- ▶ Audit Commission (Auditor);
- ▶ Chief Accountant / Deputy Chief Accountant;
- ▶ Internal Control, Operational Risks and Compliance Committee of the Management Board;
- ▶ Internal Audit Function of the Bank;
- ▶ Internal Control Function / Head of the Internal Control Function;
- ▶ The Bank's officer and business unit responsible for anti-money laundering and terrorism financing;
- ▶ Other personnel or business units responsible for internal control within their scope of activities.

The Bank's internal control system includes the following areas of focus:

- ▶ Control over the organization of the Bank's operations performed by the management bodies;
- ▶ Control over the functioning of the banking risk management system and banking risk assessment;
- ▶ Control over the distribution of powers with respect to banking operations and other transactions;
- ▶ Control over data flow management (information provision and transmission) and information security assurance;
- ▶ Control over anti-money laundering and counter-terrorism financing;
- ▶ Ongoing monitoring of the internal control system to assess its compliance with the Bank's operating objectives, detection of deficiencies, proposal development, and control over the enhancement of the Bank's internal control system ("monitoring of the internal control system").

Control and monitoring over the system of banking risk management and internal control are performed by the Bank on a regular basis as provided in its internal regulations.

The Bank takes appropriate measures to enhance internal control aimed at ensuring its effectiveness, taking into account changing internal and external factors that affect the Bank's activities.

Monitoring of the internal control system is performed by the management and personnel of various business units, including departments responsible for banking operations and other transactions and their recognition in accounting and reporting as well as the Internal Audit Function and the Internal Control and Operational Risk Department responsible for internal control function.

*(thousands of Russian rubles)*

## **17. Risk management (continued)**

### **17.1 Internal control (continued)**

Frequency of monitoring of various types of banking activities is defined taking into account associated banking risks, frequency and nature of changes in the areas of the Bank's activities. Audit plans of the Internal Audit Function are annually approved by the Bank's Board of Directors.

The Bank's Internal Audit Function was formed to perform the audit and assist the Bank's management bodies in ensuring the Bank's effective operation, protecting interests of the Bank's shareholders and customers and continuously monitoring and assessing the effectiveness and adequacy of internal control, including:

- ▶ The effectiveness of financial and operating activities;
- ▶ The fairness of accounting records, accuracy, completeness and objectivity of financial statements;
- ▶ The effectiveness of the risk management system;
- ▶ Compliance with Russian statutory regulations, as well as the Bank's founding and internal documents;
- ▶ The effectiveness of asset and liability management, including physical asset security.

The Bank has ensured consistency, independence and objectivity of the Internal Audit Function, professional qualification of its head and personnel; in addition, an environment has been created for the Internal Audit Function to comply with its duties efficiently and smoothly. The Internal Audit Function operates under the direct control of the Board of Directors.

The Bank has established the procedures of:

- ▶ Control (including additional audits) over measures taken to eliminate violations identified by the Internal Audit Function;
- ▶ Reporting by the Internal Audit Function at least semiannually on the measures taken to follow the recommendations and to eliminate the identified violations to the Board of Directors.

#### *Internal Control and Operational Risk Department (ICORD)*

ICORD is responsible for ensuring the compliance of the Bank's activities with the current legislation of the Russian Federation, the Bank's internal regulations and standards for self-regulating organizations. ICORD also reviews the Bank's documentation, performs assessment of regulatory risks, provides recommendations on risk mitigation and ensures the Bank's compliance with the Russian legislation and standards and taking measures aimed at the protection of the Bank's business reputation.

ICORD reports on the work performed to the Chairman of the Management Board and to the Management Board at least once a year and communicates the performance results during meetings of the Internal Control, Operational Risks and Compliance Committee.

#### *Internal Control, Operational Risks and Compliance Committee*

The Internal Control, Operational Risks and Compliance Committee of JSC RN Bank is a standing committee of the Management Board established by the decision of the Management Board to address issues of control over the reliability and efficiency of the Bank's internal control, control over the Bank's operational risks, and control over the compliance with Russian legislative and regulatory acts.

Within its remit and functions, the Internal Control, Operational Risks and Compliance Committee reviews the information on the activities of the Internal Audit Function and ICORD, the results of external audits and first level control procedures performed by heads of the Bank's business units. It also deals with regulatory and operational risk management issues, reviews the results of testing the Bank's business continuity and/or disaster recovery plan ('BC/DR Plan'), deals with establishing internal control over anti-money laundering and counter-terrorism financing and the Bank's information security issues, and other issues.

(thousands of Russian rubles)

## 17. Risk management (continued)

### 17.1 Internal control (continued)

#### *Risk management system*

The Bank's risk management system is based on the following components:

- ▶ Strategy;
- ▶ Methodology;
- ▶ Procedures;
- ▶ Control;
- ▶ Updating.

The goal of the risk management system is to maintain the overall risk accepted by the Bank at the level defined by the Bank subject to its strategic objectives. The priority is to ensure the maximum safety of assets and equity by mitigation of risk exposures which might lead to unexpected losses.

The goal of the risk management system is achieved through the use of a systemic and complex approach that focuses on the following:

- ▶ Identification and analysis of all risks arising in the course of the Bank's activities;
- ▶ Interpretation of the approach to various risk types;
- ▶ Quantitative and qualitative assessment (measurement) of specific risk types;
- ▶ Establishing correlation among individual risks in order to assess the impact of the actions planned to be taken to limit a particular type of risk on the increase or decrease in the level of other risks;
- ▶ Performing full risk level analysis of operations planned and completed by the Bank to determine the total amount of banking risks;
- ▶ Assessment of whether the total amount of risk is acceptable and reasonable;
- ▶ Establishing a subsystem of risk monitoring at the origination of a negative tendency and a subsystem of swift and adequate response aimed at preventing or mitigating risks.

Each risk faced by the Bank must be identified and recognized. Risks are classified into internal and external as well as controlled or not controlled by the Bank. Risks are identified on a regular basis due to the fast-evolving internal and external environment.

Management of the Bank determines its approach to all the risks identified. A part of the risks which the Bank is not ready to assume must be totally excluded, with the related activities totally terminated. With regard to the risks assumed, the Bank defines the maximum acceptable risk exposure. The Bank's strategy governs its risk approach.

The Bank's risk management strategy is based on the break-even principle and focuses on achieving a healthy ratio of the profitability of the Bank's business activities and the level of assumed risks.

The Bank's risk management strategy involves:

- ▶ Compliance with the Bank's strategic goals set by the Board of Directors;
- ▶ Lending schemes as a priority area;
- ▶ Effective capital management with the aim to maintain its adequate level.

The risk management strategy implies using a whole range of risk mitigation instruments and choosing each particular instrument depending on the risk type.

Evaluation of various risk types involves various methodologies which are set out in the Bank's internal regulations.

The Bank complies with the requirements set by the Bank of Russia to risk and capital management systems and internal control.

(thousands of Russian rubles)

## 17. Risk management (continued)

### 17.1 Internal control (continued)

The Deputy Chairman of the Management Board, Risk Management and Compliance Director (acting as the Head of the Risk Management Function), Head of the Internal Audit Function, and Head of ICORD comply with the qualification criteria established by the Bank of Russia and the business reputation requirements set forth by Federal Law No. 395-1.

#### *Risk reporting*

Information on various risks relevant to the Bank is analyzed with the aim of control and early identification of risks, and subsequent communication to the Bank's management.

Risk reporting with various level of detail and different time intervals is performed by the Bank's departments, including the Risk Management Department and Treasury in order to provide the personnel and management of the Bank with up-to-date and necessary information on the level of risks relevant to the Bank.

Daily reports include information on the Bank's open currency position, gap analysis of the assets and liabilities maturity gap to assess the liquidity risk, calculation of statutory liquidity ratios, calculation of the maximum risk attributable to one borrower or a group of borrowers, and calculation of the Bank's capital adequacy ratios.

Monthly reports on interest rate risk testing are reviewed by the Finance Committee of the Bank's Management Board and include the gap analysis of the assets and liabilities maturity gap, as well as the results of testing the basic scenario (change in the interest rate by 100 b.p.), results of the stress testing (change in the interest rate by 300-500 b.p.), analysis of changes in the Bank's external environment driven by macroeconomic trends, and the financial markets analysis.

Monthly reports on credit risk testing are reviewed by the Risk Committee of the Bank's Management Board and provide information on the quality of the Bank's loan portfolio in aggregate and broken down by interbank loans, financing to car dealers (factoring), retail lending (car loans), major quality indicators and their changes, overdue debts, their amount, dynamics, structure and timing, the amount of created provisions, collateral quality and credit risk concentration.

ICORD provides regular reports to the Internal Control, Operational Risks and Compliance Committee of the Management Board on operational and/or regulatory risks identified.

### 17.2 Credit risk

Credit risk is the risk that the debtor/counterparty fails to discharge its financial liabilities, or their value adversely changes as the debtor's/counterparty's ability to discharge the liabilities has deteriorated.

Credit risk is managed in accordance with the regulations of the Bank of Russia, as well as the principles and methodologies designed by the Basel Committee on Banking Supervision, the requirements of the Bank's sole shareholder, and internal regulations designed on the basis thereof.

The Bank's credit risk management involves the following key procedures:

- ▶ Credit risk identification;
- ▶ Quantitative and qualitative assessment of credit risk;
- ▶ Planning the level of credit risk;
- ▶ Measures to mitigate and reduce risks (including the establishment of risk limits and reference values that trigger taking risk mitigation measures and accepting collateral);
- ▶ Risk monitoring and control (including the oversight of the set limits and reference values) at the level of both individual borrowers and portfolios (the retail portfolio, the portfolio of loans to corporate dealers, the interbank lending portfolio);
- ▶ Creation of allowances for possible losses;
- ▶ Credit risk stress testing in accordance with the scenarios and procedures approved by the Board of Directors;
- ▶ Reporting on the level of accepted credit risk and the results of assessing the efficiency of risk management techniques used;
- ▶ Improvement of the risk management system.



(thousands of Russian rubles)

## 17. Risk management (continued)

### 17.2 Credit risk (continued)

In accordance with the requirements of the Bank of Russia, the Bank limits risk concentrations per borrower or group of related borrowers, maximum large credit risk, aggregate risk on the Bank's insiders, maximum amount of loans, bank guarantees and sureties provided by the Bank to its participants (shareholders). Actual exposures against limits are monitored by the Accounting and Reporting Department on a daily basis.

Additionally, the Bank limits risk concentrations by customer, counterparty and group of related customers depending on the level of the accepted credit risk.

#### **Derivative financial instruments**

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

#### **Classification and measurement**

The Bank expects to continue measuring at fair value all financial assets currently measured at fair value.

Debt securities classified as available for sale are measured at FVOCI under IFRS 9, as the Bank expects to hold these assets not only to collect contractual cash flows but also to sell significant amounts on a relatively frequent basis. The vast majority of loans satisfy the SPPI criterion and are measured at amortized cost.

#### **Impairment assessment**

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortized cost or FVOCI, as well as on loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECL. If the financial asset meets the definition of purchased or originated credit-impaired, the allowance is based on the change in the lifetime ECL.

##### *a) Corporate dealers*

In accordance with IFRS 9, the Bank designed and implemented (on 1 January 2018) a model to assess expected credit losses related to corporate dealers.

#### ECL calculation mechanics

ECL calculations are based on the following key elements:

Probability of default (PD)	The <i>Probability of Default</i> is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the asset has not been previously derecognized and is still in the portfolio.
Exposure at default (EAD)	The <i>Exposure at Default</i> is an estimate of the amount exposed to default.
Loss given default (LGD)	The <i>Loss Given Default</i> is an estimate of the loss arising in case a default occurs at a given time.

##### *b) Individual borrowers*

In accordance with IFRS 9, the Bank designed and implemented (on 1 January 2018) a model to assess expected credit losses related to individuals. The key element of ECL calculations is the calculation of transition matrices, which help determine the probability of default.

(thousands of Russian rubles)

## 17. Risk management (continued)

### 17.2 Credit risk (continued)

#### c) Classification of loans

The Bank has established policies to assess the level of risk at the end of each reporting period, including to assess whether a financial instrument's credit risk has changed significantly, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the assessment, the Bank classified loans as described below:

- |         |  |
|---------|--|
| Stage 1 | Standard assets that have not shown any significant increase in credit risk since origination. Stage 1 loans also include facilities where the credit risk has improved and the loans have been reclassified from Stage 2. |
| Stage 2 | Standard assets that have shown a significant increase in credit risk since origination. Stage 2 loans also include facilities where the credit risk has improved and the loans have been reclassified from Stage 3.       |
| Stage 3 | Doubtful assets considered credit-impaired.  |

#### d) Allowance for expected credit losses

Under IFRS 9, where a loan has been included in Stage 1, the allowance for expected credit losses related to borrowers is equal to 12-month expected credit losses. For Stage 2 and Stage 3 loans, the allowance for expected credit losses is equal to expected credit losses over the life of the asset.

#### e) Definition of default and recovery

The Bank considers a credit exposure to have significantly increased since initial recognition if credit risk monitoring revealed a deterioration of a borrower's credit grade, or when asset restructuring has taken place. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

For ECL calculation purposes, the Bank considers a financial instrument to be in default, and, therefore, includes it in Stage 3 (credit-impaired assets) whenever a borrower is 90 days late with contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in default and whether the assets should be taken to Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include the following:

- ▶ Internal rating of the borrower indicating default or near-default;
- ▶ Death of the borrower;
- ▶ Other objective evidence of impairment.

Loans may be transferred from Stage 3 to Stage 2 in the absence of any impairment indicators and provided the borrower has fully settled the overdue amounts. Loans may be transferred to Stage 1 in the absence of any impairment indicators and provided the borrower has not delayed any payments at the reporting date and no amounts have been overdue by more than 30 days within a 12-month period.

#### **Credit quality per class of financial assets**

In the table below, high-grade loans to banks are those having a minimal level of credit risk, normally with a credit rating on or close to the sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. The sub-standard grade comprises loans below the standard grade but not individually impaired.

Liabilities of individuals and legal entities (other than banks) in the tables below are classified as Stage 1, Stage 2 or Stage 3.

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### 17. Risk management (continued)

#### 17.2 Credit risk (continued)

The gross carrying amounts calculated as at 31 December 2019 are provided in the table below.

	<b>Notes</b>	<b>Stage</b>	<b>High grade</b>	<b>Standard grade</b>	<b>Sub-standard grade</b>	<b>Impaired</b>	<b>Total</b>
Cash and cash equivalents, except for cash on hand	5	Stage 1	5,786,720	56,339	–	–	<b>5,843,059</b>
<b>Loans to customers at amortized cost</b>	8						
Loans to individuals		Stage 1	–	56,881,995	–	–	<b>56,881,995</b>
		Stage 2	–	795,140	–	–	<b>795,140</b>
		Stage 3	–	–	–	1,094,303	<b>1,094,303</b>
Loans to legal entities		Stage 1	–	38,900,872	–	–	<b>38,900,872</b>
		Stage 2	–	3,778,606	–	–	<b>3,778,606</b>
		Stage 3	–	–	–	–	<b>–</b>
Debt investment securities - Measured at FVOCI		Stage 1	–	1,004,477	–	–	<b>1,004,477</b>
		Stage 2	–	–	–	–	<b>–</b>
		Stage 3	–	–	–	–	<b>–</b>
<b>Total</b>			<b>5,786,720</b>	<b>101,417,429</b>	<b>–</b>	<b>1,094,303</b>	<b>108,298,452</b>

The gross carrying amounts calculated as at 31 December 2018 are provided in the table below.

	<b>Notes</b>	<b>Stage</b>	<b>High grade</b>	<b>Standard grade</b>	<b>Sub-standard grade</b>	<b>Impaired</b>	<b>Total</b>
Cash and cash equivalents, except for cash on hand	5	Stage 1	7,545,559	2,047,720	–	–	<b>9,593,279</b>
<b>Loans to customers at amortized cost</b>	8						
Loans to individuals		Stage 1	–	47,917,263	–	–	<b>47,917,263</b>
		Stage 2	–	1,004,157	–	–	<b>1,004,157</b>
		Stage 3	–	–	–	928,421	<b>928,421</b>
Loans to legal entities		Stage 1	–	28,165,581	–	–	<b>28,165,581</b>
		Stage 2	–	4,341,506	–	–	<b>4,341,506</b>
		Stage 3	–	–	–	–	<b>–</b>
Debt investment securities - Measured at FVOCI		Stage 1	–	439,648	–	–	<b>439,648</b>
		Stage 2	–	–	–	–	<b>–</b>
		Stage 3	–	–	–	–	<b>–</b>
<b>Total</b>			<b>7,545,559</b>	<b>83,915,875</b>	<b>–</b>	<b>928,421</b>	<b>92,393,855</b>

Cash and cash equivalents, high-grade loans to banks and customers are those having a minimal level of credit risk, normally with a credit rating on or close to the sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. The sub-standard grade comprises loans below the standard grade but not individually impaired.

See Note 8 for more detailed information on the allowance for impairment of loans to customers.

#### 17.3 Market risk

Market risk is the risk of adverse changes in the market value of financial instruments caused by equity, currency and interest rate risk factors.

Market risk includes equity, currency and interest rate risks.

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### 17. Risk management (continued)

#### 17.3 Market risk (continued)

The purpose of market risk management is to maintain the risk accepted by the Bank at the appropriate level defined by the Bank subject to its business strategy. The priority is to ensure maximum safety of assets and equity by reducing (excluding) the possibility of loss incurred on the Bank's operations in financial markets, as well as other operations of the Bank involving the acceptance of risk exposure.

The Bank manages its market risk by setting open position limits in relation to interest rate repricing and currency positions and stop-loss limits which are monitored on a monthly basis and reviewed and approved by the Management Board.

##### *Equity risk*

Equity risk is the risk of losses due to adverse changes in market quotes for equity instruments in the trading portfolio and derivative financial instruments under the influence of both issuers of equity instruments and derivative financial instruments and general fluctuations of market prices for financial instruments.

The Bank does not engage in speculative trading of stock securities or derivatives. Therefore, the Bank does not calculate equity risk.

##### *Currency risk*

Currency risk is the risk of losses due to adverse changes in foreign exchange rates and/or accounting prices for precious metals under open positions in foreign currencies and/or precious metals.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Highly volatile exchange rates affect both the Russian economy and the Bank's activities.

Currency risk management and control aims to:

- ▶ Minimize the Bank's capital losses when structuring assets and liabilities using foreign currencies;
- ▶ Prevent non-compliance by the Bank with the requirements of the Russian foreign currency laws and foreign currency control authorities in the course of performing transactions with foreign currencies and discharging the functions of a foreign currency control agent.

The Bank's financial position and cash flows are exposed to fluctuations in foreign exchange rates. To mitigate currency risks, the Bank oversees the open currency position on a daily basis in order to limit its currency risk, as required by the Bank of Russia. Where necessary, the Bank carries out foreign exchange transactions and enters into hedges (cross-currency swaps, cross-currency interest rate swaps) to minimize any losses caused by fluctuations of the national and foreign currencies. Limits are set both for each currency and for aggregate positions in all currencies.

Most balance sheet items and cash flows of the Bank are denominated in Russian rubles; in addition, the Bank hedges its currency liabilities and does not engage in any speculative transactions in the foreign exchange market; thus, currency risk is assessed as low.

As at 31 December 2019, a change in the value of the Russian ruble to other currencies would have caused an increase (decrease) in equity and profit or loss as indicated in the following table. This analysis was performed net of tax and is based on the expected change in currency exchange rates. The analysis assumes that all other variables, in particular interest rates, remain constant.

	<b>2019 Increase in the currency exchange rate</b>	<b>2019 Decrease in the currency exchange rate</b>
Change in USD to RUB exchange rate (+13%/-13%)	240	(240)
Change in EUR to RUB exchange rate (+13%/-13%)	20,730	(20,730)
Change in JPY to RUB exchange rate (+13%/-13%)	28,231	(28,231)
	<b>2018 Increase in the currency exchange rate</b>	<b>2018 Decrease in the currency exchange rate</b>
Change in USD to RUB exchange rate (+14%/-14%)	462	(462)
Change in EUR to RUB exchange rate (+14%/-14%)	11,977	(11,977)
Change in JPY to RUB exchange rate (+15%/-15%)	63,479	(63,479)

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### 17. Risk management (continued)

#### 17.3 Market risk (continued)

The table below discloses the Bank's currency risk exposure as at 31 December 2019 and 2018. The Bank does not intend to heavily engage in currency exchange transactions; therefore, currency risk is limited and controlled based on the ratio of the open currency position and the Bank's equity. This ratio cannot exceed 10% for each foreign currency and 20% of the total amount of open positions.

	2019					2018				
	RUB	USD (RUB equivalent)	EUR (RUB equivalent)	JPY (RUB equivalent)	Total	RUB	USD (RUB equivalent)	EUR (RUB equivalent)	JPY (RUB equivalent)	Total
<b>Assets</b>										
Cash and cash equivalents	5,789,380	1,843	8,054	43,792	<b>5,843,069</b>	9,548,820	3,299	4,961	36,199	<b>9,593,279</b>
Obligatory reserve with the Bank of Russia	490,450	-	-	-	<b>490,450</b>	318,510	-	-	-	<b>318,510</b>
Amounts due from credit institutions	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	868,323	-	-	-	<b>868,323</b>	(10,516,048)	-	4,852,259	6,746,475	<b>1,082,686</b>
Loans to customers	97,617,417	-	-	-	<b>97,617,417</b>	79,088,188	-	-	-	<b>79,088,188</b>
Investment securities available for sale	1,004,477	-	-	-	<b>1,004,477</b>	439,648	-	-	-	<b>439,648</b>
Other assets	142,622	-	-	-	<b>142,622</b>	63,497	-	-	-	<b>63,497</b>
<b>Total assets</b>	<b>105,912,669</b>	<b>1,843</b>	<b>8,054</b>	<b>43,792</b>	<b>105,966,358</b>	<b>78,942,615</b>	<b>3,299</b>	<b>4,857,220</b>	<b>6,782,674</b>	<b>90,585,808</b>
<b>Liabilities</b>										
Amounts due to credit institutions	28,823,788	-	4,171,004	-	<b>32,994,792</b>	36,317,389	-	6,369,560	-	<b>42,686,949</b>
Derivative financial liabilities	10,373,916	-	(4,322,408)	(5,897,444)	<b>154,064</b>	1,877,570	-	(1,597,891)	-	<b>279,679</b>
Debt securities issued	39,886,928	-	-	-	<b>39,886,928</b>	18,685,486	-	-	-	<b>18,685,486</b>
Amounts due to customers	6,126,087	-	-	5,724,071	<b>11,850,158</b>	5,539,467	-	-	6,359,478	<b>11,898,945</b>
Other liabilities	1,174,831	-	-	-	<b>1,174,831</b>	447,416	-	-	-	<b>447,416</b>
<b>Total liabilities</b>	<b>86,385,550</b>	<b>-</b>	<b>(151,404)</b>	<b>(173,373)</b>	<b>86,060,773</b>	<b>62,867,328</b>	<b>-</b>	<b>4,771,669</b>	<b>6,359,478</b>	<b>73,998,475</b>
<b>Net balance sheet position</b>	<b>19,527,119</b>	<b>1,843</b>	<b>159,458</b>	<b>217,165</b>	<b>19,905,585</b>	<b>16,075,287</b>	<b>3,299</b>	<b>85,551</b>	<b>423,196</b>	<b>16,587,333</b>

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### 17. Risk management (continued)

#### 17.4 Interest rate risk

Interest rate risk is the risk of financial losses due to unfavorable changes in interest rates. The Bank's net interest income and the market value of assets and liabilities that are sensitive to changes in interest rates may be subject to interest rate risk.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The following table demonstrates the sensitivity of the Bank's statement of profit or loss to a possible change in interest rates.

To measure interest rate risk quantitatively, the Bank calculates the sensitivity to interest rate risk on the basis of the moving monthly average gap between assets and liabilities in each currency.

The Bank measures the sensitivity of balance sheet, cash flows to changes in market interest rates. The overall sensitivity is in line with changes in the market values of balance sheet cash flows resulting from an even 1% change in interest rates for the entire yield curve.

The tables below summarize the impact on the statement of profit or loss and equity of stress-testing scenarios assuming a possible increase or decrease in interest rates by 100 basis points. Negative amounts in the table reflect a potential net decrease in the statement of profit or loss or equity, while positive amounts reflect a potential net increase.

<b>Currency</b>	<b>Increase in basis points 2019</b>	<b>Sensitivity of net interest income 2019</b>	<b>Sensitivity of equity 2019</b>
RUB	100	63,267	50,614
EUR	100	-	-
JPY	100	-	-

<b>Currency</b>	<b>Decrease in basis points 2019</b>	<b>Sensitivity of net interest income 2019</b>	<b>Sensitivity of equity 2019</b>
RUB	100	(63,267)	(50,614)
EUR	100	-	-
JPY	100	-	-

<b>Currency</b>	<b>Increase in basis points 2018</b>	<b>Sensitivity of net interest income 2018</b>	<b>Sensitivity of equity 2018</b>
RUB	100	8,658	6,926
EUR	100	-	-
JPY	100	-	-

<b>Currency</b>	<b>Decrease in basis points 2018</b>	<b>Sensitivity of net interest income 2018</b>	<b>Sensitivity of equity 2018</b>
RUB	100	(8,658)	(6,926)
EUR	100	-	-
JPY	100	-	-

(thousands of Russian rubles)

## 17. Risk management (continued)

### 17.5 Operational risk

Operational risk (risk, threat) is the risk of direct and/or indirect loss arising from:

- ▶ Imperfections or errors in internal processes within the Bank;
- ▶ Actions of employees or other persons (through inadvertent or deliberate actions or omission to act);
- ▶ Failures and weaknesses of information, technological or other systems;
- ▶ Impact of external events.

Operational risk is classified by the following types depending on the Bank's processes:

- ▶ Personnel risk;
- ▶ (Economic, physical, information) security risk;
- ▶ In-house fraud risk;
- ▶ Third-party fraud risk;
- ▶ IT risk;
- ▶ Going concern risk;
- ▶ Project management risk;
- ▶ Legal risk;
- ▶ Process error risk related to the design, review, adaptation and acceptance of assets and risk assessment techniques and quantitative models (hereinafter, the "model risk").

Strategic risk and reputational risk are not part of operational risk.

The operational risk management system is implemented using the key risk management principles provided below.

- ▶ It is based on the economic expedience principle. Following the operational risk assessment, the Bank decides whether to minimize operational risk or accept it because operational risk mitigation measures are either economically inexpedient or costly.
- ▶ It is implemented on an ongoing basis by all business units and employees of the Bank.
- ▶ It imposes responsibility on the Bank's Board of Directors for the design of an efficient operational risk management system and the procedure for the Bank's business units to interact in the course of managing the Bank's operational risk.
- ▶ It requires regular reporting on the level of operational risk to the Internal Control, Operational Risks and Compliance Committee of the Management Board and the Board of Directors in accordance with this Regulation.
- ▶ It requires regular identification, assessment, monitoring, control and mitigation of operational risks, including internal assessments of risks inherent in the Bank's products, business lines, automated systems and business processes, both existing and planned.

The key operational risk management stages include:

- ▶ Identification of operational risks;
- ▶ Assessment of operational risks;
- ▶ Mitigation of operational risks;
- ▶ Operational risks monitoring;
- ▶ Control over operational risks.

Identification of operational risk is the fundamental element of an efficient operational risk management system. Operational risk events are continually identified by the Bank's structural units and should be registered with the Analytical Operational Risks Database.

Operational risks are assessed through a comprehensive review of key operational risk parameters while performing internal operational risk assessments, creating (upgrading) new banking products and implementing information systems.

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## 17. Risk management (continued)

### 17.5 Operational risk (continued)

To mitigate operational risks, the Bank's internal documents provide for a number of techniques and procedures applied at various banking service stages, as well as approaches to management and measures to prevent/reduce operational risks in each risk category.

Once operational risks are identified and assessed or an operational risk event has occurred, the Bank decides on a set of necessary measures to be taken.

The level of operational risk is regularly monitored through regular analysis of data on losses caused by operational risks. Other operational risk monitoring measures include the analysis of the status of remedial action plans based on the results of reviews performed by the Bank's structural units.

For operational risk monitoring purposes, the Bank has introduced a system of key risk indicators; it also monitors the risk appetite indicators set in advance.

Those indicators are monitored on a continuous basis by the responsible business units of the Bank in accordance with the Policy on Managing Capital Adequacy and Risk Appetite of JSC RN Bank.

Results of operational risk monitoring are reported to the Internal Control, Operational Risks and Compliance Committee of the Management Board.

The operational risk control system functions within the Bank's internal control.

The Bank's operational risk control elements include:

- ▶ Control over the Bank's compliance with internal rules and procedures for conducting banking operations and other transactions;
- ▶ Control over the principles of segregation of duties and accountability for banking operations and other transactions;
- ▶ Control over the compliance with the limits set on banking operations and other transactions;
- ▶ Regular reconciliation of primary documents and personal accounts with regard to banking operations and other transactions;
- ▶ Control over the compliance with the established procedure that regulates access to the Bank's information and material assets;
- ▶ Analysis of system errors arising in the course of the Bank's activities that cause or may result in operational risk losses for the purpose of preventing errors in future;
- ▶ Organization of educational courses and staff retraining programs.

Besides monitoring key risk indicators, the Bank performs stress tests in accordance with the scenarios approved by the Bank's Board of Directors. The major purpose of stress tests is to assess the effect of the derived values on the Bank's financial result, equity and capital adequacy ratio. The results of stress tests are reported to the Bank's governance bodies.

In addition, the Bank has designed the BC/DR Plan to minimize operational risk. The Bank tests the BC/DR Plan annually in accordance with the Bank's internal regulations.

To ensure an efficient operational risk management system, the Bank has established the procedure of communicating and reporting to the Bank's governance bodies. For example, the Internal Control, Operational Risks and Compliance Committee of the Management Board regularly considers various operational risk management issues, including the action plan and recommendations to minimize operational risk, analysis of operational risk events, results of the BC/DR Plan testing, first level control results, results of monitoring key risk indicators, risk appetite, stress tests, and other issues. Reports on operational risk management are prepared for the Board of Directors on a quarterly basis.

Information on the identified instances of external fraud, respective measures taken, number of fraud instances prevented by the Bank, their reasons and respective measures taken are considered at the meetings of the Operational Committee of the Bank's Management Board on a monthly basis. Data on risk assessments and losses incurred enable the identification of risk concentrations and the subsequent development of measures to reduce the Bank's operational risk level. Measures to reduce risks are systemic in nature and focus on the improvement of the existing processes and transaction technologies. The implementation status and the level of residual risk are regularly monitored by both the Bank's structural units and its management and collegial governance bodies.



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### 17. Risk management (continued)

#### 17.5 Operational risk (continued)

The Bank determines capital requirements with regard to operational risk following the requirements in the Regulation of the Bank of Russia "On the Procedure for Calculating Operational Risk Exposure".

#### 17.6 Liquidity risk

Liquidity risk is the risk of loss as a result of the Bank's inability to ensure fulfillment of its liabilities in full. Liquidity risk results from an improper balance between the Bank's financial assets and financial liabilities and/or an unforeseen need for immediate and simultaneous discharge of its financial obligations.

The key objective of liquidity risk management and control is to build and improve the mechanism to manage interbank liquidity which would enable addressing the following fundamental tasks:

- ▶ Prevent liquidity deficit;
- ▶ Achieve the minimal level of excessive liquidity;
- ▶ Maintain the optimal balance between liquidity and profitability.

In order to optimize liquidity management, the Bank differentiates between the management of instant, current and long-term liquidity. In doing so, the Bank is guided by statutory liquidity ratios established by the Bank of Russia and strictly complies with the related requirements.

As at 31 December, the ratios were as follows:

	<b>2019, %</b>	<b>2018, %</b>
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand; statutory ratio $\geq 15\%$ )	244.24	229.39
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days; statutory ratio $\geq 50\%$ )	130.19	234.22
N4 "Long-term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year; statutory ratio $\leq 120\%$ )	67.33	72.14

The Bank applies the following key methods to manage liquidity risk:

- ▶ Analysis of actual values and movements in statutory liquidity ratios;
- ▶ Forecasting the effect of transactions performed on statutory ratios;
- ▶ Gap analysis of assets and liabilities maturities based on the earliest possible maturities.

For those purposes, the Treasury:

- ▶ Receives information from the Bank's business units on the liquidity of their financial assets and liabilities and projected cash flows arising from projected future business;
- ▶ Monitors the liquidity position on a daily basis;
- ▶ Performs regular stress tests under a variety of scenarios covering both normal and more severe market conditions;
- ▶ Reports to management on the liquidity position and subsequently communicates the information to the Bank's Board of Directors;
- ▶ Combines a conservative approach, whereby it ensures availability of sufficient liquid assets to meet its obligations to customers when due, and an active approach, which requires seeking for borrowings in financial markets provided the Bank has sufficient loan limits.

In the event of any deterioration of the Bank's ability to refinance the existing resource base using the available loan limits, or upon any other force majeure circumstances, the Bank will obtain support from entities related to its shareholder. The support can take the form of direct financial aid (interbank loans and corporate deposits), access to financial expertise and extensive global practices, including the experience of operating under stressed economic conditions and crisis management techniques, and comprehensive (legal, in particular) information support.

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### 17. Risk management (continued)

#### 17.6 Liquidity risk (continued)

To cover technical liquidity gaps, the Bank can use intraday credits of the Bank of Russia collateralized by securities. In terms of obligatory reserves, the Bank can keep their average amount on a correspondent account with the Bank of Russia, thus ensuring a substantial average balance on the correspondent account at the close of business used to maintain liquidity together with deposits placed with the Bank of Russia.

To support an efficient liquidity risk management and control system, the Bank places available funds for reasonable periods determined in view of the known structure of liabilities and the projected structure of assets.

To ensure the liquidity risk management and control, the Bank has formalized the Liquidity Policy, the Funding and Asset and Liability Management Policy, the Stress Testing Regulation, the Procedure for Liquidity Management in Crisis Situations, the Financial Stability Recovery Plan, and other regulations.

#### *Analysis of financial liabilities by remaining contractual maturity*

The table below summarizes the maturity profile of the Bank's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay; therefore, the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

<b>31 December 2019</b>	<b>On demand and less than 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Later than 5 years</b>	<b>No maturity</b>	<b>Total</b>
<b>Liabilities</b>							
Debt securities issued	135,905	497,860	8,099,978	36,999,795	-	-	<b>45,733,538</b>
Amounts due to credit institutions	-	8,571,332	19,476,709	6,128,891	-	-	<b>34,176,932</b>
Deliverable derivative financial instruments:	-	-	-	-	-	-	-
- Cash inflow	(187,005)	-	(597,305)	(10,606,191)	-	-	<b>(11,390,501)</b>
- Cash outflow	14,740	-	176,304	10,029,219	-	-	<b>10,220,263</b>
Amounts due to customers	3,507,035	1,511,554	946,996	6,029,032	-	-	<b>11,994,617</b>
Other financial liabilities	1,174,830	-	-	-	-	-	<b>1,174,830</b>
<b>Total financial liabilities</b>	<b>4,645,505</b>	<b>10,580,746</b>	<b>28,102,682</b>	<b>48,580,746</b>	<b>-</b>	<b>-</b>	<b>91,909,679</b>

<b>31 December 2018</b>	<b>On demand and less than 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Later than 5 years</b>	<b>No maturity</b>	<b>Total</b>
<b>Liabilities</b>							
Debt securities issued	135,905	-	1,374,431	20,562,936	-	-	<b>22,073,272</b>
Amounts due to credit institutions	4,193,550	9,227,836	28,942,957	1,719,575	-	-	<b>44,083,918</b>
Deliverable derivative financial instruments:	-	-	-	-	-	-	-
- Cash inflow	-	(1,596,956)	(674,438)	(8,638,909)	-	-	<b>(10,910,303)</b>
- Cash outflow	55,597	1,788,088	647,485	8,718,232	-	-	<b>11,209,402</b>
Amounts due to customers	2,809,069	3,412	2,200,254	7,388,729	-	-	<b>12,401,464</b>
Other financial liabilities	120,713	326,573	130	-	-	-	<b>447,416</b>
<b>Total financial liabilities</b>	<b>7,314,834</b>	<b>9,748,953</b>	<b>32,490,819</b>	<b>29,750,563</b>	<b>-</b>	<b>-</b>	<b>79,305,169</b>

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### 17. Risk management (continued)

#### 17.6 Liquidity risk (continued)

*Risks assumed by the Bank*

As at 31 December 2019, the Bank had the following liquidity level:

	<i>On demand and less than 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Later than 5 years</i>	<i>No maturity</i>	<i>Total</i>
<b>Assets</b>							
Cash and cash equivalents	5,843,069	-	-	-	-	-	5,843,069
Obligatory reserve with the Bank of Russia	23,059	65,320	182,373	219,698	-	-	490,450
Derivative financial assets	(119,595)	110,608	320,908	556,402	-	-	868,323
Loans to customers	3,603,049	15,010,615	43,927,286	34,688,758	387,709	-	97,617,417
Investment securities available for sale	-	-	-	1,004,477	-	-	1,004,477
Property and equipment	-	-	-	-	-	224,652	224,652
Intangible assets	-	-	-	-	-	146,025	146,025
Income tax	-	-	208,462	-	-	-	208,462
Deferred income tax assets	-	-	-	660,193	-	-	660,193
Other assets	52,757	29,396	114,986	4,380	-	-	201,519
<b>Total assets</b>	<b>9,402,339</b>	<b>15,215,939</b>	<b>44,754,015</b>	<b>37,133,908</b>	<b>387,709</b>	<b>370,677</b>	<b>107,264,587</b>
<b>Liabilities</b>							
Debt securities issued	131,450	316,730	11,007,520	28,431,228	-	-	39,886,928
Amounts due to credit institutions	-	8,469,034	18,727,071	5,798,687	-	-	32,994,792
Derivative financial liabilities	173,661	-	404,857	(424,454)	-	-	154,064
Amounts due to customers	3,503,460	1,500,034	1,007,948	5,838,716	-	-	11,850,158
Current income tax liability	-	-	-	-	-	-	-
Other liabilities	1,479,795	315,726	997,013	178,244	-	-	2,970,778
<b>Total liabilities</b>	<b>5,288,366</b>	<b>10,601,524</b>	<b>32,144,409</b>	<b>39,822,421</b>	<b>-</b>	<b>-</b>	<b>87,856,720</b>
<b>Net position</b>	<b>4,113,973</b>	<b>4,614,415</b>	<b>12,609,606</b>	<b>(2,688,513)</b>	<b>387,709</b>	<b>370,677</b>	<b>19,407,867</b>
<b>Accumulated net position</b>	<b>4,113,973</b>	<b>8,728,388</b>	<b>21,337,994</b>	<b>18,649,481</b>	<b>19,037,190</b>	<b>19,407,867</b>	

According to the data above, the planned accumulated net liquidity position of the Bank is sufficient to discharge all its liabilities.

As at 31 December 2018, the Bank had the following liquidity level:

	<i>On demand and less than 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Later than 5 years</i>	<i>No maturity</i>	<i>Total</i>
<b>Assets</b>							
Cash and cash equivalents	9,593,279	-	-	-	-	-	9,593,279
Obligatory reserve with the Bank of Russia	-	-	-	-	-	318,510	318,510
Derivative financial assets	(280,077)	-	338,912	1,023,851	-	-	1,082,686
Loans to customers	2,225,219	27,172,344	20,482,009	28,928,527	280,089	-	79,088,188
Investment securities available for sale	-	-	439,648	-	-	-	439,648
Property and equipment	-	-	-	-	-	60,892	60,892
Intangible assets	-	-	-	-	-	148,867	148,867
Income tax	-	-	-	-	-	-	-
Deferred income tax assets	-	-	-	1,008,353	-	-	1,008,353
Other assets	14,499	56,179	36,049	4,379	-	-	111,106
<b>Total assets</b>	<b>11,552,920</b>	<b>27,228,523</b>	<b>21,296,618</b>	<b>30,965,110</b>	<b>280,089</b>	<b>528,269</b>	<b>91,851,529</b>
<b>Liabilities</b>							
Debt securities issued	131,450	-	122,807	18,431,229	-	-	18,685,486
Amounts due to credit institutions	4,176,306	9,120,706	27,884,728	1,505,209	-	-	42,686,949
Derivative financial liabilities	55,506	164,191	(19,378)	79,360	-	-	279,679
Amounts due to customers	2,806,664	3,394	2,115,675	6,973,212	-	-	11,898,945
Current income tax liability	-	-	41,426	-	-	-	41,426
Other liabilities	119,996	1,085,850	738,524	83,410	-	-	2,027,780
<b>Total liabilities</b>	<b>7,289,922</b>	<b>10,374,141</b>	<b>30,883,782</b>	<b>27,072,420</b>	<b>-</b>	<b>-</b>	<b>75,620,265</b>
<b>Net position</b>	<b>4,262,998</b>	<b>16,854,382</b>	<b>(9,587,164)</b>	<b>3,892,690</b>	<b>280,089</b>	<b>528,269</b>	<b>16,231,264</b>
<b>Accumulated net position</b>	<b>4,262,998</b>	<b>21,117,380</b>	<b>11,530,216</b>	<b>15,422,906</b>	<b>15,702,995</b>	<b>16,231,263</b>	

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## 17. Risk management (continued)

### 17.7 Concentration risk

Concentration risk is the aggregate maximum level of concentration risk that arises because a credit institution is exposed to major risks which, when realized, may cause significant losses and these losses may jeopardize the credit institution's solvency and ability to continue its operations.

Pursuant to statutory regulations, the Bank manages concentration risks using limits that represent the maximum risk it is ready to accept for:

- ▶ Individual counterparties and groups of related counterparties;
- ▶ Individual counterparties and groups of counterparties related to the Bank;
- ▶ Economic sector;
- ▶ Groups of counterparties within one economic sector;
- ▶ Principal activities;
- ▶ Concentration of asset types;
- ▶ Concentration of liability types;
- ▶ Concentration of funding sources.

The Bank has set reference values and limits on concentration risk indicators, which, when exceeded, require taking action (management action) to reduce risks or mitigate the potential adverse consequences thereof.

### 17.8 Legal risk

Legal risk, pursuant to Instructive Regulation No. 3624-U of the Bank of Russia *On Requirements for Risk and Capital Management Systems of a Credit Institution and Banking Group* of 15 April 2015, forms part of operational risk and is the risk of the Bank incurring losses as a result of the following:

- ▶ Non-compliance by the Bank with regulatory legal acts and contractual requirements;
- ▶ Legal errors in operations;
- ▶ Weaknesses of the legal system (contradictory legislation, lack of regulation for certain issues arising in the course of the Bank's activities);
- ▶ Failure by counterparties to comply with regulatory and contractual requirements.

The Bank follows the requirements of Russian laws in its operations. To manage legal risk, the Bank:

- ▶ Monitors legal and regulatory developments that are related to or affect the Bank's activities;
- ▶ Performs legal reviews to monitor compliance of the Bank's internal regulations and contractual arrangements with the effective laws and regulations;
- ▶ Analyzes and reviews current arbitration practices on an ongoing basis;
- ▶ Analyzes and summarizes legal opinions of supervisory authorities on matters related to legal risk mitigation;
- ▶ Analyzes and monitors the activities of counterparties.

The objective of legal risk management is to ensure sustainable growth of the Bank under its development strategy and compliance of its activities and products with legislative requirements and law enforcement practice.

The probability of legal risk realization is assessed as moderate. The Bank forecasts no extraordinary legal risks that may significantly impact its financial and business operations.

#### *Current and potential claims against the Bank*

The Bank makes a provision for potential litigation costs for non-credit-related contingent liabilities, if the analysis of all circumstances and conditions shows a likelihood of more than 50% that claims will be raised against the Bank for non-fulfillment or improper fulfillment of its obligations, including mandatory payments (such as litigation costs).

As at 31 December 2018, the Bank had no uncovered risks relating to court proceedings that may impact the Bank's future financial and business performance.

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## 17. Risk management (continued)

### 17.8 Legal risk (continued)

In 2019, the Bank filed 703 legal suits against individual borrowers demanding the repayment of amounts due under loan agreements and the foreclosure on property pledged as collateral. As at 1 January 2020, those claims against individual borrowers totaled RUB 201,230 thousand.

In 2019, the Bank filed 90 legal suits against individual borrowers demanding the repayment of amounts due under loan agreements without demanding foreclosure on property pledged as collateral. As at 1 January 2020, those claims totaled RUB 10,223 thousand.

In 2018, the Bank filed 557 legal suits against individual borrowers demanding the repayment of amounts due under loan agreements and the foreclosure on property pledged as collateral. As at 1 January 2019, those claims against individual borrowers totaled RUB 276,194 thousand.

In 2018, the Bank filed 152 legal suits against individual borrowers demanding the repayment of amounts due under loan agreements without demanding foreclosure on property pledged as collateral. As at 1 January 2019, those claims totaled RUB 64,004 thousand.

As at 1 January 2020, the Bank made a provision of RUB 10.7 million for litigations with individuals (1 January 2019: RUB 11.2 million). The Bank regards the amount as insignificant and does not think it is probable that future litigations with individuals will affect the Bank's financing or operating activities.

### 17.9 Strategic risk

Strategic risk is a risk of losses which the Bank may incur as a result of mistakes (deficiencies) in making decisions defining the Bank's strategy due to lacking or inadequate accounting for potential threats to the Bank's operations, insufficiently reasoned or incorrect determination of priority areas where the Bank can achieve competitive advantages, lacking or insufficient resources required (financial, material, technical, etc.) or organizational measures (management decisions) which should facilitate achievement of the Bank's strategic objectives.

Strategic risk of the Bank arises from its strategic objectives and business plans, because the success of long-term plans depends on whether management is able to make management decisions in a timely and adequate manner.

The Bank manages this risk by the application of corporate-wide approaches and adequate planning of its activities. The adequacy of the planning system requires the use of various planning scenarios, planning continuity, centralization of methodological and control functions for planning purposes, goals precision, as well as personal responsibility for the goals and execution control.

The Management Board formulates the development strategy of the Bank for a period from three to five years, as well as a business plan for the current financial year, which are approved by the Board of Directors. The Management Board is informed on the business plan implementation for the current financial year on a monthly basis and the development strategy implementation on an annual basis. The Management Board makes amendments to the strategy and (or) the business plan, if necessary, which are subsequently submitted for approval by the Board of Directors.

### 17.10 Reputational risk

Reputational risk is a risk of loss arising from deterioration of the public opinion related to the Bank's financial stability, quality of its services and nature of its business in general resulting in loss of clients (counterparties).

The Bank has a solid business reputation, promotes a positive image of the Bank, quality of its services and nature of its business in general, based on the actual operating results. The risk that the Bank may incur losses as a result of business reputation deterioration is assessed by the Management of the Bank as minimal.

### 17.11 Country risk

Country risk (including non-payment risk) is a risk that the Bank may incur losses as a result of foreign counterparties (legal entities or individuals) failing to meet their obligations or doing that improperly due to economic, political or social changes or because the currency of a monetary liability may be inaccessible to a counterparty due to the specifics of the national legislation (irrespective of the counterparty's financial position).

The Bank is a resident of the Russian Federation and operates in the Russian Federation. The Bank's is actively engaged with the Renault-Nissan Alliance in Russia, which is also exposed to country risk inherent in its operations in the Russian Federation.

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### 17. Risk management (continued)

#### 17.11 Country risk (continued)

The level of country risk of the Russian Federation is driven by a number of factors, including the following:

- ▶ Social, economic and political situation in the country;
- ▶ Economic growth rates in Russia and movements in major macroeconomic measures (including prices for energy resources);
- ▶ Fiscal policies;
- ▶ External factors (including global economy changes that may have a substantial impact on the Russian economy as a result of the inherent economic globalization).

Most of the above risk factors, given their global nature and scale, are beyond the Bank's control perimeter. However, the Bank is financially stable enough to overcome mid-term negative economic developments in the Russian Federation; moreover, in the event of a substantial adverse change in its operating environment, the Bank can rely on the help of entities related to its shareholder.

The Bank engages in transactions with non-resident counterparties registered in the EU, the USA and Japan. Given the insignificant volume of such transactions, the related country risk is immaterial.

### 18. Fair value measurements

#### Fair value hierarchy

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2: other techniques for which all inputs that are significant to the recorded fair value are observable, either directly or indirectly;
- ▶ Level 3: techniques for which some of the inputs that are significant to the recorded fair value are not based on observable market data.

As at 31 December 2019, fair value hierarchy disclosures are as follows:

	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	<i>Total</i>
<b>Assets measured at fair value</b>				
Investment securities – debt securities at FVOCI	1,004,477	–	–	<b>1,004,477</b>
Derivative financial instruments	–	868,323	–	<b>868,323</b>
<b>Total assets measured at fair value</b>	<b>1,004,477</b>	<b>868,323</b>	–	<b>1,872,800</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	–	5,843,069	–	<b>5,843,069</b>
Amounts due from credit institutions	–	–	–	–
Loans to customers	–	–	93,551,832	<b>93,551,832</b>
Other assets	–	–	142,621	<b>142,621</b>
<b>Total assets for which fair values are disclosed</b>	–	<b>5,843,069</b>	<b>93,694,453</b>	<b>99,537,522</b>
<b>Liabilities measured at fair value</b>				
Derivative financial instruments	–	154,064	–	<b>154,064</b>
<b>Total liabilities measured at fair value</b>	–	<b>154,064</b>	–	<b>154,064</b>
<b>Liabilities for which fair values are disclosed</b>				
Debt securities issued	40,266,743	–	–	<b>40,266,743</b>
Amounts due to credit institutions	–	–	33,046,754	<b>33,046,754</b>
Amounts due to customers	–	–	12,003,498	<b>12,003,498</b>
Other liabilities	–	–	1,174,830	<b>1,174,830</b>
<b>Total liabilities for which fair values are disclosed</b>	<b>40,266,743</b>	–	<b>46,225,082</b>	<b>86,491,825</b>

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### 18. Fair value measurements (continued)

#### Fair value hierarchy (continued)

As at 31 December 2018, fair value hierarchy disclosures are as follows:

	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	<i>Total</i>
<b>Assets measured at fair value</b>				
Investment securities – debt securities at FVOCI	439,648	–	–	439,648
Derivative financial instruments	–	1,082,686	–	1,082,686
<b>Total assets measured at fair value</b>	<b>439,648</b>	<b>1,082,686</b>	<b>–</b>	<b>1,522,334</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	–	9,593,279	–	9,593,279
Amounts due from credit institutions	–	–	–	–
Loans to customers	–	–	76,221,528	76,221,528
Other assets	–	–	63,497	63,497
<b>Total assets for which fair values are disclosed</b>	<b>–</b>	<b>9,593,279</b>	<b>76,285,025</b>	<b>85,878,304</b>
<b>Liabilities measured at fair value</b>				
Derivative financial instruments	–	279,679	–	279,679
<b>Total liabilities measured at fair value</b>	<b>–</b>	<b>279,679</b>	<b>–</b>	<b>279,679</b>
<b>Liabilities for which fair values are disclosed</b>				
Debt securities issued	18,639,407	–	–	18,639,407
Amounts due to credit institutions	–	–	42,668,231	42,668,231
Amounts due to customers	–	–	12,190,973	12,190,973
Other liabilities	–	–	447,415	447,415
<b>Total liabilities for which fair values are disclosed</b>	<b>18,639,407</b>	<b>–</b>	<b>55,306,619</b>	<b>73,946,026</b>

#### Financial instruments not recorded at fair value in the statement of financial position

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

	<i>31 December 2019</i>			<i>31 December 2018</i>		
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Unrecognized gain/(loss)</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Unrecognized gain/(loss)</i>
<b>Financial assets</b>						
Cash and cash equivalents	5,843,069	5,843,069	–	9,593,279	9,593,279	–
Amounts due from credit institutions	–	–	–	–	–	–
Loans to customers	97,617,417	93,551,832	(4,065,585)	79,088,188	76,221,528	(2,866,660)
Other assets	142,621	142,621	–	63,497	63,497	–
<b>Total financial assets</b>	<b>103,603,107</b>	<b>99,537,522</b>	<b>(4,065,585)</b>	<b>88,744,964</b>	<b>85,878,304</b>	<b>(2,866,660)</b>
<b>Financial liabilities</b>						
Amounts due to credit institutions	32,994,792	33,046,754	(51,962)	42,686,949	42,668,231	18,718
Amounts due to customers	11,850,158	12,003,498	(153,340)	11,898,945	12,190,973	(292,028)
Debt securities issued	39,886,928	40,266,743	(379,815)	18,685,486	18,639,407	46,079
Other liabilities	1,174,830	1,174,830	–	447,415	447,415	–
<b>Total financial liabilities</b>	<b>85,906,708</b>	<b>86,491,825</b>	<b>(585,117)</b>	<b>73,718,795</b>	<b>73,946,026</b>	<b>(227,231)</b>
<b>Total unrecognized change in fair value</b>			<b>(4,650,702)</b>			<b>(3,093,891)</b>

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### 18. Fair value measurements (continued)

#### Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

##### *Assets for which fair value approximates carrying amount*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than one year), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

##### *Financial assets and financial liabilities carried at amortized cost*

The fair value of instruments that have been unquoted for over a year, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the Bank of Russia and other credit institutions, other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

### 19. Segment reporting

The Bank has determined operating segments based on its organizational structure. Information on operating segments is presented in the same manner as internal reports presented to the Management Board.

For the purposes of this disclosure, "operating segments" are determined by the Bank based on the definition specified in IFRS 8 *Operating Segments*.

For management purposes, the Bank's activities are divided into three business segments:

- ▶ Corporate banking – provision of financing to car dealers, maintenance of term deposits placed by corporate customers;
- ▶ Retail banking – provision of loans to retail customers (car loans) and rendering related financial services;
- ▶ In-house activities – interbank lending, trading with securities, foreign currencies and derivative financial instruments, and other internal transactions.

Management monitors operating results separately for each business unit for the purpose of making decisions on the resource allocation and performance assessment. Transfer prices for transactions between operating segments are set on an arm's length basis in a manner similar to transactions with third parties.

Information on each segment is reviewed using the methods similar to those applied in making decisions on the resource allocation between segments and performance assessment.

The breakdown of the Bank's assets and liabilities by operating segment in 2019 and 2018 is shown in the table below.

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Assets</b>		
Retail banking	56,667,541	48,178,976
Corporate banking	40,949,876	30,909,212
In-house activities	9,647,170	12,763,342
<b>Total assets</b>	<b>107,264,587</b>	<b>91,851,530</b>
<b>Liabilities</b>		
Retail banking	2,559,517	2,136,507
Corporate banking	1,133,472	1,121,726
In-house activities	84,163,733	72,362,033
<b>Total liabilities</b>	<b>87,856,722</b>	<b>75,620,266</b>



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### 19. Segment reporting (continued)

The analysis of the Bank's income and expenses by segment for the year ended 31 December 2019 and 2018 is shown in the table below.

	2019				2018					
	Retail banking	Corporate banking	In-house activities	Reconciliation*	Total	Retail banking	Corporate banking	In-house activities	Reconciliation*	Total
<b>Revenue</b>										
Interest income	8,015,674	4,162,039	516,624	-	<b>12,694,337</b>	8,229,615	2,695,481	452,860	-	<b>11,377,956</b>
Fee and commission income	-	146,682	-	-	<b>146,682</b>	-	119,244	-	-	<b>119,244</b>
<b>Total revenue</b>	<b>8,015,674</b>	<b>4,308,721</b>	<b>516,624</b>	<b>-</b>	<b>12,841,019</b>	<b>8,229,615</b>	<b>2,814,725</b>	<b>452,860</b>	<b>-</b>	<b>11,497,200</b>
<b>Expenses</b>										
Interest expense	(3,964,299)	(1,951,708)	(1,348,527)	-	<b>(7,264,534)</b>	(3,997,967)	(1,151,672)	(431,709)	247,374	<b>(5,333,974)</b>
Fee and commission expense	(162,542)	-	-	-	<b>(162,542)</b>	(190,977)	-	-	-	<b>(190,977)</b>
Allowance for impairment	(495,395)	(126,725)	583	-	<b>(621,537)</b>	(487,379)	(248,245)	(600)	-	<b>(736,224)</b>
Non-interest expense/(income)	-	-	834,055	-	<b>834,055</b>	-	-	(108,120)	(247,374)	<b>(355,494)</b>
Other administrative expenses	(1,108,721)	(532,976)	-	-	<b>(1,641,697)</b>	(1,200,355)	(385,061)	-	-	<b>(1,585,416)</b>
<b>Total expenses</b>	<b>(5,730,957)</b>	<b>(2,611,409)</b>	<b>(513,889)</b>	<b>-</b>	<b>(8,856,255)</b>	<b>(5,876,678)</b>	<b>(1,784,978)</b>	<b>(540,429)</b>	<b>-</b>	<b>(8,202,085)</b>
<b>Profit/(loss) before income tax expense</b>	<b>2,284,717</b>	<b>1,697,312</b>	<b>2,735</b>	<b>-</b>	<b>3,984,764</b>	<b>2,352,937</b>	<b>1,029,747</b>	<b>(87,569)</b>	<b>-</b>	<b>3,295,115</b>
Income tax expense	(486,569)	(330,065)	-	-	<b>(816,634)</b>	(464,041)	(224,230)	-	-	<b>(688,271)</b>
<b>Total net profit for the year</b>	<b>1,798,148</b>	<b>1,367,247</b>	<b>2,735</b>	<b>-</b>	<b>3,168,130</b>	<b>1,888,896</b>	<b>805,517</b>	<b>(87,569)</b>	<b>-</b>	<b>2,606,844</b>

\* The differences relate to the effect of hedging transactions that did not pass the hedge effectiveness test.

In 2019 and 2018, the Bank had no revenue from transactions with a single external customer or counterparty that would amount to 10% or more of its total revenue.

### 20. Related party disclosures

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

#### 20.1 Transactions with the members of the Board of Directors and the Management Board

The total compensations to the members of the Board of Directors and the Management Board included in personnel expenses in 2019 and 2018 amounted to RUB 77,773 thousand and RUB 98,792 thousand, respectively.

#### 20.2 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions.

The Bank entered into transactions with related parties as part of its normal business. There is no increased risk of arrears or other unfavorable events resulting from such transactions.

*The Bank's related parties are as follows:*

As a result of a share sale and purchase transaction, BARN B.V., a private limited liability company (the Kingdom of the Netherlands) became the Bank's sole shareholder on 29 August 2013. The ownership interest in the Bank's share capital is 100.00%.

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### 20. Related party disclosures (continued)

#### 20.2 Transactions with related parties (continued)

The ultimate owners of the Bank's shareholder are:

- ▶ UniCredit S.p.A., Italy – 40%;
- ▶ Renault S.A., France – 30%;
- ▶ Nissan Motor Co., Ltd., Japan – 30%.

The shares above do not include the ownership of Renault S.A., France, in the share capital of Nissan Motor Co., Ltd., Japan, which was 43% as at 31 December 2019.

<b>Shareholders</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>BARN B.V.</b>	<b>BARN B.V.</b>
Transactions with other related parties	JSC UniCredit Bank RCI Banque S.A. Nissan Financial Services Co, Ltd. Renault Finance S.A. RNGM S.A. LLC Nissan Manufacturing RUS LLC RN Finance RUS Nissan Motor Acceptance Corporation CJSC Renault Russia DIAC	JSC UniCredit Bank RCI Banque S.A. Nissan Financial Services Co, Ltd. Renault Finance S.A. RNGM S.A. LLC Nissan Manufacturing RUS LLC RN Finance RUS Nissan Motor Acceptance Corporation CJSC Renault Russia DIAC

The outstanding balances of, and gains and losses resulting from, transactions with related parties are presented below:

	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>Shareholder</b>	<b>Other related parties</b>	<b>Shareholder</b>	<b>Other related parties</b>
<b>Assets</b>				
Cash and cash equivalents	-	12,178	-	10,918
Loans to customers	-	846,581	-	493,162
Financial assets at fair value through profit or loss	-	336,083	-	207,129
<b>Total assets</b>	<b>-</b>	<b>1,194,842</b>	<b>-</b>	<b>711,209</b>
<b>Liabilities</b>				
Amounts due to credit institutions	-	15,453,292	-	29,066,121
Financial liabilities at fair value through profit or loss	-	60,779	-	279,679
Amounts due to customers	-	5,724,072	-	6,362,500
Other liabilities	-	1,306	-	2,851
<b>Total liabilities</b>	<b>-</b>	<b>21,239,449</b>	<b>-</b>	<b>35,711,151</b>
Commitments and guarantees received	-	177,735	-	296,620
	<b>2019</b>		<b>2018</b>	
	<b>Shareholder</b>	<b>Other related parties</b>	<b>Shareholder</b>	<b>Other related parties</b>
Interest income	-	2,851,871	-	3,043,893
Interest expense	-	(2,648,054)	-	(1,965,860)
Fee and commission income	-	113,627	-	103,730
Fee and commission expense	-	(127,423)	-	(56,585)
Result of operations with financial instruments	-	(99,439)	-	(458,609)
Other operating income	-	735	-	595
Other operating expenses	-	(53,172)	-	(63,746)
Net gains/(losses) from foreign currencies	-	(308,814)	-	(576,168)

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### 21. Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The Bank's capital adequacy is monitored using the ratios established by the Bank of Russia.

The primary objective of capital management is monitoring compliance of the Bank's capital with external requirements and maintenance of robust credit ratings and capital ratios to ensure the Bank's operation and maximize shareholder value.

In 2019, the Bank adhered to the same capital management policies as in 2018.

#### Capital adequacy ratio set by the Bank of Russia

Under the requirements set by the Bank of Russia, banks have to maintain a capital adequacy ratio of at least 8% of risk-weighted assets (the ratio is calculated in the statutory financial statements prepared in accordance with Russian accounting legislation).

	<i>31 December 2019</i>	<i>31 December 2018</i>
Core capital, main capital	17,999,467	15,622,147
Additional capital	579,334	1,037,081
<b>Total equity (capital)</b>	<b>18,578,801</b>	<b>16,659,228</b>
Risk-weighted assets	120,656,986	107,724,358
Core capital adequacy ratio, % (N1.1) (minimum is set at 4.5%)	14.9%	14.5%
Main capital adequacy ratio, % (N1.2) (minimum is set at 6.0%)	14.9%	14.5%
Equity (capital) adequacy ratio, % (N1.0) (minimum is set at 8.0%)	15.4%	15.5%

In 2019 and 2018, the Bank's operations complied with all externally imposed capital requirements.

A capital buffer was set in Regulation No. 180-I of the Bank of Russia *On Prudential Ratios of Banks* of 28 June 2017 (hereinafter, "Instruction No. 180-I"). The buffer amounted to 2.25% in the reporting period. During the reporting period, the Bank's actual capital adequacy ratios were in line with the established limits, subject to the capital buffers.

In the event a bank does not comply with the prudential ratio for a minimum of six business days, in aggregate, within any 30 consecutive business days, the Bank of Russia may take measures stipulated in Article 74 of the Federal Law *On the Central Bank of the Russian Federation (the Bank of Russia)*.

When planning its future activities, the Bank assesses its capital adequacy by monitoring compliance with the prudential ratios N1.0, N1.1 and N1.2 of the planned ratios as adjusted for the scope of the Bank's activities and the level of risk assumed on the planned lending transactions in accordance with Basel III regulations.

### 22. Events after the reporting date

On 21 February 2020, Analytical Credit Rating Agency (ACRA) confirmed the national credit rating of the Bank at AAA(RU) with a stable outlook. The ratings of the Bank's exchange-traded bond issues were also confirmed at AAA(RU).

Chairman of the Management Board  
Derot Xavier Gerard



12 March 2020

Chief Accountant  
Daria Vladislavovna Dolgorukova