

Independent auditor's report
on the annual financial statements of
Joint Stock Company RN Bank
for 2018

March 2019

**Independent auditor's report
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Joint Stock Company RN Bank**

Translation of the original Russian version

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Independent auditor's report

Translation of the original Russian version

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

Report on the audit of the annual financial statements

Opinion

We have audited the annual financial statements of Joint Stock Company RN Bank (hereinafter, the "Bank"), which comprise the balance sheet (published form) for 2018, statement of income (published form) for 2018 and appendices to the balance sheet and statement of income including report on capital adequacy to cover the risks, statement of changes in equity of the credit institution (published form) as of 1 January 2019, information on mandatory ratios, financial leverage indicator of short-term liquidity and ratios (published form) as of 1 January 2019, statement of cash flows (published form) as of 1 January 2019 and explanatory notes.

In our opinion, the accompanying annual financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and its cash flows for 2018 in accordance with the rules on preparation of financial statements established in the Russian Federation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual 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 (IESBA Code) together with the ethical requirements that are relevant to our audit of the annual 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 our audit of the annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each 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 annual financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the annual financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying annual financial statements.

Key audit matter	How our audit addressed the key audit matter
<i>Provision for potential losses on loans receivable and similar debt</i>	
Estimation of the provision for potential losses on loans receivable and similar debt (hereinafter, "loans") in line with the requirements of Regulation No. 590-P of the Central Bank of the Russian Federation <i>On the Procedure for the Creation of Provisions for Potential Losses on Loans Receivable and Equivalent Debt by Credit Institutions</i> of 28 June 2017, is a key area of judgment for the Bank's management. The assessment of credit risks involves an extensive use of professional judgment and assumptions, as well as the analysis of various factors, including the borrower's financial position, and valuation of collateral.	Our audit procedures included tests of controls over the process of assessment of a borrower's financial position and debt service quality, analysis of the methodology for assessment of provisions for loans, including individual loans and homogeneous loan portfolios.
The use of different approaches and assumptions can significantly affect the provision for potential losses on loans.	We performed selective analysis of the borrowers' financial positions, indicators of negative developments, existence of overdue debt, expected future cash flows and valuations of collateral. We analyzed the consistency of management's judgements used to determine loan quality categories. We reviewed significant individually impaired loans and loans most exposed to the risk of individual impairment.
Due to the significant amount of loans issued and an extensive use of professional judgment, the estimation of provisions for potential losses on loans was a key audit matter.	We performed procedures over the information on provisions for potential losses on loans disclosed in notes to the annual financial statements.
Information on provisions for potential losses on loans, as well as the Bank's management approach to assessing and managing credit risk, are described in Notes 6.3 and 10.2 to the annual financial statements.	

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Other information included in the Bank's 2018 Annual report

Other information consists of the information included in the Bank's 2018 Annual report, other than the annual financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the annual 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 annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual 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 Board of Directors for the annual financial statements

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

In preparing the annual 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.

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

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

Our objectives are to obtain reasonable assurance about whether the annual 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the annual 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.

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- ▶ 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 annual 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 annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

From the matters communicated with Board of Directors, we determine those matters that were of most significance in the audit of the annual 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 matter 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.

Report in accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning 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 the conformity of 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.

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In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activities* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's annual financial statements for 2018, we determined:

- 1) Whether the Bank complied as at 1 January 2019 with the obligatory ratios established by the Bank of Russia;
- 2) Whether 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.

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 of 1 January 2019 were within the limits established by the Bank of Russia.

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

Conformity of 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 2018 the Bank's internal audit division 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.

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- ▶ We found that the Bank's internal documents effective as at 31 December 2018 that establish the methodologies for detecting and managing credit, market, operational and liquidity risks that are significant to the Bank and stress-testing have 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 2018, the Bank had a reporting system pertaining to credit, market, operational and liquidity risks 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 division during 2018 with regard to the management of credit, market, operational and liquidity risks 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 division in respect of the effectiveness of relevant risk management methodologies.
- ▶ We found that, as at 31 December 2018, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of 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 2018, 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 division.

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

19 March 2019

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, building 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 "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

OKATO (territory code)	Code of credit institution (branch)	
	OKPO	registration number (index number)
45286	09808583	102550003737

BALANCE SHEET
(published form)
as of 1 January 2019

Credit institution **Joint Stock Company RN Bank, JSC RN Bank**
(full and abbreviated corporate name)

Postal address **109028, Moscow, Serebryanicheskaya nab., 29**

OKUD form code 0409806
Quarterly (Annual)
(kRUR)

No.	Item	Explanatory note	At the reporting date	At the beginning of the reporting year
1	2	3	4	5
I. ASSETS				
1	Cash	6.1	10	10
2	Amounts due to credit institutions from the Central Bank of the Russian Federation	6.1	1 460 349	2 291 989
2.1	Obligatory reserves		318 510	390 249
3	Amounts due from credit institutions	6.1	47 117	109 652
4	Financial assets at fair value through profit or loss	6.2	1 082 686	205 946
5	Net loans receivable	6.3	90 027 021	74 786 441
6	Net investments in securities and other financial assets available for sale		439 780	595 934
6.1	Investments in subsidiaries and associates		0	0
7	Net investments in securities held to maturity		0	0
8	Current income tax asset		0	21 719
9	Deferred tax asset		163 383	356 378
10	Fixed assets, intangible assets and inventories	6.6	229 996	330 385
11	Non-current assets held for sale		0	0
12	Other assets	6.7	1 103 530	958 049
13	Total assets		94 553 872	79 656 503
II. LIABILITIES				
14	Loans, deposits and other amounts due to the Bank of Russia		0	0
15	Amounts due to credit institutions	6.8	41 816 840	34 130 020
16	Amounts due to customers other than credit institutions	6.9	11 762 065	12 478 991
16.1	Deposits of (amounts due to) individuals, including individual entrepreneurs		2 134 824	1 853 168
17	Financial liabilities at fair value through profit or loss	6.5	279 679	1 582 363
18	Debt obligations issued	6.10	18 431 228	15 000 000
19	Current income tax liability		41 428	262
20	Deferred tax liability		0	0
21	Other liabilities	6.11	2 618 193	2 429 821
22	Provisions for potential losses on credit-related contingent liabilities, other potential losses and transactions with offshore residents		0	0
23	Total liabilities		74 949 433	65 621 457
III. EQUITY				
24	Shareholders' (participants') equity	8.1	6 069 000	3 269 000
25	Treasury shares		0	0
26	Share premium	8.2	5 780 800	5 580 800
27	Reserve fund	8.2	308 369	157 584
28	Fair value re-measurement of securities available for sale decreased by deferred tax liability (increased by deferred tax asset)	8.2	-703	2 322
29	Revaluation of fixed assets and intangible assets decreased by deferred tax liability		0	0
30	Revaluation of liabilities (claims) for the payment of long-term benefits		0	0
31	Revaluation of hedging instruments		0	0
32	Funds in the form of debt-free financing (contributions to assets)		0	0
33	Retained earnings (uncovered losses) of prior years	8.2	4 874 556	2 009 642
34	Unutilized profit (loss) for the reporting period	8.1	2 572 417	3 015 698
35	Total equity		19 604 439	14 035 046
IV. OFF-BALANCE SHEET LIABILITIES				
36	Irrevocable liabilities of the credit institution		15 963 754	19 079 300
37	Guarantees and sureties issued by the credit institution		0	0
38	Non-credit related contingent liabilities		0	0

Chairman of the Management Board

Xavier Derot

Chief Accountant
Stamp

Daria Vladislavovna Dolgorukova

"19" March 2019



OKATO territory code	Code of credit institution (branch)	
	OKPO	registration number (index number)
45286	09808583	1025500003737

STATEMENT OF INCOME
(published form)
for 2018

Credit institution Joint Stock Company RN Bank, JSC RN Bank
(full and abbreviated corporate name)

Postal address 109028, Moscow, Serebryanicheskaya nab., 29

OKUD form code 0409807
Quarterly (Annual)
kRUR

Section 1. Profit or loss

(kRUR)

No.	Item	Explanatory note	For the reporting period	For the corresponding period of the prior year
1	2	3	4	5
1	Total interest income, including from:	7.1	10 287 031	9 976 710
1.1	Deposits placed with credit institutions	7.1	460 580	424 881
1.2	Loans issued to customers other than credit institutions	7.1	9 794 126	9 534 863
1.3	Finance lease services		0	0
1.4	Investments in securities	7.1	32 325	16 966
2	Total interest expense, including for:	7.1	4 523 420	3 400 353
2.1	Funds raised from credit institutions	7.1	2 665 871	1 980 948
2.2	Funds raised from customers other than credit institutions	7.1	506 809	468 955
2.3	Debt obligations issued	7.1	1 350 740	950 450
3	Net interest income (negative interest margin)	7.1	5 763 611	6 576 357
4	Total change in provision for potential losses on loans receivable and similar debt, amounts placed on correspondent accounts, and accrued interest income, including:	7.7	-1 099 557	5 171
4.1	Change in provision for potential losses on accrued interest income	7.7	9 070	4 864
5	Net interest income (negative interest margin) after provision for potential losses		4 664 054	6 581 528
6	Net gains from financial assets at fair value through profit or loss	7.3	1 777 524	-56 088
7	Net gains from financial liabilities at fair value through profit or loss		0	0
8	Net gains from securities available for sale	7.4	634	-90
9	Net gains from securities held to maturity		0	0
10	Net gains from dealing in foreign currencies	7.5	-426 636	-1 197 261
11	Net gains from foreign currency translation	7.6	-2 436 869	-980 573
12	Net gains from transactions with precious metals		0	0
13	Income from interests in other legal entities		0	0
14	Fee and commission income	7.2	3 218 106	2 265 645
15	Fee and commission expense	7.2	188 268	170 994
16	Change in provision for potential losses on securities available for sale		0	0
17	Change in provision for potential losses on securities held to maturity		0	0
18	Change in provision for other losses	7.7	15 712	-43 411
19	Other operating income	7.8	57 679	143 570
20	Net income (expense)		6 681 936	6 542 326
21	Operating expenses	7.9	3 034 268	2 532 722
22	Profit (loss) before tax		3 647 668	4 009 604
23	Tax benefit (expense)	7.10	1 075 251	993 906
24	Profit (loss) from continuing operations		2 572 417	3 015 698
25	Profit (loss) from discontinued operations		0	0
26	Profit (loss) for the reporting period	3	2 572 417	3 015 698

Section 2. Comprehensive income

(kRUR)

No.	Item	Explanatory note	For the reporting	For the
1	2	3	4	5
1	Profit (loss) for the reporting period	3	2 572 417	3 015 698
2	Other comprehensive income (loss)		X	X
3	Total for items not to be reclassified to profit or loss, including:		0	0
3.1	Change in revaluation reserve for fixed assets		0	0
3.2	Change in revaluation reserve for liabilities (claims) under defined benefit pension plans		0	0
4	Income tax relating to items not to be reclassified to profit or loss		0	0
5	Other comprehensive income (loss) not to be reclassified to profit or loss, less income tax		0	0
6	Total for items to be reclassified to profit or loss, including:	7.11	-3781	2221
6.1	Change in revaluation reserve for financial assets available for sale	7.11	-3781	2221
6.2	Change in cash flow hedge reserve		0	0
7	Income tax relating to items to be reclassified to profit or loss	7.11	757	0
8	Other comprehensive income (loss) to be reclassified to profit or loss, less income tax	7.11	-3024	2221
9	Other comprehensive income (loss) less income tax		-3024	2221
10	Financial result for the reporting period		2 569 393	3 017 919

Chairman of the Management Board

Chief Accountant
Stamp



Xavier Derot

Daria Vladislavovna Dolgorukova

"19" March 2019

OKATO territory code	Code of credit institution (branch)	
	OKPO	registration number (index number)
45286	09808583	1025500003737

STATEMENT OF CAPITAL ADEQUACY TO COVER RISKS

(published form)

as of 1 January 2019

Credit institution Joint Stock Company RN Bank, JSC RN Bank

(full and abbreviated corporate name)

Address (location) of the credit institution 109028, Moscow, Serebryanicheskaya nab., 29

OKUD form code 0409808

Quarterly (Annual)

Section 1. Information on capital adequacy

KRUR

№	Instrument (indicator)	Explanatory note	Value of instrument (indicator) at the reporting date	Value of instrument (indicator) at the beginning of the reporting year	Item of the balance sheet (published form) used as sources of capital components
1	2	3	4	5	6
Core capital					
1	Total share capital and share premium, including:	8.2	11 849 800	8 849 800	24
1.1	Ordinary shares (interests)	8.2	11 849 800	8 849 800	24
1.2	Preferred shares		-	-	
2.	Retained earnings (loss):	8.2	4 874 556	2 009 642	33
2.1	Prior years		4 874 556	2 009 642	33
2.2	Reporting year		-	-	
3	Reserve fund	8.2	308 369	157 584	27
4	Parts of share capital to be gradually excluded from the calculation of equity (capital)		Not applicable	Not applicable	
5	Core capital instruments of subsidiaries, held by third parties		Not applicable	Not applicable	
6	Total core capital (line 1 +/- line 2 + line 3 - line 4 + line 5)	8.2	17 032 725	11 017 026	
Items decreasing core capital					
7	Adjustment to the trading portfolio		Not applicable	Not applicable	
8	Goodwill less deferred tax liabilities		-	-	
9	Intangible assets (except for goodwill and mortgage loan servicing rights) less deferred tax liabilities	8.2	169 006	251 479	10
10	Deferred tax assets that depend on future profit		-	-	
11	Cash flow hedge reserves		Not applicable	Not applicable	
12	Shortfall of provisions for potential losses		-	-	
13	Gain from securitization		Not applicable	Not applicable	
14	Gains and losses from changes in credit risk related to liabilities at fair value		Not applicable	Not applicable	
15	Defined benefit pension plan assets		Not applicable	Not applicable	
16	Investments in treasury shares		-	-	
17	Mutual cross-shareholdings		Not applicable	Not applicable	
18	Insignificant investments in core capital instruments of financial institutions		-	-	
19	Significant investments in core capital instruments of financial institutions		-	-	

20	Mortgage loan servicing rights		Not applicable	Not applicable	
21	Deferred tax assets that are not dependent on future profit		-	-	
22	Aggregate amount of significant investments and deferred tax assets exceeding 15% of core capital, total, including:		-	-	
23	Significant investments in core capital instruments of financial institutions		-	-	
24	Mortgage loan servicing rights		Not applicable	Not applicable	
25	Deferred tax assets that are not dependent on future profit		-	-	
26	Other items decreasing core capital, established by the Bank of the Russia	8.2	1 241 572	882 642	34, 12
27	Negative amount of additional paid-in capital		-	283 530	5
28	Total for items decreasing core capital (sum of lines from 7 to 22 and lines 26 and 27)	8.2	1 410 578	1 417 651	
29	Total core capital (line 6 – line 28)	8.2	15 622 147	9 599 375	
Additional paid-in capital					
30	Total for additional paid-in capital instruments and share premium, including:		-	-	
31	Classified as capital		-	-	
32	Classified as liabilities		-	-	
33	Additional paid-in capital instruments to be gradually excluded from the calculation of equity (capital)		-	-	
34	Total for additional paid-in capital instruments of subsidiaries, held by third parties, including:		Not applicable	Not applicable	
35	Additional paid-in capital instruments of subsidiaries to be gradually excluded from the calculation of equity (capital)		X	X	
36	Total additional paid-in capital (line 30 + line 33 + line 34)		-	-	
Items decreasing additional paid-in capital					
37	Investments in treasury additional paid-in capital instruments		-	-	
38	Mutual cross-holdings of additional paid-in capital instruments		Not applicable	Not applicable	
39	Insignificant investments in additional paid-in capital instruments of financial institutions		-	-	
40	Significant investments in additional paid-in capital instruments of financial institutions		-	-	
41	Other items decreasing additional paid-in capital, established by the Bank of the Russia		-	283 530	5
42	Negative amount of additional capital		-	-	
43	Total for items decreasing additional paid-in capital (sum of lines from 37 to 42)		-	283 530	
44	Total additional paid-in capital (line 36 – line 43)		-	-	
45	Total main capital (line 29 + line 44)	8.2	15 622 147	9 599 375	
Additional capital					
46	Additional capital instruments and share premium		2 558 465	3 004 614	33
47	Additional capital instruments to be gradually excluded from the calculation of equity (capital)		-	-	
48	Total for additional capital instruments of subsidiaries, held by third parties, including:		Not applicable	Not applicable	
49	Additional capital instruments of subsidiaries to be gradually excluded from the calculation of equity (capital)		X	X	
50	Provisions for potential losses		Not applicable	Not applicable	
51	Total additional capital (line 46 + line 47 + line 48 + line 50)	8.2	2 558 465	3 004 614	33
Items decreasing additional capital					
52	Investments in treasury additional capital instruments	8.2	1 521 384	1 604 904	

53	Mutual cross-holdings of additional capital instruments		Not applicable	Not applicable	
54	Insignificant investments in additional capital instruments of financial institutions		-	-	
55	Significant investments in additional capital instruments of financial institutions		-	-	
56	Total for other items decreasing additional capital, established by the Bank of Russia, including:		-	65	
56.1	Accounts receivable past due by more than 30 calendar days		-	65	
56.2	Excess of the total amount of loans, bank guarantees and sureties provided to participants (shareholders) and insiders over the maximum amount		-	-	
56.3	Investments in the construction and purchase of fixed assets and inventories		-	-	
56.4	Difference between the actual value of the withdrawing participants' interest and the value at which the interest was sold to another participant		-	-	
57	Total for items decreasing additional capital (sum of lines from 52 to 56)	8.2	1 521 384	1 604 969	
58	Total additional capital (line 51 – line 57)	8.2	1 037 081	1 399 645	33
59	Total equity (capital) (line 45 + line 58)		16 659 228	10 999 020	
60	Risk weighted assets:		X	X	X
60.1	Required to determine the core capital adequacy ratio	8.3	107 724 358	88 937 078	
60.2	Required to determine the main capital adequacy ratio	8.3	107 724 358	88 937 078	
60.3	Required to determine the equity (capital) adequacy ratio	8.3	107 724 358	88 937 013	
Equity (capital) adequacy ratios and markups for equity (capital) adequacy prudential ratios, %					
61	Core capital adequacy ratio (line 29; line 60.1)	8.3	14,5020	10,7934	
62	Main capital adequacy ratio (line 45; line 60.2)	8.3	14,5020	10,7934	
63	Equity (capital) adequacy ratio (line 59; line 60.3)	8.3	15,4647	12,3672	
64	Total for markups for equity (capital) adequacy prudential ratio, including:		1,875	1,25	
65	Markup for maintaining capital adequacy		1,875	1,25	
66	Anti-cyclical markup		0	0	
67	Markup for systemically important banks		Not applicable	Not applicable	
68	Core capital available for maintaining markups for equity (capital) adequacy ratio		7,4647	4,3672	
Equity (capital) adequacy prudential ratios, %					
69	Core capital adequacy prudential ratio	8.3	4,5	4,5	
70	Main capital adequacy prudential ratio	8.3	6,0	6,0	
71	Equity (capital) adequacy prudential ratio	8.3	8,0	8,0	
Items decreasing capital and not exceeding established materiality thresholds					
72	Insignificant investments in capital instruments of financial institutions		-	-	
73	Significant investments in core capital instruments of financial institutions		-	-	
74	Mortgage loan servicing rights		Not applicable	Not applicable	
75	Deferred tax assets that are not dependent on future profit		-	-	
Restrictions on the inclusion of provisions for potential losses in the calculation of additional capital					
76	Provisions for potential losses included in the calculation of additional capital for items with credit risk calculated using the standardized approach		Not applicable	Not applicable	
77	Restrictions on the inclusion of provisions for potential losses in the calculation of additional capital when using the standardized approach		Not applicable	Not applicable	

78	Provisions for potential losses included in the calculation of additional capital for items with credit risk calculated using an approach based on internal models		Not applicable	Not applicable	
79	Restrictions on the inclusion of provisions for potential losses in the calculation of additional capital when using an approach based on internal models		Not applicable	Not applicable	
Instruments to be gradually excluded from the calculation of equity (capital) (effective from 1 January 2018 to 1 January 2022)					
80	Current restriction on the inclusion of instruments to be gradually excluded from the calculation of equity (capital) in core capital		-	-	
81	Part of instruments not included in core capital due to the restriction		-	-	
82	Current restriction on the inclusion of instruments to be gradually excluded from the calculation of equity (capital) in additional paid-in capital		-	-	
83	Part of instruments not included in additional paid-in capital due to the restriction		-	-	
84	Current restriction on the inclusion of instruments to be gradually excluded from the calculation of equity (capital) in additional capital		-	-	
85	Part of instruments not included in additional capital due to the restriction		-	-	

Note.

The balance sheet data used to prepare section I of the statement is explained in table 1.1 of section 3 "Information on the equity (capital) structure and applicable risk and capital management procedures, disclosed in accordance with Regulation No. 4482-U of the Bank of Russia of 7 August 2017 "On the Form and Procedure for a Credit Institution (Parent Credit Institution of a Banking Group) to Disclose Information on Risks Assumed, Risk Assessment Procedures and Risk and Capital Management Procedures" at the Bank's web site www.m-bank.ru in section "Disclosure of information for regulatory purposes"

Section 4. Information on leverage ratio

No.	Item	Explanatory note	At the reporting date	At the date one quarter off the reporting date	At the date two quarters off the reporting date	At the date three quarters off the reporting date
1	2	3	4	5	6	7
1	Main capital, kRUR	8.2	15 622 147	9 599 375	14 486 853	11 456 156
2	On-balance sheet assets and off-balance sheet claims	10.2	95 750 131	85 244 347	84 603 951	81 562 960
3	Basel III leverage ratio, %		16,3	17,9	17,1	14,1

Section 5. Key characteristics of capital instruments

No.	Characteristics	Description
1	2	3
1	Short corporate name of the capital instrument issuer	JSC RN Bank
2	Identification number of the instrument	10200170B
3	Applicable law	Russia
Regulatory framework		
4	Tier of capital in which the instrument is included during the Basel III transition period	Core capital
5	Tier of capital in which the instrument is included after the Basel III transition period	Core capital
6	Level of consolidation at which the instrument is included in capital	Not applicable
7	Type of instrument	Ordinary shares
8	Value of the instrument included in the capital calculation	11 849 800
9	Nominal value of the instrument	6 069 000
10	Classification of the instrument for accounting purposes	Share capital
11	Date of issuing (raising, placing) the instrument	20 February 2004, 7 August 2006, 7 August 2007, 19 August 2013, 23 October 2014, 9 June 2018
12	Term of the instrument	Perpetual
13	Maturity date of the instrument	No stated maturity
14	Right to early redemption (repayment) of the instrument, as agreed with the Bank of Russia	Not applicable
15	Initial date (dates) on which the right to early redemption (repayment) of the instrument may be exercised, terms of exercising the right and the amount of redemption (repayment)	Not applicable
16	Subsequent date (dates) of exercising the right to early redemption (repayment) of the instrument	Not applicable
Interest/dividends/coupon		
17	Type of the instrument rate	Not applicable
18	Rate	Not applicable
19	Terms for terminating dividend payments on ordinary shares	No
20	Mandatory nature of dividend payments	Partially at the discretion of the credit institution
21	Terms for increasing payments on the instrument or other incentives for the early redemption (repayment) of the instrument	Not applicable
22	Nature of payments	Non-cumulative
23	Convertibility of the instrument	Not applicable
24	Terms under which the instrument is converted	Not applicable
25	Full or partial conversion	Not applicable
26	Conversion rate	Not applicable
27	Mandatory nature of conversion	Not applicable
28	Tier of capital into an instrument of which the instrument is converted	Not applicable
29	Short corporate name of the issuer of an instrument into which the instrument is converted	Not applicable
30	Option to write off the instrument to cover losses	Yes
31	Terms under which the instrument is written off	By law, in accordance with Federal Law No. 2002 "On the Central Bank of the Russian Federation (Bank of Russia)" of 10 July 2002 provided that there is a requirement of the Bank of Russia to align the amounts of equity (capital) and share capital when equity (capital) decreases below share capital
32	Full or partial write-off	Not applicable
33	Permanent or temporary write-off	Not applicable
34	Reversal mechanism	Not applicable
35	Subordination of the instrument	Not applicable
36	Compliance with Regulation No. 395-P of the Bank of Russia and Regulation No. 509-P of the Bank of Russia	Yes
37	Description of noncompliances	

Chairman of the Management Board

Xavier Derot

Chief Accountant

Daria Vladislavovna Dolgorukova

Stamp



"19" March 2019

OKATO territory code	Code of credit institution (branch)	
	OKPO	registration number (index number)
045206	09808583	1025800003737

STATEMENT OF CHANGES IN EQUITY OF THE CREDIT INSTITUTION
(published form)
as of 1 January 2019

Credit institution Joint Stock Company RN Bank, JSC RN Bank

(full and abbreviated corporate name)

Address (location) of the credit institution 109028, Moscow, Serchbryanicheskaya nab., 29

OKUD form code 0409810

Quarterly (Annual)

KRUR

No.	Item	Explanatory note	Share capital	Treasury shares	Share premium	Fair value re-measurement of securities available for sale decreased by deferred tax liability (increased by deferred tax asset)	Revaluation of fixed assets and intangible assets decreased by deferred tax liability	Increase (decrease) in liabilities (claims) for the payment of long-term post-employment employee benefits on revaluation	Revaluation of hedging instruments	Reserve fund	Funds in the form of debt-free financing (contributions to assets)	Retained earnings (loss)	Total equity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	At the beginning of the previous reporting year		3 269 000		5 580 800	546				67 190		2 100 036	11 017 572
2	Effect of changes in accounting policies												
3	Effect of correction of errors												
4	At the beginning of the previous reporting year (corrected)		3 269 000		5 580 800	546				67 190		2 100 036	11 017 572
5	Comprehensive income for the previous reporting period:					-	410			90 394		1 567 370	1 657 354
5.1	Profit (loss)									90 394		1 567 370	1 657 764
5.2	Other comprehensive income					-	410					-	410
6	Issue of shares:												
6.1	Nominal value												
6.2	Share premium												
7	Treasury shares:												
7.1	Purchases												
7.2	Sales												
8	Change in the value of fixed and intangible assets												
9	Dividends declared and other payments to shareholders (participants) on:												
9.1	Ordinary shares												
9.2	Preferred shares												
10	Other contributions by shareholders (participants) and distribution to shareholders (participants)												
11	Other movements						2 186						1 360 120
12	For the corresponding prior year reporting period		3 269 000		5 580 800	2 322				157 584		5 025 340	14 035 046
13	At the beginning of the reporting year		3 269 000		5 580 800	2 322				157 584		5 025 340	14 035 046
14	Effect of changes in accounting policies												
15	Effect of correction of errors												
16	At the beginning of the reporting year (corrected)		3 269 000		5 580 800	2 322				157 584		5 025 340	14 035 046
17	Comprehensive income for the reporting period:					-	3 024			150 785		1 819 666	1 967 427
17.1	Profit (loss)									150 785		1 819 666	1 970 451
17.2	Other comprehensive income					-	3 024					-	3 024
18	Issue of shares:		2 800 000		200 000								3 000 000
18.1	Nominal value		2 800 000										2 800 000
18.2	Share premium				200 000								200 000
19	Treasury shares:												
19.1	Purchases												
19.2	Sales												
20	Change in the value of fixed and intangible assets												
21	Dividends declared and other payments to shareholders (participants) on:												
21.1	Ordinary shares												
21.2	Preferred shares												
22	Other contributions by shareholders (participants) and distribution to shareholders (participants)												
23	Other movements						177						177
24	For the reporting period		6 069 000		5 780 976	-	879			308 369		7 446 973	19 604 439

Chairman of the Management Board

Xavier Derot

Chief Accountant

Daria Vladislavovna Dolgorukova

Stamp

"19" March 2019



OKATO territory code	Code of credit institution (branch)	
	OKPO	registration number (index number)

**INFORMATION ON PRUDENTIAL RATIOS, LEVERAGE RATIO AND
AND CURRENT LIQUIDITY RATIO
(published form)
as of 1 January 2019**

Credit institution Joint Stock Company RN Bank, JSC RN Bank
(full and abbreviated corporate name)

Address (location) of the credit institution 109028, Moscow, Serebryanicheskaya nab., 29

OKUD form code 0409813
Quarterly (Annual)

Section 1. Information on prudential ratios

No.	Item	Explanatory note	Prudential ratio, %	Actual ratio, %					
				At the reporting date			At the beginning of the reporting year		
1	2	3	4	5			6		
1	Core capital adequacy ratio of the bank (N1.1) or the banking group (N20.1)	8,3	≥4,5	14,502			10,793		
2	Main capital adequacy ratio of the bank (N1.2) or the banking group (N20.2)	8,3	≥6,0	14,502			10,793		
3	Equity (capital) adequacy ratio of the bank (N1.0) or the banking group (N20.0)	8,3	≥8,0	15,465			12,367		
4	Equity (capital) adequacy ratio of the non-banking credit institution entitled to transfer funds without		x	x			x		
5	Leverage ratio of the bank (N1.4) or the banking group (N20.4)		≤3,0	16,426			Not applicable		
6	Instant liquidity ratio of the bank (N2)	10,6	≥15	229,360			304,806		
7	Current liquidity ratio of the bank (N3)	10,6	≥50	234,218			220,575		
8	Long-term liquidity ratio of the bank (N4)	10,6	≤120	72,137			87,617		
9	Maximum risk per borrower or a group of related borrowers of the bank (N6)	10,2	≤25	Maximum	Number of	Duration	Maximum	Number	Duration
				13,580	0	0	18,74	0	0
10	Maximum exposure to large credit risks of the bank (N7) or the banking group (N22)	10,2	≤800	74,208			90,745		
11	Maximum amount of loans, bank guarantees and sureties provided by the bank to its participants		≤50	0,005			0,000		
12	Aggregate insider risk of the bank (N10.1)		≤3	0,000			0,003		
13	Share of equity (capital) used by the bank to purchase shares in other legal entities (N12) and share of equity		≤25	0,000			0,000		
14	Ratio of liquid assets maturing within the next 30 calendar days to liabilities of the non-banking settlement		x	x			x		
15	Liquidity ratio of the non-banking credit institution entitled to transfer funds without opening bank accounts		x	x			x		
16	Maximum aggregate loans to customers that are parties to settlements for completing the settlements (N16)		x	x			x		
17	Loans issued by the non-banking settlement credit institution to borrowers, other than parties to settlements,		x	x			x		
18	Minimum ratio of mortgage value to mortgage-backed bonds (N18)		x	x			x		
19	Maximum risk per borrower or a group of related borrowers of the banking group (N21)		x	Maximum	Number of	Duration	Maximum	Number	Duration
				0	0	0	0	0	0
20	Maximum risk per bank-related entity (group of bank-related entities) (N25)		≤20	Maximum	Number of	Duration	Maximum	Number	Duration
				1,460	0	0	1,210	0	0

Section 2. Information on the leverage ratio calculation

Subsection 2.1. Calculation of the amount of on-balance sheet assets and off-balance sheet claims under risk, used to calculate the leverage ratio

(kRUR)

No.	Item	Explanatory note	Amount
1	2	3	4
1	Total assets per balance sheet (published form)		94 553 872
2	Adjustment for investments in the capital of credit, financial, insurance and other entities whose reporting data is		Not applicable to the financial
3	Adjustment for fiduciary assets recorded in accordance with the accounting rules but not included in the		0
4	Adjustment for derivative financial instruments		389 515
5	Adjustment for securities lending		0
6	Adjustment for credit-related contingent liabilities aligned to credit equivalent		644 572
7	Other adjustments		-162 172
8	Total amount of on-balance sheet assets and off-balance sheet claims under risk used, as adjusted to calculate the		95 750 131

Subsection 2.2. Calculation of the leverage ratio

(kRUR)

No.	Item	Explanatory note	Amount
1	2	3	4
Risk related to on-balance sheet assets			
1	Total on-balance sheet assets		93 802 364
2	Downward adjustment for the item reducing the amount of main capital		169 006
3	Total on-balance sheet assets under risk, as adjusted (difference between line 1 and line 2)		93 633 358
Risk related to derivative financial instruments			
4	Total current credit risk related to derivative financial instruments (less variation margin received)		1 082 686
5	Total potential counterparty credit risk related to derivative financial instruments		389 515
6	Adjustment for the nominal amount of collateral provided for derivative financial instruments, to be written off		Not applicable in accordance
7	Downward adjustment for the amount of variation margin transferred, as applicable		0
8	Adjustment for claims of the bank acting as a clearing participant on the central counterparty in the clients'		0
9	Adjustment to account for credit risk related to the underlying (basic) asset on credit derivatives issued		0
10	Downward adjustment for credit derivatives issued		0
11	Total risk related to derivative financial instruments, as adjusted (sum of lines 4, 5 and 9 minus lines 7, 8 and 10)		1 472 201
Risk related to securities lending			
12	Total claims on securities lending (before netting)		0
13	Adjustment for cash netting (claims and liabilities) on securities lending		0
14	Counterparty credit risk related to securities lending		0
15	Risk related to guarantee securities lending		0
16	Total claims on securities lending, as adjusted (sum of lines 12, 14 and 15 minus line 13)		0
Risk related to credit-related contingent liabilities (KRV')			
17	Total nominal amount of risk related to credit-related contingent liabilities (KRV')		716 191
18	Adjustment for credit equivalent ratios		71 619
19	Total risk related to credit-related contingent liabilities (KRV'), as adjusted (difference between line 17 and line 18)		644 572
Capital and risks			
20	Main capital		15 622 147
21	Total on-balance sheet assets and off-balance sheet claims under risk, used to calculate the leverage ratio (sum of lines 3 and 19)		95 750 131
Leverage ratio			
22	Basel III leverage ratio (line 20 : line 21), %		16.3

Section 3. Information on the current liquidity ratio calculation

(kRUR)

No.	Item	Explanatory note	Data	
			at _____	
1	2	3	4	5
HIGH QUALITY LIQUID ASSETS				
1	Highly liquid assets (HLA) with additional claims (assets) included in the numerator N26 (N27)		X	
EXPECTED CASH OUTFLOWS				
2	Total cash of individuals, including:			
3	Stable cash			
4	Unstable cash			
5	Total cash of customers raised without collateral, including:			
6	Operating deposits			
7	Non-operating deposits (other deposits)			
8	Unsecured debt obligations			
9	Total cash of customers raised with collateral		X	
10	Total additionally expected cash outflows, including:			
11	On derivative financial instruments and due to the potential need to provide additional collateral			
12	Related to the loss of funding under secured debt instruments			
13	On the bank's liabilities related to unused irrevocable and conditionally revocable credit and liquidity			
14	Additionally expected cash outflows on other commitments			
15	Additionally expected cash outflows on other contingent liabilities			
16	Total cash outflow (line 2 + line 5 + line 9 + line 10 + line 14 + line 15)		X	
EXPECTED CASH INFLOWS				
17	Lending transactions collateralized by securities, including reverse repurchase transactions			
18	Contracts without breaches of the contractual maturities of liabilities			
19	Other inflows			
20	Total cash inflow (line 17 + line 18 + line 19)			
AGGREGATE ADJUSTED VALUE				
21	HLA less adjustments calculated considering the limits on the maximum amount of HLA-2B and HLA-2		X	
22	Net expected cash outflow		X	
23	Current liquidity ratio of the banking group (N26) or the credit institution (N27), %		X	

Chairman of the Management Board

Chief Accountant

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Xavier Derot

Daria Vladislavovna Dolgorukova

"19" March 2019

OKATO territory code	Code of credit institution (branch)			
	OKPO	main state registration number	registration number (/index	BIC

STATEMENT OF CASH FLOWS
(published form)

as of 1 January 2019

Credit institution Joint Stock Company RN Bank, JSC RN Bank
(full and abbreviated corporate name)

Postal address 109028, Moscow, Serebryanicheskaya nab., 29

Form code 0409814
Quarterly
(kRUR)

No.	Item	Cash flows for the reporting period, kRUR	Cash flows for the corresponding reporting period of the year preceding the reporting year, kRUR
1	2	3	4
1	Net cash from (used in) operating activities		
1.1	Total cash from (used in) operating activities before changes in operating assets and liabilities, including:	3 817 929	2 540 134
1.1.1	Interest received	10 073 449	9 596 895
1.1.2	Interest paid	- 4 530 329	- 3 363 041
1.1.3	Fees and commissions received	3 342 711	2 293 386
1.1.4	Fees and commissions paid	- 199 586	- 167 417
1.1.5	Gains less losses from financial assets at fair value through profit or	-	-
1.1.6	Gains less losses from securities held to maturity	-	-
1.1.7	Gains less losses from dealing in foreign currencies	- 826 741	- 2 837 456
1.1.8	Other operating income	55 310	143 095
1.1.9	Operating expenses	- 2 829 396	- 2 186 290
1.1.10	Tax expense (benefit)	- 1 267 489	- 939 039
1.2	Total increase (decrease) in net cash from operating assets and liabilities, including:	- 7 651 344	- 553 444
1.2.1	Net increase (decrease) in obligatory reserves with the Bank of Russia	71 739	- 360 852
1.2.2	Net increase (decrease) in investments in securities at fair value through profit or loss	-	-
1.2.3	Net increase (decrease) in loans receivable	- 16 332 727	- 15 394 211
1.2.4	Net increase (decrease) in other assets	360 499	29 041
1.2.5	Net increase (decrease) in loans, deposits and other amounts due to the Bank of Russia	-	-
1.2.6	Net increase (decrease) in amounts due to other credit institutions	6 410 197	6 137 488
1.2.7	Net increase (decrease) in amounts due to customers other than credit institutions	- 1 879 543	- 728 236
1.2.8	Net increase (decrease) in financial liabilities at fair value through profit or loss	-	-
1.2.9	Net increase (decrease) in debt obligations issued	3 431 228	10 000 000

1.2.10	Net increase (decrease) in other liabilities	287 263	-	178 592
1.3	Total for section 1 (line 1.1 + line 1.2)	-	3 833 415	1 986 690
2	Net cash from (used in) investing activities			
2.1	Purchase of securities and other financial assets designated as available for sale	155 643	-	444 181
2.2	Proceeds from sale and redemption of securities and other financial assets designated as available for sale	-	724	49 896
2.3	Purchase of securities designated as held to maturity			-
2.4	Proceeds from redemption of securities designated as held to maturity			-
2.5	Purchase of fixed assets, intangible assets and inventories	-	155 482	-
2.6	Proceeds from sale of fixed assets, intangible assets and inventories	-	1 161	-
2.7	Dividends received			-
2.8	Total for section 2 (sum of lines from 2.1 to 2.7)	-	1 724	-
3	Net cash from (used in) financing activities			
3.1	Contributions of shareholders (participants) to share capital	3 000 000		-
3.2	Purchase of treasury shares		-	-
3.3	Sale of treasury shares		-	-
3.4	Dividends paid		-	-
3.5	Total for section 3 (sum of lines from 3.1 to 3.4)	3 000 000		-
4	Effect of changes in the official exchange rates of foreign currencies	12 704	-	734
5	Increase (decrease) in cash and cash equivalents	-	822 436	1 458 707
5.1	Cash and cash equivalents at the beginning of the reporting year	2 011 402		552 695
5.2	Cash and cash equivalents at the end of the reporting year	1 188 966		2 011 402

Chairman of the Management Board

Xavier Derot

Chief Accountant

Daria Vladislavovna Dolgorukova

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"19" March 2019

Translation of the original Russian version

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Translation of the original Russian version

1. Introduction

These explanatory notes:

- Constitute an integral part of the annual financial statements of JSC RN Bank for the year 2018 prepared in accordance with Instructive Regulation No. 3054-U of the Bank of Russia *On the Procedure for the Preparation of Annual Financial Statements by Credit Institutions* dated 4 September 2013 (hereinafter, "Instructive Regulation No. 3054-U") and Instructive Regulation No. 4638-U of the Bank of Russia *On the Forms, Procedure and Terms of Disclosure of Information about Business Activities by Credit Institutions* dated 6 December 2017
- Disclose significant information about the activities of JSC RN Bank, which is not presented in the forms of the annual financial statements (hereinafter, "the annual statements")
- Are based on the statutory reporting forms prepared in accordance with the requirements of Instructive Regulation No. 4212-U of the Bank of Russia *On the List, Forms and the Procedure for the Preparation and Submission of the Reporting Forms of Credit Institutions to the Central Bank of the Russian Federation* dated 24 November 2016 and other forms of JSC RN Bank (hereinafter, "the Bank")
- The annual statements are presented in Russian rubles rounded to the nearest thousand, unless otherwise indicated
- Comprise comparable data for 2018 and 2017.

The annual statements of the Bank comprise:

- 1) The balance sheet prepared using Form 0409806
- 2) The statement of income prepared using Form 0409807
- 3) The statement of capital adequacy to cover risks prepared using Form 0409808
- 4) The statement of changes in equity of the credit institution prepared using Form 0409810
- 5) Information on prudential ratios, the leverage ratio and the current liquidity ratio prepared using Form 0409813
- 6) The statement of cash flows prepared using Form 0409814
- 7) The explanatory notes to the annual financial statements

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

2. Corporate information

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 dated 5 September 2013), the Bank changed its name as follows:

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

Abbreviated name: CJSC RN Bank.

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

Main State Registration Number: 1025500003737.

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

Bank Identifier 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.

Translation of the original Russian version

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 December 2014 to carry out banking operations in rubles and foreign currencies (without the right to accept deposits from individuals)
- License No. 170 issued on 6 December 2014 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." As of 31 December 2018, insurance covers the Bank's liabilities to individual depositors in the amount up to kRUR 1,400 per each individual in case of a business failure or revocation of the banking license issued by the Bank of Russia.

As of 1 January 2019, the Bank:

- Is not a member of a banking group
- Is not a professional participant of the securities market
- Has no branches or representative offices in the Russian Federation
- Has no subsidiaries or associates

The Bank's ratings at 1 January 2019

On 1 March 2018, Analytical Credit Rating Agency (ACRA) upgraded the national credit rating and the bond's rating of the Bank to AA+ (RU) with a stable outlook.

On 8 May 2018, International Credit Rating Agency S&P Global Ratings confirmed the Bank's long-term credit rating at BB+ with a stable outlook.

Changes in the composition of the Board of Directors:

In 2018, the following changes took place in the composition of the Board of Directors:

- According to Decision No. 1 of the sole shareholder of the Bank dated 17 January 2018, Mr. Patrick Jean Michel Claude was elected to the Bank's Board of Directors and the powers of Mr. Dominique Edmond Pierre Signora as a member of the Bank's Board of Directors were terminated
- According to Decision No. 3 of the sole shareholder of the Bank dated 18 June 2018, Mr. Bruno Robert Louis Kintzinger was elected to the Bank's Board of Directors and the powers of Mr. Gianluca De Ficchy as a member of the Bank's Board of Directors were terminated
- According to Decision No. 5 of the sole shareholder of the Bank dated 28 November 2018, Mr. Laurent Frank Christian David and Mr. Stefano Santini were elected to the Bank's Board of Directors and the powers of Mr. Roberto Carlos Delgado Trevizo and Mr. Silvano Silvestri as the members of the Bank's Board of Directors were terminated

On 22 October 2018, the Board of Directors decided to terminate the powers of Mr. Bruno Robert Louis Kintzinger as the Chairman of the Management Board of JSC RN Bank from 30 October 2018 and appoint Mr. Xavier Gerard Derot to this position (Minutes No. 5/2018).

Changes in the equity instruments:

In 2018, JSC RN Bank increased its share capital. 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, additional issue was registered under No. 10200170B005D. The additional private issue includes 2,000,000 ordinary registered non-documentary shares with a nominal value of RUR 1,400 each (the placement price of one share was RUR 1,500). As a result of the additional issue of shares, the share capital of JSC RN Bank amounted to kRUR 6,069,000,000.

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As of 31 December 2018, the Bank had an average of 195 employees (31 December 2017: 186 employees).

As of 31 December 2018 and 2017, Limited Liability Company BARN B.V. — Netherlands is the sole shareholder of the Bank. Its interest in the Bank's share capital is 100.00%.

3. Principal activities

The Bank is primarily engaged in banking transactions:

- Corporate transactions: providing financing to official dealers of the Renault-Nissan-Mitsubishi Alliance, opening deposit accounts and rendering related financial services
- Retail transactions: extending loans to purchase cars manufactured by the Renault-Nissan alliance and rendering related financial services
- Transactions in financial markets: securities, derivative financial instruments, foreign currency, etc.

Key performance indicators and factors affecting the Bank's financial results in the reporting year

The Bank's key performance indicators are as follows:

	1 January 2019	1 January 2018
Carrying amount of assets (balance sheet currency)	98,917,930	82,663,020
Total assets	94,553,872	79,656,503
Amounts due to customers (other than credit institutions and the Bank of Russia)	11,762,065	12,478,991
Net loans receivable	90,027,021	74,786,441
The Bank's income	40,536,383	45,525,559
The Bank's expenses	37,963,966	42,509,861
Securities portfolio	439,780	595,934
Amounts due from credit institutions and the Bank of Russia	1,507,466	2,401,641
Amounts due to credit institutions	41,816,840	34,130,020
Debt obligations issued	18,431,228	15,000,000
Net profit	2,572,417	3,015,698
Equity (capital)	16,659,228	10,999,020

Key qualitative and quantitative indicators representative of the Bank's performance in 2018 and affecting the Bank's financial results are as follows:

- In 2018, the Bank's balance sheet total remained high, reaching RUR 99 billion by the end of the year.
- The Bank's equity (capital) increased by 51%.
- The year 2018 saw a significant increase in the amount of loans issued to legal entities. Its portfolio of loans to legal entities increased by 51%.
- The Bank's portfolio of loans to individuals rose by 5%.
- In 2018, in addition to previously issued bonds, JSC RN Bank issued bonds of RUR 5 billion.

The Bank's income and expenses were as follows:

	1 January 2019	1 January 2018
Net interest income (expenses)	5,763,611	6,576,357
Net gains (losses) from financial assets at fair value through profit or loss	1,777,524	(56,088)
Net gains (losses) from securities available for sale	634	(90)
Net gains (losses) from dealing in foreign currencies	(426,636)	(1,197,261)
Net gains (losses) from foreign currency translation	(2,436,869)	(980,573)
Fee and commission income	3,218,106	2,265,645
Fee and commission expense	(188,268)	(170,994)
Change in provision for potential losses on loans receivable and similar debt	(1,099,557)	5,171
Change in provision for other losses	15,712	(43,411)
Other operating income	57,679	143,570
Other operating expenses	(3,034,268)	(2,532,722)
Profit before tax	3,647,668	4,009,604

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JSC RN Bank

Explanatory notes
to the annual financial statements for 2018

Tax benefit (expense)	(1,075,251)	(993,906)
Profit after tax	2,572,417	3,015,698

The decision on the distribution of net profit for 2018 and dividend payment will be made when the annual statements of the Bank for 2018 are approved by the Bank's sole shareholder. As of 1 January 2019 and 2018, basic earnings per share were RUR 744 and RUR 1,292, respectively.

Financial ratios (%)	1 January 2019	1 January 2018
Equity (capital) adequacy ratio	15.5%	12.4%
Overdue debt / Loan portfolio	0.78%	0.71%
Provisions for potential losses / Loan portfolio	3.2%	2.5%

Operating performance indicators	Change (%)	1 January 2019	1 January 2018
Movements in equity (capital)	51.46	16,659,228	10,999,020
Movements in interbank loans	52.73	8,400,000	5,500,000
Movements in corporate loans	50.93	32,126,400	21,285,687
Movements in retail loans (car loans)	4.60	52,465,102	49,873,088
Movements in amounts due to credit institutions	22.52	41,816,840	34,130,020
Movements in amounts due to customers, other than credit institutions	(5.75)	11,762,065	12,478,991
Movements in net interest income	(12.36)	5,763,611	6,576,357
Movements in net fee and commission income	44.65	3,029,838	2,094,651
Movements in operating expenses	19.8	3,034,268	2,532,722

4. Basis of preparation

Statement of compliance with financial reporting standards

The Bank is required to maintain its records and prepare its financial statements in accordance with Russian accounting and banking legislation and related instructions (RAL). These financial statements are prepared in accordance with RAL.

Accounting principles adopted in preparation of these annual financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2017, except for changes that became effective from 1 January 2018 through 31 December 2018.

In 2018, the Bank maintained its accounting records in accordance with Regulation No. 579 -P of the Bank of Russia *On the Rules for Maintaining Accounting Records at Credit Organizations Located in the Russian Federation* dated 27 February 2017 (hereinafter, "Regulation No. 579-P"), and other statutory regulations of the Bank of Russia determining the accounting treatment of certain operations.

5. Summary of accounting policies

The Bank maintains records and prepares its financial statements based on the following principles:

- Separate entity – the Bank's assets and liabilities exist separately from the assets and liabilities of the owners or other legal entities
- Going concern - the Bank will continue as a going concern in the foreseeable future and has no intention to curtail the scale of its operations or liquidate its business
- Consistency – once adopted, the accounting policy is applied consistently from period to period considering changes in legislation
- Periodicity - economic events are recognized in reporting period in which they occurred, irrespective of the actual cash flows attributable to such events
- Complete recognition of all economic events

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- Timely recognition of all economic events
- Prudence – a greater readiness of the Bank to recognize expenses and liabilities rather than possible income and assets, without creating hidden reserves
- Substance over form - the Bank recognizes economic events based on their economic substance and operating conditions rather than their legal form
- Rationality - the Bank provides rational maintenance of accounting records in accordance with operating conditions and the size of the Bank

The Bank uses the following methods of measurement and accounting for particular assets and liabilities, as well as income and expenses:

Assets are recognized at historical cost. The Bank's assets are subsequently measured (remeasured) at fair value, at cost or by provisioning for potential losses in accordance with Regulation No. 579-P and other regulations of the Bank of Russia.

Liabilities are recognized in accordance with contractual terms for the purposes of securing control over their completeness and timely fulfillment. Where required by Regulation No. 579-P and other regulations of the Bank of Russia, liabilities are also remeasured at their fair value.

Assets and liabilities denominated in foreign currencies (other than advances issued and received and prepayments for goods provided, work performed and services rendered which are recorded on balance sheet accounts used to account for settlements with non-resident organizations on business transactions) are remeasured to reflect changes in the exchange rate in accordance with the regulations of the Bank of Russia.

The official exchange rates of foreign currencies to Russian ruble effective at the end of the reporting period used by the Bank to prepare its annual financial statements are presented below:

	<i>Units</i>	31 December 2018	31 December 2017
RUR / USD	1/1	69.4706	57.6002
RUR / EUR	1/1	79.4605	68.8668
RUR / JPY	1/100	62.9976	51.1479

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Bank of Russia, excluding obligatory reserves with the Bank of Russia, settlement accounts with clearing institutions performing settlements in financial markets and other trading systems, and balances on the Bank accounts with correspondent banks free from contractual encumbrances.

Investment in securities - recognition and measurement

Securities are recognized at actual acquisition cost. The actual acquisition cost of interest-bearing (coupon) securities includes not only the cost of securities at the acquisition price determined by the terms of the contract (transaction) but also the interest (coupon) income paid on its acquisition. If securities are purchased under a contract representing a derivative financial instrument, the cost of securities is determined taking into account the cost of the derivative financial instrument.

After initial recognition, the value of debt obligations is adjusted for interest income accrued and received after the initial recognition of debt obligations. Interest (coupon) income is accrued and recorded on the last working day of the month, upon the sale of a debt obligation, upon the full or partial repayment of a debt obligation or at the date of the reclassification of income based on the principle of certainty or uncertainty with respect to receiving the income.

Investments in securities at fair value through profit or loss.

This category includes securities with current (fair) value, which can be reliably measured, that are acquired for the purpose of selling in the short term (held for trading). The Bank classifies securities into trading securities if it has an

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intention to sell them within 12 months after the acquisition date.

If a security has not been sold within 12 months after the acquisition date and its current (fair) value can be reliably measured, it is continued to be recorded in this category.

Investments in securities held to maturity

This category includes securities that the Bank intends and is able to hold until maturity (regardless of the period from the acquisition date and maturity date). Investment securities are not classified as held to maturity, when the Bank is entitled to demand from the issuer repayment or redemption of such investment securities before maturity, since early redemption contradicts the intention to hold the asset to maturity. The Treasury decides to classify securities into this category upon acquisition and revises the classification at the end of each reporting period. Investment securities held to maturity are not revalued. Investments in these securities are covered by provisions for potential losses.

Investments in securities available for sale

This category includes investment securities, which are not classified into the above categories upon acquisition and which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Investment securities available for sale are carried at fair value.

Reclassification of securities.

The decision to reclassify investments in securities and transfer them to another category is made by the Financial Committee of the Bank. Securities may be reclassified from the category "held to maturity" to the category "available for sale", if one of the following conditions is met:

- As a result of an event beyond the Bank's control (the event was extraordinary and could not be reasonably anticipated by the Bank)
- For the purpose of selling less than three months before the maturity
- For the purpose of selling of no more than 5% of the total amount of the portfolio of securities "held to maturity."

When securities are transferred from the "held to maturity" category to the "available for sale" category and when none of the above conditions are met, all securities from the "held to maturity" category must be transferred to the "available for sale" category. In this case, the Bank may not build the "held to maturity" category during two years following the year of such transfer.

Securities revaluation.

Securities accounted for as "at fair value through profit or loss" and "available for sale" are remeasured as follows:

- On the last working day of the month
- If the securities of a respective issue (issuer) are traded during the month, all securities "at fair value through profit or loss" and securities "available for sale" of this issue (issuer) must be remeasured
- If the current (fair) value of the securities of a respective issue (issuer) changes significantly during the month, all securities "at fair value through profit or loss" and securities "available for sale" of this issue (issuer) must be remeasured. A change in the current (fair) value of securities is significant, if the value becomes higher or lower than the carrying amount of these securities by more than 5%.

Disposal of securities.

Upon disposal (sale) of the securities of the same issue or securities that have the same International Securities Identification Number (ISIN), the respective amounts are written off the second-order balance sheet accounts using the FIFO method. Under the FIFO method, the Bank writes off investments in the security that was purchased first relative to the date of sale. The FIFO method is applied within each category of securities.

Derivative financial instruments.

Derivative financial instruments are considered to be contracts executed in accordance with the Russian legislations and classified as derivatives in accordance with Law No. 39-FZ and Instruction No. 3685-U. Besides, derivatives are

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considered to be contracts classified as derivatives in accordance with the international law and having judicial protection.

Derivative financial instruments and contracts considered to be derivative financial instruments for the accounting purposes are initially recognized on the Bank's balance sheet when the Bank enters into a contract (transaction) representing a derivative financial instrument or a contract for the sale and purchase of foreign currency, precious metals and securities providing for the obligation of one party to transfer foreign currency, precious metals and securities into the ownership of the other party not earlier than on the third working day after the date of the contract, and for the obligation of the other party to accept and pay for the above mentioned assets. The date of the initial recognition of derivative financial instruments is the date of the contract (transaction).

From the date of initial recognition, derivative financial instruments are measured at fair value in the currency of the Russian Federation.

In the course of its ordinary activities, the Bank uses different derivatives, including currency and cross-currency swaps. Such financial instruments are not held for trading, are entered into to hedge liabilities of the Bank denominated in foreign currency 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.

Fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell a financial instrument in an orderly transaction between knowledgeable, willing and independent parties, rather than in a compulsory (forced) transaction (in case of a forced liquidation or sale of financial assets). Indicators of a compulsory (forced) transaction may include the necessity of immediate disposal of assets and the lack of time for their sale, existence of one potential buyer due to the imposed legal or time restrictions and other similar indicators.

Definition of fair value of financial instruments is based on IFRS 13 *Fair Value Measurement*. In addition to IFRS 13, Bank follows the regulations issued by the Bank of Russia to clarify the application of IFRS 13 by credit institutions.

Fair value measurement assumes a transaction taking place:

- In the principal market for this financial instrument, or
- In the absence of a principal market, the most advantageous market for this financial instrument.

If there is a principal market for the financial instrument, the fair value measurement should represent the price on this market (irrespective of the price being directly observable or otherwise estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date. The Bank measures the fair value of a financial instrument using the assumptions that would be used by the market participants when pricing this financial instrument, assuming that market participants act in their economic best interest.

The price in the principal (or most advantageous) market used to measure the fair value of the financial instrument should not be adjusted for transaction costs.

When using the valuation techniques, the Bank should maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

In accordance with its current business model, the Bank enters into transactions with the following financial instruments:

- Debt bonds traded on Russian stock exchanges
- Derivative financial instruments (swaps).

Principal components of fair value measurement include:

- Valuation techniques
- Inputs used to determine fair value of various types of financial instruments
- Active market criteria
- Fair value hierarchy depending on the used inputs and valuation techniques.

Valuation techniques

When determining the fair value, the Bank uses the following valuation techniques:

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- Market approach
- Income approach

Market approach is a preferred valuation technique as it provides for the maximum use of observable inputs. Income approach is used when the market approach cannot be used due to the insufficient relevant inputs.

The Bank applies valuation techniques consistently for each type of financial instruments during the financial year and further on. The Bank may change the valuation techniques during the financial year in the following cases:

- New financial instruments arise
- A judgment is made that further use of the existing valuation techniques is inappropriate due to a significant change in conditions, primarily in market conditions, and, consequently, fair value cannot be reliably measured using the selected valuation technique.

When applying market approach, the Bank uses Level 1 and Level 2 inputs, while Level 3 inputs are used when applying the income approach.

When applying the market approach, the Bank preferably uses inputs without adjustment. When it is not possible to use inputs without adjustment for the purpose of fair value measurement, the Bank applies valuation techniques that are most commonly used in the financial sector, including those designed and made available for public access by global providers of financial information.

The Bank applies the income approach for fair value measurement of assets and liabilities. The Bank applies the present value technique to measure the current (discounted) amount of cash flows, income and expenses envisaged under the income approach.

When calculating the present value of a financial instrument, the Bank discounts cash flows associated with the financial instruments maturing in more than one year. No discounting is used to calculate the present value of financial instruments maturing within one year.

Inputs used to measure fair value

The Bank uses inputs of different levels defined in accordance with IFRS 13 to measure the fair value of financial instruments.

Level 1 inputs are quoted prices in active markets for identical financial assets that the Bank can access at the measurement date. Level 1 inputs include:

- Quoted prices in principal markets for a financial instruments/type of financial instrument
- Data disclosed by other trade organizers or information systems operated by securities market professional participants involved in organizing trade in the securities market

Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the financial instrument, either directly or indirectly. Level 2 inputs include:

- Quoted prices or returns on similar financial instruments in active markets
- Inputs observable for the financial instrument or corroborated by the market data (interest rates/interest rate curves (LIBOR, EURIBOR, MosPrime and other), credit spreads and other inputs)
- Valuation techniques in which the inputs that are significant to fair value measurement relate to observable Level 1 inputs directly or indirectly

Indirectly observable inputs may stand for adjusted inputs.

Level 2 inputs may be used for fair value measurement without the Bank's use of subjective assumptions (assumptions of market participants) during the measurement.

Level 3 inputs are unobservable inputs for the subject financial instruments and inputs that cannot be classified by the

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Bank as Level 1 or Level 2 inputs.

The Bank prefers using Level 1 inputs as the most reliable evidence of the fair value.

Other inputs used for fair value measurement, including those approved by the decision of the authorized collegial body of the Bank, are classified by the Bank as Level 3 inputs.

Active market criteria

As the quoted price in the active market is the most reliable evidence of the fair value, the Bank receives Level 1 inputs for the fair value measurement from the active markets that it can access at the measurement date and where the similar or identical assets are traded.

Active market is a market in which financial instruments are traded with sufficient frequency and in sufficient volumes so as to provide information on quoted prices on an ongoing basis.

The Bank has the following active market criteria depending on the type of a financial instrument.

For debt bonds traded on the Russian stock exchanges, active market criteria are as follows (provided all of the criteria are met):

- Financial instruments are quoted during the last 30 calendar days preceding the date when fair value is measured.
- During the last 30 calendar days, there were at least 10 deals with the financial instrument under review
- During the last 30 calendar days when the deals took place, number of trading days was at least 5
- During the last 30 calendar days, minimal value of deals should total at least 0.01% of the financial instrument issue.

For securities traded in the Russian stock exchanges, the principal market (primary source of information) is the Moscow Stock Exchange.

For derivative financial instruments (swaps) active market criteria are as follows (provided all of the criteria are met):

- Procedure for entering into, issue and settlement of derivative financial instruments is established by the organizer of trade authorized in accordance with the laws of the Russian Federation or foreign states (hereinafter, "Russian or foreign stock exchanges")
- Information about derivative financial instruments is published in the mass media (including electronic mass media) or may be provided by the organizer of trade or other authorized individual to any interested party
- Transactions with these derivative financial instruments are performed on a regular basis (at least one transaction with these derivative financial instruments for the past calendar month)

The organizer of the trade where the Bank sold or purchased a derivative financial instrument is the principal market (primary source of information).

If a financial instrument is traded in several trading modes of one organizer, the preference is given to the mode with the most (maximum amount) transactions with the respective types of financial instruments.

Inputs used to determine fair value of various types of financial instruments

The Bank uses available Level 1 inputs with respect to financial instruments for which the market is active. The preference is given to the inputs determined on principal markets for the subject financial instrument.

To measure the fair value of securities quoted on the Russian stock exchanges, the Bank uses the following Level 1 inputs (in descending order of priority):

- Market price 3 determined in accordance with IFRS 13 at the measurement date
- Market price 3 at the date closest to the measurement date

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To measure the fair value of securities not quoted on the organized market, the Bank uses Level 2 inputs, representing the average closing price (Bloomberg generic Mid/last) for the non-traded security, announced by Bloomberg agency based on the results of the day of entering into transaction with the security.

The fair value of securities acquired at placement and/or during the first month from the date of their secondary placement approval may be determined at the offering price. When, at initial placement, acquired securities are recorded as derivative financial instruments, fair value of these derivative financial instruments may be accepted being equal to zero.

If the market for the above-mentioned instruments is not active, the fair value of additional issues of securities is determined on the basis of the primary issue.

For the fair value measurement of derivative financial instruments traded on the organized market, the Bank uses the following Level 1 inputs (in descending order of priority):

- The latest estimated price or variable margin determined by the organizer of trade during which the Bank purchased/sold the subject derivative financial instrument
- The latest weighted average price determined by the organizer of trade during which the Bank purchased/sold the subject derivative financial instrument
- The latest closing price determined by the organizer of trade during which the Bank purchased/sold the subject derivative financial instrument

If the currency rate used by the organizer to determine the estimated price or variable margin differs from the rate established by the Bank of Russia, the fair value may be measured using the rate established by the Bank of Russia.

For derivative financial instruments not traded on the organized market, the Bank determines the fair value using Level 2 inputs comprising the price of similar derivative financial instrument not traded on the organized market determined using the standard model for calculating prices of derivative financial instruments provided by Bloomberg agency (p. 3.5 of Instructive Regulation No. 3413-U).

With respect to the financial instruments for which the market is not active, the Bank may use other available inputs calculated in accordance with other provisions of Instructive Regulation No. 3413-U.

The Bank uses Level 3 inputs to determine the fair value of the following types of financial instruments:

- Loans issued, including interbank loans
- Deposits received, including interbank deposits
- Bonds issued by the Bank
- Other financial instruments.

Level 3 inputs used to determine the fair value under the income approach include market rates for similar financial instruments, in particular financial instruments with similar terms, credit risk and maturity, for which the information may be accessed by the Bank at the fair value measurement date, used as discount rates to calculate the present value.

Use of fair value

The Bank determines the fair value of financial instruments for accounting purposes and disclosures in its financial statements.

For the following types of financial instruments:

- Debt bonds traded on Russian stock exchanges
- Derivative financial instruments (swaps)

The Bank recognizes the fair value in its accounting records.

For debt securities classified by the Bank at initial recognition as measured at fair value through profit or loss and as available for sale, the Bank determines the fair value of securities using Level 1 inputs and recognizes the fair value in

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its accounting records in accordance with the accounting regulations and the accounting policy.

For derivative financial instruments, the Bank determines the fair value using Level 1 and Level 2 inputs and recognizes the fair value in its accounting records in accordance with the accounting regulations and the accounting policy.

The fair value of financial instruments, that are not recognized at fair value in the accounting records, is determined by the Bank for the purpose of disclosure in its financial statements.

Fixed assets, intangible assets, inventories, non-current assets held for sale, labor tools and input materials

Fixed assets

Fixed assets, intangible assets, inventories, non-current assets held for sale, labor tools and input materials are recognized in the accounting records in accordance with the recognition criteria for the respective assets under Regulation No. 448-P of the Bank of Russia *Concerning Accounting by Credit Institutions for Property and Equipment, Intangible Assets, Assets Temporarily not Used in Core Activities, Long-term Assets Held for Sale, Inventories, Labor Tools and Input Materials, Whose Purpose is Undefined and Which Were Received under Accord and Satisfaction Agreements or Pledge Agreements* dated 22 December 2014 (hereinafter, "Regulation No. 448-P of the Bank of Russia").

A fixed asset is a tangible asset that is intended for use by the Bank to render services or for administrative purposes during a period exceeding 12 months, and is not intended for further resale, subject to the following conditions being met simultaneously: the asset is capable of generating economic benefits in the future; the historical cost of the asset can be measured reliably.

Fixed assets with the minimum cost of RUR 100,000 (net of VAT) used during a period exceeding 12 months are recognized at historical cost that includes initial costs for acquisition, delivery, construction and bringing them to the condition suitable for use less VAT, accumulated depreciation of fixed assets and accumulated impairment losses (where necessary).

The amount of VAT paid by the Bank to the vendor/seller at acquisition of fixed assets is charged in full to expenses at the date of commissioning of an asset.

The cost of fixed assets changes in the event of the modernization, reconstruction, capital repair, revaluation, impairment or partial liquidation of the respective assets in accordance with the regulations of the Bank of Russia. The Bank carries all groups of fixed assets at cost less accumulated depreciation and accumulated impairment losses.

Costs for modernization (reconstruction) of the assets with the historical cost and modernization expenses before commissioning of less than RUR 40,000 in aggregate, are written off to expenses of the Bank as a lump sum. Costs for modernization (reconstruction) of the assets with the historical cost of less than RUR 100,000 recorded in material expenses as a lump sum is also to be included in current expenses of the reporting period.

Fixed assets must be tested for impairment at the end of each reporting year and upon occurrence of any events significantly affecting their value. Losses from impairment of fixed assets shall be recognized when identified.

Depreciation on fixed assets is calculated using the straight-line method to write down the amount or revaluation to their residual values over their useful lives.

The Bank determines the useful lives of fixed assets in accordance with Decree No. 1 of the Government of the Russian Federation *On the Classification of Fixed Assets Included in Depreciation Groups* dated 1 January 2002.

Depreciation on fixed assets is recognized in the accounting records on a monthly basis not later than the last working day of the respective month.

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

Fixed assets

**Depreciation
period**

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Furniture	5-7 years
Equipment	2-5 years
Computers	2 years
Capital investments in leased fixed assets	3-6 years
Cars	3 years
Other fixed assets	3-5 years

Intangible assets

An intangible asset is an asset that simultaneously meets the following criteria:

- The asset is able to generate future economic benefits to the Bank, in particular, it is intended for use by the Bank in performing works, rendering services, or for administrative purposes
- The Bank has a right to obtain economic benefits from using the asset in the future, which can be confirmed by duly formalized documents that certify the existence of the asset and Bank's right to the results of intellectual activity or equivalent means of individualization (hereinafter, "means of individualization")
- Other parties have a limited access to economic benefits from using the asset (the Bank has control over the asset)
- The asset is identifiable (it is possible to differentiate or separate it from other assets)
- The asset is intended for use over a time period exceeding 12 months
- The Bank has no intent to sell the asset within 12 months
- The asset has no tangible form
- The historical cost of the asset can be measured reliably.

An intangible asset is recognized at historical cost determined as at the recognition date.

The historical cost of an intangible asset is deemed the amount denominated in cash or other form of consideration or the amount of a liability paid or payable by the credit institution at acquisition or creation of the intangible asset and establishing conditions for using the asset as intended by credit institution management.

Intangible assets with definite useful lives are amortized over their useful lives. The useful life of an intangible asset is determined by the Bank at the asset's recognition date based on the following:

- The term of the Bank's rights to the result of intellectual activity or means of individualization, and the period of the Bank's control over the intangible asset
- The expected period of use of the intangible asset during which the Bank expects to obtain economic benefits from the asset.

Intangible assets with indefinite useful lives are not amortized.

Amortization of intangible assets is recognized in the accounting records monthly on a straight-line basis not later than the last working day of the respective month.

Fixed assets, intangible assets, items of property temporarily not used in core activities and stated at cost, net of accumulated amortization and accumulated impairment losses, as well as the assets that do not meet the recognition criteria established for the fixed assets and intangible assets and recognized as input materials received under accord and satisfaction agreements or pledge agreements and whose purpose is undefined, are classified as non-current assets held for sale if their carrying amount will be recovered through sale within 12 months from the date of recognition as non-current assets held for sale, rather than through their continuing use, when all of the following criteria are met:

- Non-current asset is available for immediate sale in its present condition on terms similar to market terms of sale of such assets.
- The Bank's authorized body has decided to sell the non-current asset (a plan to sell the asset was approved).
- The Bank takes active measures to find a buyer for a price comparable to its fair value.
- Measures being taken by the Bank to sell the asset (its sales plan) indicate that the Bank does not plan to change or cancel its decision to sell the asset (or change the sales plan).

After the asset is recognized as a non-current asset held for sale, the Bank performs its measurement provided that the fair value may be reliably measured at the lower of:

- The historical cost recognized at the date of transfer to the category of non-current assets held for sale

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- The fair value less costs to sell (for non-current assets transferable to the shareholders (participants) - costs to transfer)

Labor tools and input materials received under accord and satisfaction agreements or pledge agreements and whose purpose is undefined

The historical cost of labor tools (other than items of property, including land) received under accord and satisfaction agreements or pledge agreements and whose purpose is undefined, is their fair value at the recognition date. If the fair value of items received under accord and satisfaction agreements or pledge agreements and whose purpose is undefined cannot be reliably measured, such items are measured as follows:

- Under accord and satisfaction agreements in the amount of discontinued liabilities of the borrower (debtor) under the agreement for lending (depositing) cash
- Under pledge agreements in the amount determined in accordance with the laws of the Russian Federation and the regulations of the Bank of Russia.

Labor tools which were received under accord and satisfaction agreements or pledge agreements and whose purpose is undefined are measured annually at the end of the reporting year at the lower of:

- The historical cost at the date when the assets were recognized as labor tools which were received under accord and satisfaction agreements or pledge agreements and whose purpose is undefined
- The fair value less costs to sell

Non-credit related contingent liabilities

The Bank makes provision for non-credit related contingent liabilities, which arise due to financial and business operations in prior periods depending on the occurrence/non-occurrence of one or more uncertain future events, which are beyond its control.

Non-credit related contingent liabilities from disputes, disagreements and litigations, which are not settled as at the reporting date, including challenged tax payments, are recorded if there is a high probability of claims.

The Bank recognizes a non-credit related provision for potential losses in litigations, if its analysis of all circumstances and conditions shows that the probability of claims against the Bank for the non-performance or inadequate performance of its obligations, including those related to mandatory payments (including legal costs) exceeds 50%.

Other non-credit related provisions include the provision for undetermined tax liabilities calculated in accordance with the interpretation of applicable tax legislation and practices. The Bank recognizes such provisions if its analysis of all circumstances and conditions shows that the probability of claims against the Bank for the non-performance or inadequate performance of its tax obligations, including fines, exceeds or equals 60%.

Procedure for recognition of income and expenses

Information on income, expenses or changes in the items of the statement of other comprehensive income is prepared and recorded in accounting records in accordance with the regulations of the Bank of Russia on the accounting procedure in credit institutions, Instructive Regulation No. 3054-U of the Bank of Russia and Regulation No. 446-P *On the Procedure for Determining Income, Expenses and Other Comprehensive Income of Credit Institutions*.

The Bank recognizes income and expenses on an "accrual" basis, i.e. the financial results of operations (income and expenses) are recorded when earned and incurred and not when cash or cash equivalents are received or paid. Income and expenses are recorded in the period to which they relate.

Income and expenses arising from the Bank's operations are determined irrespective of preparation of legal documents, cash or non-cash of payment.

Income and expenses are accounted for as a cumulative total from the beginning of the year.

Income and expenses arising from the Bank's operations are determined irrespective of legal paperwork, or a cash or non-cash method of payment.

Income is recognized in the accounting records if all of the following criteria are met:

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- The Bank is entitled to income on a contractual or other basis.
- The income is measurable.
- There is no uncertainty that the income will be received.
- As a result of an operation to supply (realize) an asset, perform works and render services, the credit institution transfers to the buyer all risks and benefits of ownership of the supplied asset, and retains neither control over the supplied (realized) asset nor continuing managerial involvement, or the works are accepted by the customer and the services are rendered.

Expenses are recognized in the accounting records if the following criteria are met:

- The expense is incurred (arises) in accordance with a specific contract, legislative and regulatory requirements and normal business practices.
- The expense is measurable.
- There is no uncertainty that the expense will be recognized.

Accounting for interest income

Interest on attracted (placed) funds are accrued on the outstanding principal amount recorded at the respective customer account as at the beginning of the operating day on a contract-by-contract (master agreement) basis.

At accrual of interest on attracted (placed) funds, the interest rate (in p.a.) and actual number of calendar days for which funds are attracted (placed) are taken into account. Unless otherwise indicated, the calculation is based on actual number of calendar days during the year (365 or 366 respectively).

Interest income (expenses) on transactions involving the placement (raising) of funds must be taken to income (expenses) on the day when they are to be received (paid) in accordance with the terms of the contract and on the last day of the month. If the last day of the month is a non-working day, the accrual of additional interest for non-working day should be made on the last working day of the month.

The receipt of income on loans and assets (claims) included in quality categories 1 and 2 is deemed certain (the probability of receiving income is absolute and (or) high). It is assumed that there is no uncertainty with respect to receiving income on loans and assets (claims) included in quality category 3. This principle is applied to all loans and assets (claims) in quality category 3 without any exceptions.

Interest income, which is considered definite, on loans included in quality categories 1, 2 and 3 is recorded as income on the last working day of the month.

Interest income, which is considered indefinite, on loans included in quality categories 4 and 5 is recognized on off-balance sheet accounts up to the receipt of such income. At the moment of receipt, doubtful interests are recorded as income.

Gains and losses from dealing in foreign currencies

The Bank's gains and losses result from operations in the currency of the Russian Federation and foreign currencies. The Bank's gains and losses resulting from foreign currency transactions are translated into rubles at the exchange rate effective at the date of the transaction.

Income and expenses from the performance of works and provision of services

Income and expenses from the performance of works (provision of services), including in the form of fees and commissions, are recorded in the accounting records at the date of acceptance of works (provision of services) set by the terms of the contract (including the payment date) or supported by other primary accounting documents.

Income and expenses from the performance of works (provision of services), including in the form of fees and commissions, are recorded on the last working day of a month based on the actual amount of works performed and services rendered for the month which has ended, including when the payment is not made on a monthly basis or when the payment date do not coincide with the end of the month. However, income and expenses are calculated on the basis of the calendar days of performance of works (provision of services) for the month which has ended.

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Governmental grants

Government grants are the government aid in the form of resources provided to an entity in exchange for the fulfillment of certain past or future conditions related to operating activities of such entity.

Government grants, including non-monetary grants at fair value, are recognized when there is reasonable assurance that:

- An entity will fulfill the conditions related to it, and
- The grant will be received

Grants are recognized in profit or loss on a systematic basis.

With respect to loans to individuals, the Bank participates in lending programs with state subsidies for interest rates and an additional discount for the downpayment of 10% of the cost of a purchased car that are covered by the subsidy transferred to the Bank from the federal budget.

Financial assets for which contractual terms have been renegotiated

According to the Bank's accounting policy, renegotiated contracts are recognized in the accounting records in accordance with the terms of concluded agreements.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateralized property. This may involve extending the payment arrangements and the agreement of new loan conditions. After the terms are renegotiated, the loan is not considered past due anymore. On an ongoing basis, management reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to individual or collective assessment for impairment, estimated using the initial effective interest rate.

Loans restructured in accordance with the concluded agreement, if under the terms of the agreement the loan agreement is not terminated and new maturity dates are set for the loan, for which the composition and the amount are provided in the amicable agreement (at the date of the resolution of the arbitration court/ the court of general jurisdiction), are recognized in the accounting records on the balance sheet accounts as current debt in accordance with the maturities established by the agreement.

The nature of assumptions and key sources of estimation uncertainty at the end of the reporting period

The Bank applies a number of assumptions and estimates which affect the amounts of assets and liabilities reported in the annual statements and the value of assets and liabilities in the next reporting period. Estimates and assumptions are continuously assessed and are based on the experience of the Bank's management and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Assumptions which have the most significant effect on the amounts reported in the financial statements, and estimates which may result in significant adjustments of the current value of assets and liabilities in the next reporting period are presented below.

Provision for potential losses on loans receivable and similar debt

The Bank accrues provisions for potential losses on loans receivable and similar debt in accordance with Regulation No. 590-P of the Bank of Russia *On the Procedure for the Creation of Provisions for Potential Losses on Loans Receivable and Equivalent Debt by Credit Institutions* dated 28 June 2017 (hereinafter, "Regulation No. 590-P of the Bank of Russia").

The Bank assesses loans on a portfolio and individual basis.

The assessment of a loan classified individually and the determination of the amount of estimated provision are based on a professional judgment for a specific loan, which is made following a comprehensive analysis of the borrower's activities, taking into account its financial position, debt servicing quality and other significant factors. The Bank regularly monitors credit risk factors affecting the amount of provision in order to classify (reclassify) loans and create (adjust)

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provisions for individual loans in a timely manner.

Professional judgment is made and documented at the moment when a loan is issued. Further, it is made with respect to the following:

- Separate loans issued to individuals – at least once a quarter as of the reporting date
- Separate loans issued to legal entities other than credit institutions – at least within one month after the end of the reporting period (the period for submission of the annual statements and corporate income tax declaration) to tax authorities as of the reporting date
- Separate loans issued to credit institutions – at least once a month as of the reporting date

If legislation of the country, where non-resident borrower is located, does not require quarterly (monthly) reporting, then, in order to comply with regularity requirement for assessing the borrower's financial position stipulated by this paragraph (at least once a quarter/month), it is required to use the financial statements, which is submitted with regularity stipulated by legislation of the country, where the borrower is located, as well as all additional information concerning the borrower.

With respect to loans included in homogeneous loan portfolio, the provision is accrued based on professional judgment made on homogeneous loan portfolio without making a professional judgment with respect to the level of credit risk for each separate loan. Homogeneous loan portfolios include loans with similar credit risk characteristics. For each portfolio of homogeneous loans, the Bank applies a provisioning rate which is required to cover expected portfolio losses and which is not lower than the rates set by Regulation No. 590-P of the Bank of Russia. The Bank does not include in the homogeneous loan portfolio (excludes from the homogeneous loan portfolio) loans that have evidence of individual impairment.

At least once a quarter, the Bank documents and includes in homogeneous loan portfolio records the information on general analysis performed to check the borrowers' financial position and results thereof, including the Bank's professional judgment concerning the level of credit risk related to homogeneous loan portfolio and information on provision calculation.

Provisions for potential losses

The Bank recognizes provisions for potential losses in accordance with Regulation No. 611-P of the Bank of Russia *On the Procedure for the Creation of Provisions for Potential Losses by Credit Institutions* dated 23 October 2017 (hereinafter, "Regulation No. 611-P of the Bank of Russia"). In complying with the requirements of the regulator, the Bank's regulation provides for individual classification and criteria for inclusion in homogeneous claim portfolio/ portfolio of estimation base elements of provision for potential losses.

Individual classification of estimation base elements implies that an individual professional judgment should be made with respect to the level of risk based on assessment of credit risk exposure of a counterparty; the Bank performs this classification based on the risk factors identified following the analysis of the counterparty's financial statements, and other information on the counterparty's financial position and performance.

Estimation base elements of provision for potential losses are included in the homogeneous claim portfolio based on the principle of immateriality of the amount of estimation base element without making a professional judgment with respect to each individual element. The provision is accrued based on professional judgment made with respect to homogeneous claim portfolio.

The amount of provision is determined based on one of the five quality categories and the provision rate within the range set for the category in accordance with Regulation No. 611-P of the Bank of Russia.

Taxation

A significant part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation currently in force 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 activities of the Bank may be challenged by the 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 authorities.

The Russian transfer pricing tax legislation allows the 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

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from the market price and unless the Bank is able to demonstrate the use of market prices with respect to the controlled transactions. Transactions with securities and derivatives are subject to special transfer pricing rules. In 2018, the Bank determined its tax liabilities arising from these "controlled" transactions using actual transaction prices. Management believes that the Bank complies with the requirements of the Russian transfer pricing legislation with regard to 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.

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. Due to the fact that the above new rules are not applied consistently with regard to the confirmation of foreign entities' actual right to such 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 the 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 and conducting tax audits, and may impose 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.

Correction of misstatements

A misstatement or omission of the Bank's business events in accounting records or financial statements (hereinafter, "the misstatement") may be due to the following:

- Inappropriate application of the laws of the Russian Federation in accounting records
- Inappropriate application of accounting policies
- Inaccurate calculations
- Incorrect assessment of economic events
- Misuse of information and other cases

Misstatements or omissions in the reflection of the Bank's business events in accounting records or financial statements which have been discovered as a result of obtaining new information unavailable at the time of the recognition or omission of those events are not qualified as misstatements.

A misstatement is deemed material if it could, individually or together with other misstatements for the same reporting period, influence the economic decisions that users make on the basis of the accounting statements prepared for that reporting period. The materiality of a misstatement is determined by the Bank on the basis of the size and nature of the relevant item the financial statements.

In 2018, the Bank did not identify any material misstatements for prior periods and did not correct any material misstatements due to their absence.

Changes in the accounting policies for the next reporting period

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Changes were taken into account and introduced in the accounting policies for 2019 in accordance with the following regulations of the Bank of Russia effective from 1 January 2019:

- Regulation No. 605-P of the Bank of Russia *On the Procedure for Credit Institutions to Account for Transactions to Place Funds under Loan Agreements, Transactions to Purchase Receivables from Third Parties Related to the Performance of Cash Liabilities, Transactions Related to Liabilities under Bank Guarantees Issued and Provision of Funds* dated 2 October 2017
- Regulation No. 606-P of the Bank of Russia *On the Procedure for Credit Institutions to Account for Transactions with Securities* dated 2 October 2017
- Regulation of No. 604-P of the Bank of Russia *On the Procedure for Credit Institutions to Account for Transactions to Attract Funds under the Bank Deposit Agreements, Loan Agreements and Other Agreements to Attract Funds; and Transactions to Issue and Redeem (Repay) Bonds, Promissory Notes, Deposit and Saving Certificates* dated 2 October 2017
- Instructive Regulation No. 4555-U the Bank of Russia *On Amending Regulation No. 579-P of the Bank of Russia dated 27 February 2017 "On the Chart of Accounts for Credit Institutions and the Procedure for its Application"* dated 2 October 2017
- Instructive Regulation No. 4556-U of the Bank of Russia *On Amending Regulation No. 446-P of the Bank of Russia dated 22 December 2017 "On the Procedure for Determining Income, Expenses and Other Comprehensive Income of Credit Institutions"* dated 2 October 2017

In accordance with the above regulations of the Bank of Russia, changes were introduced into the Bank's accounting policies with regard to the recognition and measurement of financial instruments, including the placement and attraction of funds, investments in securities and issued own securities.

New balance sheet accounts for adjustment of the value of placed and attracted funds, securities, revaluation of placed and attracted funds measured at fair value and for the adjustment of provisions for potential losses and allowance for expected credit losses were added to the Bank's working chart of accounts.

Information on adjusting events after the reporting date

Pursuant to Instructive Regulation No. 3054-U, an event after the reporting date is an event that occurs in the course of the Bank's activities during the period after the reporting date and the date of the preparation of the annual statements and that has or may have an effect on its financial position.

Information is considered material if its non-presentation or misstatement may influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size of an item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a qualitative characteristic which information must have to be useful.

Adjusting events after the reporting date represent events confirming the existence, as of the reporting date, of conditions in which the Bank operated. Adjusting events after the reporting date must be recorded before the date the annual statements are prepared.

Adjusting events	After EARD	Before EARD	Difference
Interest income	10,287,031	10,287,033	(2)
Interest expense	(4,523,420)	(4,523,420)	–
Net interest income	5,763,611	5,763,613	(2)
Fee and commission income	3,218,106	3,007,534	210,572
Fee and commission expense	(188,268)	(176,865)	(11,403)
Net fee and commission income	3,029,838	2,830,669	221,975
Net gains from financial assets	1,777,524	1,777,524	–
Net gains from securities available for sale	634	634	–
Net gains from dealing in foreign currencies	(426,636)	(426,636)	–
Net expense from foreign currency translation	(2,436,869)	(2,436,869)	–
Change in provision for potential losses	(1,083,845)	(1,082,467)	(1,378)
Other operating income	57,679	57,614	65
Operating expenses	3,034,268	3,010,062	24,206
Profit before tax	3,647,668	3,474,020	173,648
Tax benefit (expense)	1,075,251	1,039,621	35,630
Financial result after tax	2,572,417	2,434,399	138,018

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Adjusting events	After EARD	Before EARD	Difference
Other comprehensive income	(3,024)	(3,327)	303
Other financial result	2,569,393	2,431,072	137,715

Description of the nature of non-adjusting events after the reporting date

Non-adjusting events after the reporting date represent events attesting to the origination, after the reporting date, of new conditions in which the Bank operates. Non-adjusting events after the reporting date are not recorded.

On 14 February 2019, the Bank placed the fifth issue of stock-exchange bonds in the total amount of RUR 5 billion, maturing in 3 years and bearing a coupon rate of 9.15.

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

Material misstatements in the annual statements

According to the Bank's accounting policy, a misstatement is deemed material if it, individually or in combination with other misstatements for the same reporting period, influences the Bank's financial indicator by more than 5% of an item amount as of the reporting date.

The items reported in the annual statements of prior periods do not contain any material misstatements and do not need to be revised, corrected or replaced.

6. Accompanying information for balance sheet items

6.1 Cash and cash equivalents

Cash and cash equivalents include the following sections of Form 0409806 *Balance sheet* (published form):

	1 January 2019	1 January 2018
Cash	10	10
Amounts due to credit institutions from the Bank of Russia, including:	1,460,349	2,291,989
Current accounts with the Bank of Russia	1,141,839	1,901,740
Obligatory reserves	318,510	390,249
Amounts due from credit institutions, including:	47,117	109,652
Balances on nostro accounts with other credit institutions rated not lower than BBB	47,128	109,658
Provisions for potential losses	(11)	(6)
Total cash and cash equivalents	<u>1,507,476</u>	<u>2,401,651</u>

Cash and cash equivalents are neither impaired nor past due.

6.2 Financial assets and liabilities at fair value through profit or loss

The table below presents the structure of financial assets at fair value through profit or loss by type of financial assets:

	1 January 2019	1 January 2018
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Total derivative financial instruments, including:	1,082,686	205,946
Swap		
<i>Foreign currency and interest rate (cross-currency interest rate swaps)</i>	1,082,686	191,073
<i>Interest rate (interest rate swaps)</i>	-	14,873
Total investments in financial assets at fair value through profit or loss	1,082,686	205,946

The table below presents the structure of financial liabilities at fair value through profit or loss by type of financial liabilities:

	1 January 2019	1 January 2018
Total derivative financial instruments, including:	279,679	1,582,363
Swap		
<i>Foreign currency (foreign exchange swaps)</i>	-	221,701
<i>Foreign currency and interest rate (cross-currency interest rate swaps)</i>	164,191	1,360,662
<i>Interest rate (interest rate swaps)</i>	115,488	-
Total financial liabilities at fair value through profit or loss	279,679	1,582,363

Derivative financial instruments measured using valuation techniques based on observable market inputs provided by information systems widely known in the market comprise cross-currency interest rate swaps and interest rate swaps. Swaps are valued using techniques for determining the present values of future flows.

6.3 Net loans receivable

Net loans receivable comprise:

	1 January 2019	1 January 2018
Amounts due from credit institutions		
Term deposits (up to 90 days) with the Bank of Russia	6,400,000	5,000,000
Term loans and deposits (up to 90 days) with the banks rated not lower than BBB	2,000,000	500,000
Amounts due from credit institutions	8,400,000	5,500,000
Loans to legal entities		
Factoring	32,093,464	21,285,687
Loans to legal entities	32,936	-
Loans to legal entities before provision for potential losses, including:	32,126,400	21,285,687
<i>- Trade in automotive vehicles</i>	<u>32,126,400</u>	<u>21,285,687</u>
Loans to individuals		
Car loans	52,465,102	49,873,088
Loans to individuals before provision for potential losses, including:	52,465,102	49,873,088
Provisions for potential losses	(2,964,481)	(1,872,334)
Total net loans receivable	<u>90,027,021</u>	<u>74,786,441</u>

As of 31 December 2018 and 31 December 2017, the Bank had no balances with counterparties represented by bank term deposits and loans with maturities of more than 90 days.

Below are movements in provisions for potential losses on amounts due from credit institutions:

	Provisions for potential losses
31 December 2016	450,000

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Charge (recovery)	(450,000)
31 December 2017	-
Charge (recovery)	-
31 December 2018	-

Below are movements in provisions for potential losses by group of loans to customers for the year ended 31 December 2018:

	Loans to legal entities	Loans to individuals	Total
31 December 2016	418,054	1,003,002	1,421,056
Charge of provisions for potential losses	58,846	396,748	455,594
Write-offs against provisions for potential losses	-	(4,316)	(4,316)
	476,900	1,395,434	1,872,334
31 December 2017			
Charge of provisions for potential losses	425,385	695,024	1,120,409
Write-offs against provisions for potential losses	(3,709)	(24,553)	(28,262)
	898,576	2,065,905	2,964,481
31 December 2018	898,576	2,065,905	2,964,481

Information by term to maturity of loans receivable and equivalent debt (before provision for potential losses) is provided below:

	1 January 2019	1 January 2018
Loans issued, including	84,591,502	71,158,775
- Past due	714,947	538,398
- With indefinite maturity (on demand)	17	24,859
- Up to 30 days	3,723,918	5,253,829
- From 31 to 90 days	28,387,769	19,399,289
- From 91 to 180 days	11,358,367	7,744,343
- From 181 days to 1 year	9,031,114	9,524,760
- Over 1 year	31,375,370	28,673,297
Provisions for potential losses on loans	(2,964,481)	(1,872,334)
Total loans net of provisions	81,627,021	69,286,441

Loans before provision for potential losses and the respective amount of provision as of 1 January 2019 are presented in the table below:

	Loans before provision for potential losses	Provisions	Loans after provision for potential losses
Loans to legal entities			
Loans individually impaired:			
- Not past due	32,123,580	(898,364)	31,225,216
- Less than 30 days past due	2,820	(212)	2,608
- From 31 to 90 days past due	-	-	-
- From 90 to 180 days past due	-	-	-
- Over 180 days past due	-	-	-
Total loans to legal entities	32,126,400	(898,576)	31,227,824
Loans to individuals			
Loans individually impaired:			
- Not past due	3,396,115	(429,979)	2,966,136
- Less than 30 days past due	69,302	(44,895)	24,407
- From 31 to 90 days past due	41,512	(39,647)	1,865
- From 91 to 180 days past due	57,445	(57,445)	-

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- Over 180 days past due	470,665	(470,665)	–
Total loans to individuals individually impaired	4,035,039	1,042,631	2,992,408
Loans not individually impaired			
- Not past due	47,515,739	(574,631)	46,941,108
- Less than 30 days past due	378,399	(32,146)	346,253
- From 31 to 90 days past due	115,073	(33,219)	81,854
- From 91 to 180 days past due	78,861	(51,254)	27,607
- Over 180 days past due	341,991	(332,024)	9,967
Total loans to individuals not individually impaired	48,430,063	(1,023,274)	47,406,789
Total loans to individuals	52,465,102	(2,065,905)	50,399,197
Total loans to customers	84,591,502	(2,964,481)	81,627,021

Loans before provision for potential losses and the respective amount of provision as of 1 January 2018 are presented in the table below:

	Loans before provision for potential losses	Provision	Loans after provision for potential losses
Loans to legal entities			
Loans not impaired:	14,891,050	-	14,891,050
- Not past due	14,888,393	-	14,888,393
- Less than 30 days past due	2,657	-	2,657
Loans individually impaired:	6,394,637	(476,900)	5,917,737
- Not past due	6,373,694	(459,127)	5,914,567
- Less than 30 days past due	10,704	(9,610)	1,094
- From 31 to 90 days past due	2,378	(2,378)	–
- From 91 to 180 days past due	4,152	(2,076)	2,076
- Over 180 days past due	3,709	(3,709)	–
Total loans to legal entities	21,285,687	(476,900)	20,808,787
Loans to individuals			
Loans individually impaired:	774,384	(520,306)	254,078
- Not past due	479,326	(233,023)	246,303
- Less than 30 days past due	25,355	(18,863)	6,492
- From 31 to 90 days past due	18,203	(16,920)	1,283
- From 91 to 180 days past due	24,680	(24,680)	–
- Over 180 days past due	226,820	(226,820)	–
Loans not individually impaired	49,098,704	(875,128)	48,223,576
- Not past due	48,018,982	(390,876)	47,628,106
- Less than 30 days past due	425,740	(20,972)	404,768
- From 31 to 90 days past due	164,754	(37,455)	127,299
- From 91 to 180 days past due	115,760	(64,624)	51,136
- Over 180 days past due	373,468	(361,201)	12,267
Total loans to individuals	49,873,088	(1,395,434)	48,477,654
Total loans to customers	71,158,775	(1,872,334)	69,286,441

The geographical concentration of loans receivable and similar debt is set out below:

	1 January 2019		1 January 2018	
Russia	84,591,502	%	71,158,775	%
including:				
Moscow	12,094,898	14.3%	11,172,179	15.7%
Moscow region	5,610,469	6.6%	5,729,391	8.1%
Saint Petersburg	4,590,944	5.4%	4,630,028	6.5%
Republic of Tatarstan	4,520,621	5.3%	3,413,784	4.8%

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Republic of Bashkortostan	3,930,770	4.6%	3,156,973	4.4%
Sverdlovsk region	3,780,224	4.6%	3,022,213	4.2%
Chelyabinsk region	3,396,112	4.0%	2,623,211	3.6%
Samara region	2,897,510	3.4%	2,396,271	3.4%
Perm region	2,784,475	3.3%	1,895,402	2.7%
Krasnodar region	2,659,728	3.1%	1,887,918	2.7%
Tyumen region	2,637,993	3.1%	1,971,588	2.7%
Nizhny Novgorod region	2,178,069	2.6%	1,756,129	2.5%
Leningrad region	1,963,734	2.3%	1,461,327	2.1%
Rostov region	1,892,122	2.2%	1,258,054	1.8%
Kemerovo region	1,520,940	1.8%	1,013,602	1.4%
Volgograd region	1,501,323	1.8%	1,301,051	1.8%
Omsk region	1,207,173	1.4%	909,593	1.3%
Orenburg region	1,201,192	1.4%	963,343	1.4%
Khanty-Mansiysk autonomous district	1,190,562	1.4%	1,217,246	1.7%
Udmurt region	1,062,428	1.3%	767,398	1.1%
Novosibirsk region	1,033,458	1.2%	839,174	1.2%
Saratov region	998,783	1.2%	864,917	1.2%
Voronezh region	985,033	1.2%	618,505	0.9%
Other Russian regions	18,952,941	22.5%	16,289,478	22.8%
Provisions for potential losses	(2,964,481)		(1,872,334)	
Net loans receivable	81,627,021		69,286,441	

6.4 Net investments in securities and other financial assets available for sale

Information by type of securities and term to maturity:

	1 January 2019	1 January 2018
Debt obligations of the Russian Federation, including:	439,780	495,562
- From 31 to 90 days	-	53,345
- From 181 days to 1 year	439,780	-
- From 1 and 3 years	-	442,217
Debt obligations of resident banks, including:	-	100,372
- From 91 to 180 days	-	40,415
- From 181 days to 1 year	-	59,957
- From 1 and 3 years	-	-
Total securities available for sale	479,780	595,934

Issuers of securities in the Bank's portfolio as of 1 January 2019 and 2018 were as follows:

- Ministry of Finance of the Russian Federation - OFZ
- Russian credit institutions - PJSC ROSBANK.

As of 31 December 2018, the Bank's portfolio included registered documentary Russian state bonds (OFZ) with fixed coupon yield, issue 26210, ISIN code RU000A0JTG59, having the period of issue of 2,548 days, maturing on 11 December 2019 and bearing the coupon rate of 6.8% p.a.

Investments in securities available for sale are carried at current (fair) value. The revaluation results are recorded in additional capital within other comprehensive income.

As of 1 January 2019 and 2018, securities available for sale are included in the lombard list of the Bank of Russia and may be used as collateral for the refinancing transactions of the Bank of Russia.

As of 1 January 2019 and 2018, the Bank had no securities provided as collateral under sale and repurchase agreements.

During 2018, the Bank did not reclassify securities available for sale.

6.5 Financial assets and liabilities at fair value through profit or loss

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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 of 31 December 2018:

	<i>1 January 2019</i>			
	Nominal value		Fair value	
	Claims	Liabilities	Assets	Liabilities
Cross-currency interest rate contracts				
Swaps	13,111,414	13,510,012	1,082,686	164,191
Interest rate contracts				
Swaps	1,813,348	1,737,551	-	115,488
	14,924,762	15,247,563	1,082,686	279,679

Below are the fair values of derivative financial instruments recognized in assets or liabilities and their nominal values as of 31 December 2017:

	<i>1 January 2018</i>			
	Nominal value		Fair value	
	Claims	Liabilities	Assets	Liabilities
Cross-currency contracts				
Swaps	522,271	757,607	-	221,701
Cross-currency interest rate contracts				
Swaps	15,680,140	17,569,533	191,074	1,360,662
Interest rate contracts				
Swaps	635,032	698,160	14,872	-
	16,837,443	19,025,300	205,946	1,582,363

As of 31 December 2018, 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 RUR 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 RUR to the other party and shall receive a payment of the interest at a floating rate in RUR.

As of 1 January 2019, the Bank entered into derivative transactions with four counterparties. As of 1 January 2019, total balances with all counterparties were as follows: 21.5% with non-resident counterparties and 78.5% with resident counterparties.

As of 1 January 2018, the Bank entered into derivative transactions with five counterparties. As of 1 January 2018, total balances with all counterparties were as follows: 33.2% with non-resident counterparties and 66.8% with a resident counterparty.

6.6 Fixed assets, intangible assets and inventories

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	Office equipment and computers	Automotive vehicles	Inventories	Intangible assets	Capital investments	Total
Cost at 31 December 2017	65,382	5,457	63	708,946	22,445	802,293
Accumulated depreciation/amortization	(51,168)	(3,699)	-	(417,041)	-	471,908
Net book value at 31 December 2017	14,214	1,758	63	291,905	22,445	330,385
Additions	68,271	2,812	12,430	111,178	10,941	205,632
Disposals at cost	(68)	(2,302)	(12,394)	-	(22,445)	(37,209)
Disposals of accumulated depreciation/amortization	68	2,302	-	-	-	2,370
Depreciation/amortization charges	(24,977)	(1,187)	-	(245,018)	-	(271,182)
Net book value at 31 December 2018	57,508	3,383	99	158,065	10,941	229,996
Cost at 31 December 2018	133,585	5,967	99	820,124	10,941	970,716
Accumulated depreciation/amortization	(76,077)	(2,584)	-	(662,059)	-	(740,720)

Information as of 1 January 2018:

	Office equipment and computers	Automotive vehicles	Inventories	Intangible assets	Capital investments	Total
Cost at 31 December 2016	53,068	5,202	23	611,333	-	669,626
Accumulated depreciation/amortization	(36,606)	(3,131)	-	(192,353)	-	(232,090)
Net book value at 31 December 2016	16,462	2,071	23	418,980	-	437,536
Additions	12,514	611	15,102	97,612	22,445	148,284
Disposals at cost	(200)	(355)	(15,062)	-	-	(15,617)
Disposals of accumulated depreciation/amortization	200	355	-	-	-	555
Depreciation/amortization charges	(14,762)	(923)	-	(224,688)	-	(240,373)
Net book value at 31 December 2017	14,214	1,759	63	291,904	22,445	330,385
Cost at 31 December 2017	65,382	5,457	63	708,946	22,445	802,293
Accumulated depreciation/amortization	(51,168)	(3,699)	0	(417,041)	0	(471,908)

6.7 Other assets

Other assets comprise:

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	<u>1 January 2019</u>	<u>1 January 2018</u>
Other financial assets		
Interest receivable	301,666	276,553
Fee and commission receivable	387,588	290,172
Receivables under car loans subsidizing program	152,402	277,705
Other receivables	39,496	22,065
Total other financial assets	881,152	866,495
Other non-financial assets		
Taxes and payroll settlements	38,433	26,059
Social insurance and security settlements	1,164	875
Settlements with suppliers (advance payments)	231,567	119,024
Prepaid expenses	13,249	13,406
Amounts received under accord and satisfaction agreements	1,796	-
Total other non-financial assets	286,209	159,364
Total other assets before provision for potential losses	1,167,361	1,025,859
Provisions for potential losses on other assets	(63,831)	(67,810)
Total other assets less provisions for potential losses	1,103,530	958,049

Information on other assets by maturity:

	<u>1 January 2019</u>	<u>1 January 2018</u>
Up to 1 year	1,117,035	987,657
More than 1 year	50,326	38,202
Other assets	1,167,361	1,025,859

Receivables maturing in more than 12 months comprise claims on past due debts under loan agreements (fines, penalties, forfeits and state duty) and prepayment under the lease agreement.

6.8 Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>1 January 2019</u>	<u>1 January 2018</u>
Deposits received from banks and maturing within 1 year	40,316,840	27,620,676
Deposits received from banks and maturing after 1 year	1,500,000	6,509,344
Amounts due to credit institutions	41,816,840	34,130,020

As of 31 December 2018, the Bank raised kRUR 35,460,000 (2017: kRUR 23,800,000) as deposits of resident banks and kRUR 6,356,840 (2017: kRUR 10,330,020) as deposits of non-resident banks.

As of 1 January 2019, the Bank had balances of short-term and long-term deposits with eight counterparties. As of 1 January 2019, total balances with all counterparties were as follows: 84.8% with resident banks and 15.2% with a non-resident bank.

As of 1 January 2018, the Bank had balances of short-term and long-term deposits with six counterparties. As of 1 January 2018, total balances with all counterparties were as follows: 69.7% with resident banks and 30.3% with a non-resident bank.

6.9 Amounts due to customers other than credit institutions

Amounts due to customers comprise:

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	1 January 2019	1 January 2018
Current accounts and demand deposits		
- Corporate customers	93,569	67,005
- Retail customers	2,134,824	1,853,168
Deposits of legal entities maturing within 1 year	2,574,755	10,138,639
Deposits of legal entities maturing after 1 year	6,904,360	-
Amounts in settlements	54,557	420,179
Amounts due to customers	11,762,065	12,478,991

Amounts due to customers by industry sector are as follows:

	1 January 2019	1 January 2018
Total amounts due to legal entities, including:	9,627,241	10,625,823
- Trade in automotive vehicles	1,098,913	1,194,049
- Finance	8,528,328	9,431,774
Amounts due to individuals	2,134,824	1,853,168
Amounts due to customers	11,762,065	12,478,991

As of 31 December 2018, the Bank raised kRUR 3,272,924 (2017: kRUR 3,079,375) as deposits of resident legal entities and kRUR 6,299,760 (2017: kRUR 7,126,269 thousand) as deposits of non-resident legal entities.

As of 1 January 2019, the Bank had balances of deposits maturing within 1 year with multiple counterparties and balances on deposits maturing after 1 year with a resident counterparty and a non-resident counterparty. As of 1 January 2019, total balances with all counterparties were as follows: 65.8% and 34.2% of total short-term and long-term deposits for non-resident and resident legal entities, respectively.

As of 1 January 2018, the Bank had balances of short-term deposits with multiple counterparties and long-term deposits with two non-resident counterparties. As of 1 January 2018, total balances with all counterparties were as follows: 67.1% and 32.9% of total short-term and long-term deposits for non-resident and resident legal entities, respectively.

6.10 Debt securities issued

	1 January 2019	1 January 2018
Bonds issued	18,431,228	15,000,000
Debt securities issued	18,431,228	15,000,000

Information on the structure of securities issued as of 1 January 2019:

Bonds		Date of placement	Date of maturity	Coupon rate, per annum, %	Nominal amount, kRUR
Series	Number				
01	40100170B	5 July 2016	9 July 2021 <i>Known offers:</i> 1. 7 January 2020, date of redemption - 15 January 2020	For 1-4 coupon periods the coupon rate is 10.4% For 5-7 coupon periods the coupon rate is 7.9% The rate for the 8-10 coupon periods will be determined in accordance with the issuance documents	3,431,228
BO-001R-01	4B020100170B001P	14 April 2017	16 April 2020	For 1-7 coupon periods the coupon rate	5,000,000

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				is 9.45%	
BO-001R-02	4B020200170B001P	12 October 2017	14 October 2020	For 1-7 coupon periods the coupon rate is 8.45%	5,000,000
BO-001R-03	4B020300170B001P	20 November 2018	22 November 2021	For 1-7 coupon periods the coupon rate is 9.25%	5,000,000

6.11 Other liabilities

	<i>1 January 2019</i>	<i>1 January 2018</i>
Other financial liabilities		
Interest payable	1,015,673	952,382
Interest and coupon payable on securities issued	376,950	447,150
Other accounts payable	13,304	18,276
Total other financial liabilities	1,405,927	1,417,808
Other non-financial liabilities		
Payroll payable	83,403	85,763
Taxes payable	329,479	223,670
Trade payables	564,440	463,598
Social insurance and security settlements	14,490	17,240
Payables to the Deposit Insurance Agency	130	1,826
Long-term employee benefits payable	83,410	42,473
Non-credit related provisions	136,914	176,689
Other liabilities	-	754
Total other non-financial liabilities	1,212,266	1,012,013
Total other liabilities	2,618,193	2,429,821

Other liabilities by maturity:

	<i>1 January 2019</i>	<i>1 January 2018</i>
Up to 1 year	2,593,537	2,197,170
More than 1 year	24,656	232,651
Other assets	2,618,193	2,429,821

6.12 Non-credit related provisions

Information on non-credit related provisions is provided below:

	<i>1 January 2019</i>	<i>1 January 2018</i>
Provisions for legal claims	11,177	11,948

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Other	125,737	164,741
Non-credit related provisions	136,914	176,689

In 2018, litigations were provided for in the amount of kRUR 6,165, out of which kRUR 295 was used and kRUR 6,640 was recovered.

In 2018, the provision for potential tax liabilities was not used. The provision for potential tax liabilities for 2018 was recovered in the amount of kRUR 39,004.

As of 1 January 2019, the Bank had no uncovered risks relating to court proceedings that may impact the Bank's future financial performance.

6.13 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 condition or the results of future operations of the Bank.

Commitments and contingencies

As of 1 January 2019, the Bank's commitments and contingencies comprised the following:

	1 January 2019	1 January 2018
Not later than 1 year	100,156	102,106
From 1 to 5 years	304,770	313,527
Operating lease commitments	404,926	415,633

In 2017, the Bank re-entered into an operating lease agreement for the office premises that are the Bank's location and business address. In accordance with the agreement, the total lease period is 5 years with the options for renewal upon expiry and early termination. Lease payments increase annually in line with the market trends.

The Bank also entered into operating lease agreements for automotive vehicles used by the Bank in carrying out its operations. The term of the agreements is 2 years.

In 2018, kRUR 70,249 are recognized as operating lease expenses in profit or loss (2017: kRUR 67,551).

7. Accompanying information for the statement of income

7.1 Interest income and expense

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	<i>1 January 2019</i>	<i>1 January 2018</i>
Interest income		
Loans to legal entities	2,843,159	2,478,290
Loans to individuals	6,950,967	7,056,573
Loans to banks	460,580	424,881
Securities available for sale	32,325	16,966
Total interest income	10,287,031	9,976,710
Interest expense		
Deposits from legal entities	(506,809)	(468,955)
Deposits from banks	(2,665,871)	(1,980,948)
Debt obligations issued	(1,350,740)	(950,450)
Total interest expense	(4,523,420)	(3,400,353)
Total net interest income	5,763,611	6,576,357

7.2 Fee and commission income and expense

	<i>1 January 2019</i>	<i>1 January 2018</i>
Fee and commission income		
Fee on agency services	2,991,070	2,052,997
Other transactions	227,036	212,648
Total fee and commission income	3,218,106	2,265,645
Fee and commission expense		
Money transfer services	(174,138)	(164,387)
Cash and settlement services	(13,996)	(6,551)
Depository services	(27)	(10)
Other transactions	(107)	(46)
Total fee and commission expense	(188,268)	(170,994)
Total net fee and commission income	3,029,838	2,094,651

7.3 Net gains from financial assets at fair value through profit or loss

	<i>1 January 2019</i>	<i>1 January 2018</i>
Gains from derivative financial instruments	1,908,427	924,325
Losses from derivative financial instruments*	(130,903)	(980,413)
Total net gains from financial assets	1,777,524	(56,088)

7.4 Net gains from securities available for sale

	<i>1 January 2019</i>	<i>1 January 2018</i>
Gains from securities available for sale	867	1
Losses from securities available for sale	(233)	(91)
Total net gains from securities	634	(90)

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7.5 Net gains from dealing in foreign currencies

	1 January 2019	1 January 2018
Gains from purchase and sale of foreign currency by electronic transfer	224,256	243
<i>Losses from purchase and sale of foreign currency by electronic transfer</i>	<i>(650,892)</i>	<i>(1,197,504)</i>
Total net gains from dealing in foreign currencies	(426,636)	(1,197,261)

7.6 Net gains from foreign currency translation

	1 January 2019	1 January 2018
Gains from revaluation of amounts in foreign currency	9,311,079	15,805,855
<i>Losses from revaluation of amounts in foreign currency</i>	<i>(11,747,948)</i>	<i>(16,786,428)</i>
Total net gains from foreign currency translation	(2,436,869)	(980,573)

7.7 Information on charge (reversal) of provisions for potential losses

	1 January 2019	1 January 2018
Charge of provisions for potential losses from loans receivable and similar debt, including:	(1,108,627)	307
Income from reversal of provisions for potential losses	14,290,080	14,938,361
<i>Charges to provisions for potential losses</i>	<i>(15,398,707)</i>	<i>(14,938,054)</i>
Charge of provisions for potential losses from interest income, including:	9,070	4,864
Income from reversal of provisions for potential losses	1,064,901	1,297,714
<i>Charges to provisions for potential losses</i>	<i>(1,055,831)</i>	<i>(1,292,850)</i>
Total charge of provisions for potential losses	(1,099,557)	5,171

	1 January 2019	1 January 2018
Charge of provisions for other losses, including:	15,712	(43,411)
Income from reversal of provisions for potential losses	173,957	129,786
<i>Charges to provisions for potential losses</i>	<i>(158,245)</i>	<i>(173,197)</i>

7.8 Other operating income

	1 January 2019	1 January 2018
Other operating income		
Income from advisory services	-	19,761
Reversal of provisions after annual bonus has been paid	-	61,065
Penalty on claim assignment	6,535	51,088
Other income	51,144	11,656

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Total other operating income	57,679	143,570
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7.9 Operating expenses

	<i>1 January 2019</i>	<i>1 January 2018</i>
Operating expenses		
Business development and professional services	1,256,119	713,749
Staff costs	506,303	473,873
Agency fee	298,833	201,962
Depreciation/amortization	271,181	240,373
Other operating expenses	130,116	97,344
Payroll related taxes	127,373	118,745
Information and technological services	108,600	78,568
Advisory services	75,625	60,743
Rent expenses	65,282	60,834
Communication services	52,137	44,573
Other staff expenses	34,894	33,060
Advertising and marketing, entertainment	25,894	319,962
Repair and maintenance of fixed assets	25,667	25,395
Audit	20,842	18,241
Debt securities issued	17,727	28,146
Non-exclusive rights for software	7,469	8,504
Inventory write-off	7,190	6,620
Security	1,582	1,342
Training, participation in conferences	1,434	688
Total operating expenses	3,034,268	2,532,722

7.10 Tax expense

Tax expenses consist of the following:

	<i>1 January 2019</i>	<i>1 January 2018</i>
Expenses by type of taxes and levies, including:		
Income tax, including	778,652	770,168
Current income tax	584,900	813,518
Increase in income tax by deferred income tax	193,752	-
Decrease in income tax by deferred tax	-	(43,350)
VAT	274,971	221,084
Property tax	18	51
Transport tax	74	74
Other taxes and levies	21,536	2,529
Total tax expense	1,075,251	993,906

In 2018, the current income tax rate applicable to the majority of the Bank's income is 20% (2017: 20%). A reconciliation of theoretical tax expense with actual is as follows:

	2018	2017
Profit before tax (including taxes other than income tax)	3,351,069	3,785,866
Statutory tax rate	20%	20%
Income tax at the applicable tax rate	670,214	757,173
Non-deductible expenses and non-taxable income	20,655	14,301
Movements in the unrecognized deferred tax assets	-	-
Other	89,293	(996)
Income taxed at a lower rate	(1,510)	(310)

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Income tax carried forward not recognized as deferred tax asset	-	-
Income tax expense	778,652	770,168

In 2018 and 2017, deferred income tax expense and its movements for the respective years comprised the following:

	1 January 2018	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2019
Allowance for impairment	20,407	1,620	-	22,027
Derivative financial instruments	201,195	(120,355)	-	80,840
Other assets	107,415	(111,270)	757	(3,098)
Other liabilities	27,361	36,253	-	(63,614)
Total deferred tax assets (liabilities)	356,378	(193,752)	757	36,155

	1 January 2017	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2018
Allowance for impairment	13,984	6,423	-	20,407
Derivative financial instruments.	287,267	(86,072)	-	201,195
Other assets	(16,117)	123,976	(444)	107,415
Other liabilities	28,338	(977)	-	27,361
Total deferred tax assets (liabilities)	313,472	43,350	(444)	356,378

7.11 Other comprehensive income

	1 January 2019	1 January 2018
Other comprehensive income, including:		
Increase in the fair value of securities available for sale	6,196	4,052
<i>Decrease in the fair value of securities available for sale</i>	(9,173)	(1,831)
Transfer of the accumulated decrease in the fair value of securities available for sale to profit or loss	42	-
<i>Transfer of the accumulated increase in the fair value of the acquired securities available for sale to profit or loss</i>	(846)	-
Income tax relating to items to be reclassified to profit or loss	757	-
Total other comprehensive income	(3,024)	2,221

8. Accompanying information for the statement of capital adequacy

8.1 Amount and movements in the share capital

The authorized, issued and fully paid share capital comprises:

	2018		2017	
	Number of	Nominal value	Number of	Nominal value

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	2018 Shares		2017 Shares	
Ordinary shares	4,335,000	6,069,000	2,335,000	3,269,000
Total share capital	4,335,000	6,069,000	2,335,000	3,269,000

In 2018, the Bank increased its share capital. 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 09 June 2018, additional issue was registered under No. 10200170B005D. The additional issue through a private placement includes 2,000,000 ordinary registered non-documentary shares with a nominal value of RUR 1,400 each (the placement price of one share was RUR 1,500). As a result of the additional issue of shares, the share capital of JSC RN Bank amounted to kRUR 6,069,000,000. Each share carries one vote.

Share premium represents the excess of contributions to the share capital over the nominal value of shares issued. As of 1 January 2019, the share premium amounted to kRUR 5,780,800 (2017: kRUR 5,580,800).

In 2017 and 2018, the Bank neither declared nor paid any dividends to its shareholders.

8.2 Equity (capital)

	1 January 2019	1 January 2018
Share capital (ordinary shares)	6,069,000	3,269,000
Share premium	5,780,800	5,580,800
Reserve fund	308,369	157,584
Profit of prior years (audited)	4,874,556	2,009,642
Loss of the current year	-	-
Loss of prior years	-	-
Intangible assets	(169,006)	(251,479)
Negative additional paid-in capital	-	(283,530)
Other amounts decreasing core capital	(1,241,572)	(882,642)
Core capital	15,622,147	9,599,375
Intangible assets	-	(62,870)
Other amounts decreasing additional paid-in capital	-	(220,660)
Negative amount of additional capital	-	(283,530)
Additional paid-in capital	-	-
Main capital	15,622,147	9,599,375
Profit of the current year (unaudited)	2,572,417	3,015,698
Fair value remeasurement of securities available for sale	(703)	2,322
Accounts receivable past due by more than 30 calendar days	-	(65)
Other amounts decreasing additional capital	(1,534,633)	(1,618,310)
Shortfall of provision on loans receivable	-	-
Additional capital	1,037,081	1,399,645
Equity (capital)	16,659,228	10,999,020

The Bank calculates the amount of Basel III regulatory capital on the basis of Regulation No. 395-P of the Bank of Russia. Basel III establishes three levels of capital: core, main and total. Main capital is the sum of core capital and additional paid-in capital. Total capital is the sum of main capital and additional capital.

The main sources of the Bank's core capital include the share capital and share premium of kRUR 11,849,800, the reserve fund of kRUR 308,369 and the prior years' retained earnings of kRUR 4,874,556. Intangible assets reduce the core capital by kRUR 169,006. Income not recognized as a source of capital and representing amounts due to the credit institution (income from payments by insurance companies (agency fees) under the program for the insurance of borrowers (for insurance amounts paid by borrowers using the funds received from the credit institution) and income on loans and other assets reclassified within IV and V quality categories, the generation of which is considered to be indefinite, under agreements signed through 2018 for the amount of kRUR 1,241,572.

Currently, the Bank has no sources of additional paid-in capital (perpetual subordinated loans or perpetual subordinated bonds which may be accounted for within additional paid-in capital, as permitted by the Bank of Russia).

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The Bank's additional capital is represented by:

- Profit for 2018 which is not confirmed by auditors (kRUR 2,559,168)
- Sources reducing additional capital comprise:
- Prepaid expenses (kRUR 13,249)
- Negative fair value remeasurement of securities available for sale (kRUR 703)
- Income not recognized as a source of capital and representing amounts due to the credit institution (income from payments by insurance companies (agency fees) under the program for the insurance of borrowers (for insurance amounts paid by borrowers using the funds received from the credit institution)) (kRUR 1,521,384)

8.3 Information on risk weighted assets

	1 January 2019	1 January 2018
Total credit risk related to balance sheet assets, including	85,671,038	72,701,137
Credit risk related to balance sheet assets (standard)	84,172,909	71,907,740
Transactions with an increased risk factor	846,573	712,755
Risk from related party transactions	651,556	80,642
Risk related to derivative financial instruments	1,298,394	339,725
Market risk	1,834,838	527,363
Operational risk	18,920,088	15,368,788
Total risk weighted assets	107,724,358	88,937,013

The amount of risk weighted assets includes credit, market and operational risks and is calculated in accordance with the following regulatory documents of the Bank of Russia:

- The credit risk calculation procedure is determined in Instruction No. 180-I of the Bank of Russia *On Prudential Bank Ratios* dated 3 December 2012. The calculation of risk weighted assets is based on the approach provided for by clause 2.3 of Instruction No. 180-I of the Bank of Russia.
- The market risk calculation procedure is determined in Regulation No. 511-P of the Bank of Russia *On the Procedure for Market Risk Calculation by Credit Institutions* dated 3 December 2015.
- The operational risk calculation procedure is determined in Regulation No. 346-P of the Bank of Russia *On the Procedure for Operational Risk Calculation* dated 3 November 2009.

	1 January 2019	1 January 2018
Total risk weighted assets with the risk required to be covered by core capital	107,724,358	88,937,078
Total risk weighted assets with the risk required to be covered by main capital	107,724,358	88,937,078
Total risk weighted assets with the risk required to be covered by equity (capital)	107,724,358	88,937,013
Core capital	15,622,147	9,599,375
Main capital	15,622,147	9,599,375
Equity (capital)	16,659,228	10,999,020
Core capital adequacy ratio (N1.1) Regulatory value 4.5%	14.5%	10.8%
Main capital adequacy ratio (N1.2) Regulatory value 6.0%	14.5%	10.8%
Total capital adequacy ratio (N1.0) Regulatory value 8.0%	15.5%	12.4%

9. Accompanying information for the statement of cash flows

	1 January 2019	1 January 2018
Net cash from (used in) operating activities	(3,833,415)	1,986,690
Net cash from (used in) investing activities	(1,724)	(527,249)

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Net cash from (used in) financing activities	-	-
Effect of changes in the official exchange rates of foreign currencies to the ruble set by the Bank of Russia on cash and cash equivalents	12,704	(734)
Increase (decrease) in cash and cash equivalents	(822,436)	1,458,707
Cash and cash equivalents at the beginning of the reporting period	2,011,402	552,695
Cash and cash equivalents at the end of the reporting period	1,188,966	2,011,402

In 2017 and 2018, the Bank had no cash unavailable for use, except for the amounts deposited with the Bank of Russia as the obligatory reserves fund.

The Bank conducts standard transactions in financial markets, including with the Bank of Russia, within the limits set by counterparties for each other and for each type of transactions.

10. 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. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational, legal, reputational and country risks.

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

10.1. Internal control system

The Bank's internal control system corresponds to the types and scope of transactions, level and combination of assumed risks.

The objectives of the internal control in particular include the following:

- ▶ To ensure appropriate comprehensive assessment and management of risks, effective financial and business performance, asset and liability management
- ▶ To ensure the appropriate level of reliability, safety and stability of the Bank in line with the types and scope of the Bank's transactions, protection of rights of the Bank's shareholders, clients and creditors
- ▶ To ensure the accuracy, completeness, credibility and timeliness of preparing and presenting financial, accounting, statistical and other reports, and to ensure information security
- ▶ To ensure compliance with regulatory legal acts, constituent documents and by-laws of the Bank
- ▶ To ensure that neither Bank nor its employees are involved in illegal activities, including money laundering and terrorism financing, and to provide timely reports 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
- ▶ Risks and Control Committee of the Board of Directors
- ▶ Credit Committee of the Board of Directors
- ▶ Management Board
- ▶ Chairman of the Management Board
- ▶ Audit Commission (Auditor)
- ▶ Chief Accountant / Deputy Chief Accountant
- ▶ Committees of the Management Board

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- a) Management Committee of the Management Board
- b) Credit Risk Committee of the Management Board
- c) Financial Committee
- d) Credit Committee
- e) Internal Control, Operational Risks and Compliance Committee
- f) Operational Committee of the Bank
- g) Information Security Committee

- ▶ Department for Legal Support, Compliance Control and Financial Monitoring (hereinafter, "DLSCCFM")
- ▶ Risk Management Department
- ▶ Other personnel or divisions responsible for internal control within their scope of activities.

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

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

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 is 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 continuous monitoring and assessing the effectiveness and adequacy of internal controls, 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, 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. Also, environment has been established for the Internal Audit Function to comply with its duties efficiently and smoothly. The Internal Audit Function operates under direct control of the Board of Directors.

The Bank has established the procedures of:

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- ▶ Control (including additional audits) over measures taken to eliminate violations identified by the Internal Audit Function
- ▶ Reporting of 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.

Department for Legal Support, Compliance Control and Financial Monitoring (DLSCCFM)

DLSCCFM 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. DLSCCFM 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.

DLSCCFM 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 reviews the information on the activities of the Internal Audit Function and DLSCCFM, the results of external audits and first level control procedures. The Committee also deals with the issues related to operational risk, development of internal control rules on anti-money laundering and counter-terrorism financing, results of business continuity and/or disaster recovery plans ('BC/DR plans') and other issues.

Risk management system

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

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

The goal of 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 approach to various risk types
- ▶ Quantitative and qualitative assessment (measurement) of specific risk types
- ▶ Establishing correlation between 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 concerning operations planned and completed by the Bank to determine the total amount of risk level
- ▶ Assessment of whether the total amount of risk level is acceptable and reasonable
- ▶ Establishing a subsystem of risk monitoring at the origination phase of negative tendency and a subsystem of swift and adequate response aimed at preventing or mitigating the risk

Each risk faced by the Bank must be indicated and recognized. The risks are classified into internal and external as well as controlled or not controlled by the Bank. Risks are regularly identified due to the fast-evolving internal and external environment.

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

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The Bank's management strategy is based on the break-even principle and focuses on achieving optimum correlation between profitability of the Bank's business activities and level of assumed risks.

The Bank's risk management strategy involves:

- ▶ Compliance with the Bank's strategic goals set by the Board of Directors
- ▶ Development of priority lending schemes
- ▶ 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 documents.

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

The Customer Business Development and Risk Management Director, Deputy Chairman of the Management Board, the Head of the Internal Audit Function, and the Head of Internal Control Function comply with the qualification criteria established by Instructive Regulation of the Bank of Russia No. 3223-U 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 diverse 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 the 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, calculation of the Bank's capital adequacy ratios. Liquidity risk reports are submitted to the Finance Committee of the Bank's Management Board on a monthly basis. Monthly report on interest rate risk testing is reviewed during the Financial Committee of the Bank's Management Board and includes gap analysis of the assets and liabilities maturity gap and the results of the basic scenario testing (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 external conditions of the Bank's activities in terms of macroeconomic trends and financial markets analysis.

Monthly report on credit risk testing is reviewed during the Risk Committee of the Bank's Management Board and provides 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), state and changes in major quality indicators, overdue debts, their amount, dynamics, structure and timing, the amount of created provisions, collateral quality and credit risk concentration.

DLSCCFM provides regular reports to the Internal Control, Operational Risks and Compliance Committee on operational and/or regulatory risks identified. Reports on significant risks are regularly submitted to the Bank's Board of Directors.

10.2. Credit risk

Credit risk is the risk that the Bank will incur a loss because its borrowers or counterparties failed to discharge their contractual obligations.

The Bank has developed credit policies and procedures to finance end consumers and dealers, which provide the guidelines for the evaluation of the borrower's financial performance, lending decision-making and control over timely repayment of loans.

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Credit risk management is performed through:

- ▶ Monitoring
- ▶ Setting limits
- ▶ Diversification
- ▶ Scenario analysis

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 exposure, aggregate risk associated with Bank's insiders, maximum amount of loans, bank guarantees and sureties provided by the Bank to its participants (shareholders). The Accounting Department monitors compliance with limits and actual exposure 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.

Maximum exposure to credit risk for assets without account for any collateral or other risk mitigating instruments is provided below (information is taken from section 2 of Form 0409813 *Information on prudential ratios, leverage ratio and current liquidity ratio (published form)*):

	2018	2017
Balance sheet assets	93,633,358	79,204,771
Transactions with derivative financial instruments	1,472,201	444,718
Securities lending	-	-
Credit-related commitments	644,572	48,600

Collateral used to mitigate credit risk

The main purpose of collateral agreements is to reduce possible loan losses when settling obligations under credit agreements. Collateral motivates borrowers to timely fulfill their obligations and strengthens the Bank's position. The Bank's policy regarding collateral is as follows: the higher is probability of default, the more valuable collateral should be provided. At the same time collateral is not the key factor to approve a loan request. The Bank considers collateral as a secondary source to discharge the borrower's obligations in case the latter is unable to do it in cash. The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are 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: sureties of individuals, charges over vehicles.

Below are the total values of collateral, by group of loans to customers and type of collateral, as of 31 December 2018 and 31 December 2017.

	1 January 2019		1 January 2018	
	Carrying amount of collateral	Carrying amount of loans	Carrying amount of collateral	Carrying amount of loans
Financing to legal entities against assignment of receivables				
- Automotive vehicles	30,689,943	-	20,091,017	-
- Guarantees of credit institutions	1,912,280	-	899,936	-
- Pledge of receivables related to deposits of legal entities	280,393	-	823,790	-
- Pledge of goods in turnover	212,200	-	108,000	-
- Sureties of legal entities	67,931,598	-	49,734,995	-
- Sureties of individuals	38,969,004	-	19,094,630	-
Total financing to legal entities against assignment of receivables	139,995,418	32,126,400	90,644,368	21,285,687
Loans to individuals				
- Automotive vehicles	124,894,791	-	119,811,717	-
- Sureties of individuals	34,949	-	69,408	-

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Total loans to individuals	124,929,740	52,465,102	119,881,125	49,873,088
Total loans to customers	264,925,158	84,591,502	210,525,493	71,158,775

<i>At 1 January 2019</i>	<i>Amount of claim</i>	<i>Estimated provision</i>	<i>Estimated provision adjusted for collateral</i>	<i>Actual provision</i>	<i>Collateral to decrease estimated provision</i>
Deposits with the Bank of Russia	6,400,000	X	X	X	X
Trading bank accounts	11	(11)	(11)	(11)	-
Loans to credit institutions	2,000,000	-	-	-	-
Financing against monetary claim assignment (factoring)	32,093,464	(1,618,940)	(894,753)	(894,753)	724,187
Loans to legal entities	32,936	(11,335)	(3,823)	(3,823)	7,512
Loans to individuals (car loans)	52,465,102	(2,160,590)	(2,065,905)	(2,065,905)	94,685
Interest receivable from deposits with the Bank of Russia	3,710	X	X	X	X
Interest receivable from loans to credit institutions	1,192	-	-	-	-
Fees and commissions receivable from factoring transactions	387,588	(3,852)	(3,852)	(3,852)	-
Receivables under car loans subsidizing program	152,402	-	-	-	-
Interest receivable from loans to legal entities	84	(18)	(18)	(18)	-
Interest receivable from loans to individuals	296,680	(15,597)	(15,561)	(15,561)	36
Other claims on legal entities	47,911	(10,733)	(10,733)	(10,733)	-
Other claims on individuals	39,771	(33,667)	(33,667)	(33,667)	-
Total	93,920,851	(3,854,743)	(3,028,323)	(3,028,323)	826,420

<i>At 1 January 2019</i>	<i>Amount of claim</i>	<i>Estimated provision</i>	<i>Estimated provision adjusted for collateral</i>	<i>Actual provision</i>	<i>Collateral to decrease estimated provision</i>
Deposits with the Bank of Russia	5,000,000	X	X	X	X
Trading bank accounts	6	(6)	(6)	(6)	-
Loans to credit institutions	500,000	-	-	-	-
Financing against monetary claim assignment (factoring)	21,285,687	(758,757)	(476,900)	(476,900)	281,857
Loans to individuals (car loans)	49,873,088	(1,398,143)	(1,395,434)	(1,395,434)	2,709
Interest receivable from deposits with the Bank of Russia	2,082	X	X	X	X
Interest receivable from loans to credit institutions	192	-	-	-	-
Fees and commissions receivable from factoring transactions	290,172	(33,564)	(33,564)	(33,564)	-
Receivables under car loans subsidizing program	277,705	-	-	-	-
Interest receivable from loans to individuals	274,279	(10,054)	(10,053)	(10,053)	1
Other claims on legal entities	57,427	(5,894)	(5,894)	(5,894)	-
Other claims on individuals	22,510	(18,299)	(18,299)	(18,299)	-
Total	77,583,148	(2,224,717)	(1,940,144)	(1,940,150)	284,567

The Banks assesses the quality of loans receivable and similar debt, as well as of other assets in accordance with Regulation No. 590-P and Regulation No. 611-P.

As of 1 January 2019 and 2018, loss provisions for loans and similar debt were formed in the full amount in accordance with the established quality categories and provisioning rates.

Information on the quality of assets and the amount of estimated and actual provisions

	1 January 2019	1 January 2018
Deposits with the Bank of Russia	6,400,000	5,000,000

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Total loans to credit institutions, including:	2,000,000	500,000
- Quality category I	2,000,000	500,000
Total loans to legal entities, including:	32,936	-
- Quality category III	18,207	-
- Quality category IV	14,729	-
Financing against monetary claim assignment (factoring), including:	32,093,464	21,285,687
- Quality category I	-	14,891,049
- Quality category II	25,906,725	3,658,829
- Quality category III	5,984,549	2,655,076
- Quality category IV	202,190	61,474
- Quality category V	-	19,259
Loans to individuals (car loans), including:	52,465,102	49,873,088
- Quality category II	48,033,411	48,271,878
- Quality category III	2,702,861	454,260
- Quality category IV	582,395	282,152
- Quality category V	1,146,435	864,798
Total loans receivable	92,991,502	76,658,775
Total interest, fees and commissions receivable, including:	689,254	566,725
- Deposits with the Bank of Russia	3,710	2,082
- Quality category I	358,587	246,571
- Quality category II	288,437	264,413
- Quality category III	25,496	13,995
- Quality category IV	888	1,667
- Quality category V	12,136	37,997
Receivables under car loans subsidizing program	152,402	277,705
- Quality category I	152,402	277,705
Other assets	87,693	79,943
- Quality category I	13,615	20,963
- Quality category II	6,627	33,344
- Quality category III	23,325	34
- Quality category V	44,126	25,602
Total other assets	929,349	924,373
Total actual provision for potential losses on loans, including:	(2,964,481)	(1,872,334)
- Quality category II	(559,405)	(429,288)
- Quality category III	(1,019,003)	(451,530)
- Quality category IV	(256,769)	(128,178)
- Quality category V	(1,129,304)	(863,338)
Total actual provision for potential losses on other assets including:	(63,842)	(67,816)
- Quality category II	(3,607)	(4,924)
- Quality category III	(9,482)	(2,798)
- Quality category IV	(420)	(813)
- Quality category V	(50,333)	(59,281)
Loans receivable less provisions for potential losses	90,027,021	74,786,441
Other assets less provisions for potential losses	865,507	856,557

Information on the amount and quality of loans receivable and debt with overdue payments broken down by delay period

	1 January 2019	1 January 2018
Total loans receivable, including:	92,991,502	76,658,775
- Not exposed to credit risk (deposits with the Bank of Russia)	6,400,000	5,000,000
- Quality category I	2,000,000	15,391,049
- Quality category II	73,940,136	51,930,707
- Quality category III	8,705,617	3,109,336
- Quality category IV	799,314	343,626
- Quality category V	1,146,435	884,057

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Total loans with overdue payments	1,556,068	1,398,380
<i>Percentage of total loans</i>	<i>1.67%</i>	<i>1.82%</i>
- Up to 30 days	450,520	435,697
- From 31 to 90 days	156,583	198,038
- From 91 to 180 days	136,306	154,519
- Over 180 days	812,659	610,126
Actual provision for potential loan losses	(2,964,481)	(1,872,334)

Information on overdue debt by type of counterparties and type of financial instruments

As of 1 January 2019

Financial instruments	Total	Overdue debt					Estimated provision	Actual provision
		Total	Up to 30 days	From 31 to 90 days	From 91 to 180 days	Over 181 days		
Deposits with the Bank of Russia	6,400,000	-	-	-	-	-	X	X
Interbank loans	2,000,000	-	-	-	-	-	-	-
Financing against monetary claim assignment (factoring)	32,093,464	2,820	2,820	-	-	-	(1,618,940)	(894,753)
Loans to legal entities	32,936	-	-	-	-	-	(11,335)	(3,823)
Loans to individuals	52,465,102	712,127	14,748	11,960	23,323	662,096	(2,160,590)	(2,065,905)
Securities available for sale	439,780	-	-	-	-	-	X	X
Financial assets at fair value (nominal value)	14,924,762	-	-	-	-	-	X	X

As of 1 January 2018

Financial instruments	Total	Overdue debt					Estimated provision	Actual provision
		Total	Up to 30 days	From 31 to 90 days	From 91 to 180 days	Over 181 days		
Deposits with the Bank of Russia	5,000,000	-	-	-	-	-	X	X
Interbank loans	500,000	-	-	-	-	-	-	-
Financing against monetary claim assignment (factoring)	21,285,687	23,599	13,361	2,378	4,151	3,709	(758,757)	(476,900)
Loans to individuals	49,873,088	514,799	17,230	14,621	21,043	461,905	(1,398,143)	(1,395,434)
Securities available for sale	595,934	-	-	-	-	-	X	X
Financial assets at fair value (nominal value)	16,837,443	-	-	-	-	-	X	X

Information on large credit risks and maximum risk exposure per borrower or a group of related borrowers

Item (designation)	1 January 2019	1 January 2018
Total credit claims of the bank on a borrower or a group of related borrowers (Krz)	2,262,257	2,061,202
Total large credit risks (Kskr)	12,362,466	9,981,076
Equity (capital)	16,659,228	10,999,020
Maximum risk exposure per borrower, % (N6) (regulatory value <=25%)	13.6%	18.7%
Maximum exposure to large credit risks, % (N7) (regulatory value <=800%)	74.2%	90.7%

Information on large credit risk concentration (loans per borrower (a group of related borrowers)) exceeding 5% of the Bank's equity (capital)

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	1 January 2019			1 January 2018		
	Total	Balance sheet claims	Claims under derivative financial instruments	Total	Balance sheet claims	Claims under derivative financial instruments
Total for borrowers other than credit institutions, including:	10,721,464	10,721,464	-	9,981,076	9,981,076	-
- Financing against monetary claim assignment (factoring)	10,721,464	10,721,464	-	9,981,076	9,981,076	-
- Other balance sheet claims	-	-	-	-	-	-
- Foreign exchange swaps	-	-	-	-	-	-
- Cross-currency interest rate swaps	-	-	-	-	-	-
Total for borrowers – credit institutions, including:	1,641,002	544,000	1,097,002	-	-	-
- Interbank loans	544,000	544,000	-	-	-	-
- Foreign exchange swaps	-	-	-	-	-	-
- Cross-currency interest rate swaps	1,097,002	-	1,097,002	-	-	-
Total large credit risks (Kskr)	12,362,466	11,265,464	1,097,002	9,981,076	9,981,076	-

Ten major related borrowers of the Bank comprise resident and non-resident credit institutions and legal entities.

Actual exposures against limits are monitored daily.

The Bank limits major risk concentrations for individual clients and groups of related clients through regular analysis and control of limits, and by changing these lending limits where appropriate.

10.3. Market risk

The Bank takes on exposure to market risk, which is defined as a risk of potential losses under balance sheet and off balance sheet positions due to unfavorable movements in market prices: as a result of interest rate risks related to financial instruments and currency and equity risks of the Bank. Market risk arises both from trade operations - risk of the trading portfolio, and from assets and liabilities management - risk of balance sheet structure.

The Bank's exposure to market risk arises from dealing in derivative financial instruments, attracting and placing funds at floating and fixed rates and open currency position.

The objective of market risk management is to control the risk accepted by the Bank at the appropriate level defined by the current business strategy keeping the optimum level of income generation. Market risk is calculated and controlled in accordance with the Regulation No. 511-P of the Bank Russia *On the Procedure for Market Risk Calculation by Credit Institutions* dated 3 December 2015 (hereinafter, "Regulation No. 511-P").

The market risk management system is based on a system of limits ensuring compliance of the accepted risks with the established value and equity.

The decisions on market risk management strategy are taken by the Bank's Finance Committee and implemented by the structural units of the Bank within their functional duties. The Treasury regularly monitors currency risk. Interest rate risk is monitored by the Financial Planning and Analysis Department.

In 2018 and earlier, the Bank did not trade in equity securities, therefore as of 31 January 2018 and 2017, the Bank did not calculate equity risk.

	1 January 2019	1 January 2018
Total market risk, including:	146,787	42,189
Interest rate risk, including:	112,640	42,189
- Specific interest rate risk	-	684
- General interest rate risk	112,640	41,505
Equity risk, including:	-	-
- General equity risk	-	-
- Specific equity risk	-	-
Foreign currency risk	34,147	14,677

As of 31 December 2018, market risk calculated in accordance with the requirements of the Bank of Russia and subject to inclusion in the calculation of the Bank's capital adequacy ratio with the coefficient of 12.5 amounted to

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krUR 1,834,838. Capital requirements for market risk are attributable to the interest rate risk related to derivative financial instruments (cross-currency interest rate swap) and foreign currency risk on open positions in foreign currencies, as the percentage ratio of the aggregate amount of the open currency positions and the amount of equity (capital) is over 2%.

As of 31 December 2017, market risk calculated in accordance with the requirements of the Bank of Russia and subject to inclusion to the calculation of the Bank's capital adequacy ratio with the coefficient of 12.5 amounted to krUR 527,363. Capital requirements for market risk are attributable to the interest rate risk on derivative financial instruments (cross-currency interest rate swap). Foreign currency risk on open currency positions is not considered in the market risk calculation, as the percentage ratio of the aggregate amount of the open currency positions and the amount of equity (capital) is less than 2%.

Foreign currency risk

Currency risk is the risk that the Bank may incur losses due to adverse changes in foreign exchange rates and cross rates. The Bank is exposed to currency risk which arises from mismatching assets and liabilities denominated in particular currency.

The Bank controls and limits the currency risk exposure by monitoring volatility of foreign exchange rates and by establishing limits on open positions in each foreign currency and on overall amount of open positions.

The Bank controls and limits total balance sheet and off-balance sheet positions in each currency and overall amount of open positions using the methodology established by the Bank of Russia in its Instruction No. 178-I *On Establishing Amounts (Limits) of Open Currency Positions, Calculation Methodologies and Specific Controls over their Compliance by Credit Institutions dated 28 December 2016*.

The Bank takes a conservative position to limit the accepted currency risk by maintaining minimum possible amount of open positions. The Bank has no significant currency positions opened to obtained speculative gains. Open currency positions are monitored on a daily basis.

1 January 2019	RUR	USD	EUR	JPY	Total
Assets					
Cash	10	-	-	-	10
Amounts due to credit institutions from the Bank of Russia	1,460,349	-	-	-	1,460,349
Amounts due from credit institutions	2,658	3,299	4,961	36,199	47,117
Financial assets at fair value through profit or loss	1,082,686	-	-	-	1,082,686
Net loans receivable	90,027,021	-	-	-	90,027,021
Net investments in securities and other financial assets available for sale	439,780	-	-	-	439,780
Deferred tax asset	163,383	-	-	-	163,383
Fixed assets, intangible assets and inventories	229,996	-	-	-	229,996
Other assets	1,103,530	-	-	-	1,103,530
Total assets	94,509,413	3,299	4,961	36,199	94,553,872
Liabilities					
Loans, deposits and other amounts due to the Bank of Russia	-	-	-	-	-
Amounts due to credit institutions	35,460,000	-	6,356,840	-	41,816,840
Amounts due to customers other than credit institutions	5,462,305	-	-	6,299,760	11,762,065
Financial liabilities at fair value through profit or loss	279,679	-	-	-	279,679
Debt obligations issued	18,431,228	-	-	-	18,431,228
Current income tax liabilities	41,428	-	-	-	41,428
Other liabilities	2,545,755	-	12,720	59,718	2,618,193
Total liabilities	62,220,395	-	3,369,560	6,359,478	74,949,433
Off-balance sheet claims	1,813,348	-	6,433,323	6,678,091	14,924,762
Off-balance sheet liabilities	15,247,563	-	-	-	15,247,563
Net balance sheet position	32,289,018	3,299	(6,364,599)	(6,323,279)	19,604,439
Net term position	(13,434,215)	-	6,433,323	6,678,091	(322,801)
Total balance sheet position	-	3,299	(6,364,599)	(6,323,279)	-
Total off-balance sheet position	-	-	6,433,323	6,678,091	-
Open currency position		3,299	68,724	354,812	-
Open currency position, % of capital		0.0198	0.4125	2.1298	-

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Total open currency positions	426,835
Total open currency positions, % of capital	2.5622

<i>1 January 2018</i>	<i>RUR</i>	<i>USD</i>	<i>EUR</i>	<i>JPY</i>	<i>Total</i>
Assets					
Cash	10	-	-	-	10
Amounts due to credit institutions from the Bank of Russia	2,291,989	-	-	-	2,291,989
Amounts due from credit institutions	2,802	6,035	4,610	96,205	109,652
Financial assets at fair value through profit or loss	205,946	-	-	-	205,946
Net loans receivable	74,786,441	-	-	-	74,786,441
Net investments in securities and other financial assets available for sale	595,934	-	-	-	595,934
Current income tax assets	21,719	-	-	-	21,719
Deferred tax asset	356,378	-	-	-	356,378
Fixed assets, intangible assets and inventories	330,385	-	-	-	330,385
Other assets	958,049	-	-	-	958,049
Total assets	79,549,653	6,035	4,610	96,205	79,656,503
Liabilities					
Loans, deposits and other amounts due to the Bank of Russia	-	-	-	-	-
Amounts due to credit institutions	23,800,000	-	10,330,020	-	34,130,020
Amounts due to customers other than credit institutions	6,852,722	-	-	5,626,269	12,478,991
Financial liabilities at fair value through profit or loss	1,582,363	-	-	-	1,582,363
Debt obligations issued	15,000,000	-	-	-	15,000,000
Other liabilities	2,260,316	-	19,831	149,674	2,429,821
Total liabilities	49,495,401	-	10,349,851	5,775,943	65,621,195
Off-balance sheet claims	635,032	-	10,466,883	5,735,528	16,837,443
Off-balance sheet liabilities	19,079,300	-	-	-	19,079,300
Net balance sheet position	30,054,252	6,035	(10,345,241)	(5,679,738)	14,035,308
Net term position	(18,444,268)	-	10,466,883	5,735,528	(2,241,857)
Total balance sheet position	-	6,035	(10,345,241)	(5,679,738)	-
Total off-balance sheet position	-	-	10,466,883	5,735,528	-
Open currency position		6,035	121,642	55,790	-
Open currency position, % of capital		0.0549	1.1059	0.5072	-
Total open currency positions					183,467
Total open currency positions, % of capital					1.6680

The tables below summarize the effect on the statement of income of the assumed upward and downward changes in foreign exchange interest rates. The effect on equity does not differ from the effect on the statement of income. A negative amount in the table reflects a potential net reduction in the statement of financial results or equity, while a positive amount reflects net potential increase.

<i>Currency</i>	<i>Open currency position at 1 January 2019</i>	<i>Increase in exchange rate at 1 January 2019</i>	<i>Effect on profit before tax at 1 January 2019</i>	<i>Open currency position at 1 January 2018</i>	<i>Increase in exchange rate at 1 January 2018</i>	<i>Effect on profit before tax at 1 January 2018</i>
USD	3,299	14%	462	6,035	11%	664
EUR	68,724	14%	9,621	121,642	12.5%	15,205
JPY	354,812	15%	53,222	55,790	12.7%	7,085
Total	426,835		63,305	183,467		22,954

<i>Currency</i>	<i>Open currency position</i>	<i>Decrease in exchange rate</i>	<i>Effect on profit before tax</i>	<i>Open currency position</i>	<i>Decrease in exchange rate</i>	<i>Effect on profit before tax</i>
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	at 1 January 2019	at 1 January 2019	at 1 January 2019	at 1 January 2018	at 1 January 2018	at 1 January 2018
USD	3,299	14%	(462)	6,035	11%	(664)
EUR	68,724	14%	(9,621)	121,642	12.5%	(15,205)
JPY	354,812	15%	(53,222)	55,790	12.7%	(7,085)
Total	426,835		(63,305)	183,467		(22,954)

10.4. 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.

To calculate and control the interest rate risk, the Bank follows the methodology provided in reporting Form 0409127 of the Bank of Russia *Information on Interest Rate Risk* approved by Instructive Regulation No. 4212-U of the Bank of Russia *On the List, Forms and Procedure for Preparation and Submission of Reporting Forms of Credit Institutions to the Central Bank of the Russian Federation* dated 24 November 2016. In its calculation, the Bank uses all balance sheet financial instruments that are sensitive to changes in the interest rate and off-balance sheet financial instruments (derivative financial instruments) for which general interest rate risk should not be calculated in accordance with Regulation No. 511-P dated 3 December 2015, as well as the instruments used to hedge the interest rate risk and that satisfy the criteria of IAS 39 *Financial Instruments: Recognition and Measurement* to be classified as hedges.

In accordance with this methodology, the interest rate risk is a percentage ratio of weighted opened long and short positions (not taking into account the sign of the position) to equity (capital). The resulted interest rate risk is scored as follows:

1 point – interest rate risk <20% (acceptable)

4 points – interest rate risk ≥20% (high)

Item	1 January 2019	1 January 2018
Weighted opened long positions	49,097,364	32,579,542
Weighted opened short positions	14,675,744	34,943,317
Equity (capital) (C)	16,659,228	10,999,020
Interest rate risk	2.1%	0.2%
Score	1	1

1 January 2019	Up to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than 1 year	Not sensitive to changes in interest rate	Total
Total balance sheet assets and off-balance sheet claims	12,165,518	33,457,861	12,130,328	16,266,662	42,095,222	3,934,658	120,050,249
Total balance sheet and off-balance sheet liabilities	12,538,515	20,058,981	14,979,819	19,524,122	34,827,184	23,340,497	125,269,118
Accumulated gap	(372,997)	13,398,880	(2,849,491)	(3,257,460)	7,268,038	X	X
Gap ratio (accumulated relative gap, cumulative total)	0.97	1.67	0.81	0.83			
Change in net interest income							
+200 basis points	(7,149)	223,306	(35,619)	(16,287)	X	X	X
-200 basis points	7,149	(223,306)	35,619	16,287	X	X	X
Time ratio	0.9583	0.8333	0.625	0.25	X	X	X

1 January 2018	Up to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than 1 year	Not sensitive to changes in	Total
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	<i>interest rate</i>						
Total balance sheet assets and off-balance sheet claims	14,589,800	29,613,659	18,915,304	18,633,540	35,256,334	3,983,135	120,991,772
Total balance sheet and off-balance sheet liabilities	<u>12,734,449</u>	<u>18,715,146</u>	<u>28,829,275</u>	<u>28,331,688</u>	<u>27,739,249</u>	<u>18,949,095</u>	135,298,902
Accumulated gap	<u>1,855,351</u>	<u>10,898,513</u>	<u>(9,913,971)</u>	<u>(9,698,148)</u>	<u>7,517,085</u>	<u>X</u>	<u>X</u>
Gap ratio (accumulated relative gap, cumulative total)	1.15	1.41	1.06	0.92			
Change in net interest income							
+200 basis points	35,560	181,635	(123,925)	(48,491)	X	X	X
-200 basis points	(35,560)	(181,635)	123,925	48,491	X	X	X
Time ratio	0.9583	0.8333	0.625	0.25	X	X	X

The tables below summarize the impact on the statement of income and equity of stress-testing scenarios of the assumed increase or decrease in interest rates by 200 basis points. A negative amount in the table reflects a potential net reduction in the statement of financial results or equity, while a positive amount reflects net potential increase.

Analysis of the impact of interest rate risk on the Bank's profit before tax and equity

1 January 2019	RUR	USD	EUR	JPY	Total
Increase in basis points (+200)	192,167	-	(27,286)	(630)	164,251
Decrease in basis points (-200)	(192,167)	-	27,286	630	(164,251)

1 January 2018	RUR	USD	EUR	JPY	Total
Increase in basis points (+200)	103,867	-	(56,626)	(2,462)	44,779
Decrease in basis points (-200)	(103,867)	-	56,626	2,462	(44,779)

10.5. Operational risk

Operational risk is one of the main risks inherent to the Bank's operations. Operational risk is the risk of losses resulting from inconsistency with the nature and scope of the Bank's business and/or non-compliance with applicable legislation, internal practices and procedures for banking and other transactions, their breach by employees of the Bank and/or other persons (through inadvertent or deliberate actions or failure to act), inadequate (insufficient) functionalities (specifications) of IT and other systems applied by the Bank and/or their failures (malfunctions), or ensuing from the effect of external events.

The Bank's regulation for operational risk management and control involves operational risk prevention and identification of new operational risks arising in the course of the Bank's activities and calls for developing procedures to identify, evaluate and prevent these risks.

The Bank manages its operational risk in accordance with Letter No. 76-T of the Bank of Russia *On Organizing Management of Operational Risks in Credit Institutions* dated 24 May 2005 and recommendations of the Basel Committee on Banking Supervision.

The operational risk management system is based on the principle of distribution of powers and duties among all levels of the Bank's management.

The Bank assesses operational risk in accordance with Regulation No. 346-P of the Bank of Russia *On the Procedure for Calculating Operational Risk Exposure* dated 3 November 2009.

The Internal Control, Operational Risks and Compliance Committee analyzes a report on the level of operational risk on a quarterly basis, including operational risk management reviews, first level control results, identified operational risk events, results of the BC/DR plan testing, an action plan developed based on the results of the BC/DR plan testing, incidents in the Bank's information systems, and other issues.

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Information on the identified instances of external fraud, respective measures taken, a number of fraud instances prevented by the Bank, statistics on the customer requests, their reasons and respective measures taken are considered at the meetings of the Operating Committee of the Bank's Management Board on a monthly basis.

The operational risk management strategy selected by the Bank determines that the Internal Control, Operational Risks and Compliance Committee and the Operational Committee of the Management Board should take primary responsibility for the timely management of operational risks.

The table below contains information on the amount of income for the purposes of calculating capital to cover operational risk:

	1 January 2019	1 January 2018
Net interest income	16,279,147	10,172,279
Net non-interest income	13,992,986	14,417,777
Net gains from financial assets at fair value through profit or loss	3,761,470	4,839,130
Net gains from foreign currency transactions	-	6,690
Net gains from foreign currency translation	4,247,931	4,247,931
Net fee and commission income	5,782,875	5,201,870
Other operating income	268,968	122,156
Total income for the purposes of calculating capital to cover operational risk	30,272,133	24,590,056
Number of years preceding the date of operational risk calculation	3	3
Average income	10,090,711	8,196,685
Total operational risk (15%)	1,513,607	1,229,503

Information on capital management

The Bank manages its capital with the following purposes: to comply with capital requirements and capital adequacy ratios established by the Bank of Russia, in particular, deposit insurance system requirements; to ensure that the Bank operates as a going concern.

In 2018, the Bank adhered to the same capital management policies as in 2017.

These principles are based on the conservative approach and prudential requirements of the Bank of Russia. The Bank assesses its ability to compensate for losses resulting from risk events and determines a set of measures to be taken to mitigate the risk level, to ensure financial stability, to protect the Bank's equity and to comply with the Bank's capital adequacy ratios.

The Bank's capital adequacy ratios include core capital adequacy ratio (N1.1), main capital adequacy ratio (N1.1) and equity (capital) adequacy ratio (N1.0) of the Bank calculated in accordance with the existing capital requirements established by the Bank of Russia:

	1 January 2019	1 January 2018
Core capital, main capital	15,622,147	9,599,375
Additional capital	1,037,081	1,399,645
Total equity (capital)	16,659,228	10,999,020
Risk-weighted assets (to determine core capital adequacy)	107,724,358	88,937,078
Risk-weighted assets (to determine main capital adequacy)	107,724,358	88,937,078
Risk weighted assets	107,724,358	88,937,013
Core capital adequacy ratio, % (N1.1) (regulatory value≥4.5%)	14.5%	10.8%
Main capital adequacy ratio, % (N1.2) (regulatory value≥6.0%)	14.5%	10.8%
Equity (capital) adequacy ratio, % (N1.0) (regulatory value≥8.0%)	15.5%	12.4%

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The Bank of Russia set the minimum N1.1 ratio at 4.5%, minimum N1.2 ratio at 6.0% and minimum N1.0 ratio at 8.0%.

In addition, a capital buffer was set in line with Instruction No. 180-I of the Bank of Russia *On Prudential Ratios of Banks* dated 28 June 2017 (hereinafter, "Instruction No. 180-I"). The buffer was 1.875% in the reporting period. During the reporting period, the Bank's actual capital adequacy ratios were in line with the established limits subject to 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.

10.6. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations or make current payments on instructions of its customers unless it restructures its assets and/or urgently mobilizes required funds. Liquidity risk arises when the maturities of assets and liabilities do not match.

The liquidity management policy was developed in the Bank to ensure control over liquidity and meet its current payment obligations in full and on a timely basis. The liquidity management policy is reviewed and approved by the Management Board.

The liquidity management policy requires:

- ▶ Projecting cash flows by major currency and calculating the level of liquid assets necessary in relation thereto
- ▶ Maintaining a diverse range of funding sources
- ▶ Managing the concentration and profile of debts
- ▶ Developing fund-raising plans using borrowed funds
- ▶ Maintaining liquidity and funding contingency plans
- ▶ Monitoring liquidity ratios against regulatory requirements

The Treasury receives information from business units on the liquidity of their financial assets and liabilities and projected cash flows arising from projected future business. Then it creates an adequate portfolio of short-term liquid assets, largely made up of short-term funds with credit institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Treasury monitors the daily liquidity position and performs regular stress tests under a variety of scenarios covering both normal and more severe market conditions. Under the normal market conditions, reports covering the liquidity position are presented to senior management on a weekly basis. Any decisions on the liquidity management policy are taken by the Finance Committee and implemented by the Treasury. A summary of the report prepared by the Treasury is communicated to management and the Board of Directors of the Bank.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on the ratios of net liquid assets and liabilities established by the Bank of Russia. As of 31 December 2018 these ratios were as follows:

	1 January 2019	1 January 2018
	%	%
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand; regulatory value $\geq 15\%$)	229.4	140.1
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days; regulatory value $\geq 50\%$)	234.2	234.1
N4 "Long-term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year; regulatory value $\leq 120\%$)	72.1	77.8

Analysis of financial liabilities by remaining maturities

Liquidity is quantified and disclosed based on the report provided in Form 0409125 *Information on assets and liabilities*

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by maturity. Therefore, the Bank assesses if the maturities of assets and liabilities match through the estimation of gaps by time buckets. In order to estimate its own liquidity of financial assets, the Bank uses conservative assessment of refinancing opportunities as well as the probability of extending maturities of liabilities. As a result, the Bank prepares a report on cash flows by contractual maturities and determines sources to cover possible liquidity deficit. The information in the table below is provided as a cumulative total.

1 January 2019	On demand and for 1 day	Up to 5 days	Up to 10 days	Up to 20 days	Up to 30 days	Up to 90 days	Up to 180 days	Up to 270 days	Up to 1 year	More than 1 year
Liquid assets	2,284,310	2,284,310	11,455,906	12,728,762	13,856,582	37,831,870	49,832,808	55,345,256	65,219,136	108,014,685
Liabilities	4,012,462	4,012,462	4,271,750	8,292,169	10,901,957	28,951,549	39,285,099	46,840,392	59,860,757	95,187,943
Off-balance sheet liabilities and guarantees issued	716,191	716,191	716,191	716,191	716,191	716,191	716,191	716,191	716,191	716,191
Excess (deficit) of liquidity	(2,444,343)	(2,444,343)	6,467,965	3,720,402	2,238,434	8,164,130	9,831,518	7,788,673	4,642,188	12,110,551
Liquidity excess (deficit) ratio	-60.9%	-60.9%	151.4%	44.9%	20.5%	28.2%	25.0%	16.6%	7.8%	12.7%

1 January 2018	On demand and for 1 day	Up to 5 days	Up to 10 days	Up to 20 days	Up to 30 days	Up to 90 days	Up to 180 days	Up to 270 days	Up to 1 year	More than 1 year
Liquid assets	2,420,138	2,545,358	8,979,180	10,006,312	13,022,540	34,207,397	48,681,381	57,622,716	64,540,564	100,145,742
Liabilities	4,902,134	5,161,422	5,291,780	7,489,569	10,182,961	19,677,699	39,455,822	48,966,958	61,216,362	89,929,576
Off-balance sheet liabilities and guarantees issued	54,000	54,000	54,000	54,000	54,000	54,000	54,000	54,000	54,000	54,000
Excess (deficit) of liquidity	(2,535,996)	(2,670,064)	3,633,400	2,462,743	2,785,579	14,275,698	9,171,559	8,601,758	3,270,202	10,162,166
Liquidity excess (deficit) ratio	-51.7%	-51.7%	68.7%	32.9%	27.4%	71.8%	23.2%	17.6%	5.3%	11.3%

10.7. Legal risk

Legal risk is the risk that the Bank may incur financial losses or unplanned expenses, or that planned income may decrease due to the following reasons:

- ▶ Non-compliance of the Bank's organizational and administrative documents with laws, regulations and law enforcement practice
- ▶ Disregarding (ignoring) judicial and law enforcement practices
- ▶ Weaknesses of the legal system (contradictory legislation, lack of regulation for certain issues arising in the course of the Bank's activities)
- ▶ Lack of due diligence and care which must be exercised by lawyers in the course of activities (inadequate legal advice or improper preparation of the Bank's internal documents and contracts).

Legal risks inherent to the Bank's activities are as follows:

- ▶ Risks of performing transactions that are considered invalid in accordance with the applicable legislation of the Russian Federation
- ▶ Risks of concluding agreements that may cause significant impairment of assets or increasing liabilities of the Bank
- ▶ Risks of unfavorable outcome of litigations involving the Bank
- ▶ Risks arising from changes in applicable legislation and judicial practice pertaining to key business issues of the Bank.

Legal risk management is aimed at ensuring the sustainable development of the Bank in accordance with its development strategy and compliance of the Bank's activities and products with legislation and law enforcement practice.

The main factors/events that may increase the impact and scale of legal risk are presented below:

- ▶ Changes in laws, regulations and judicial and law enforcement practices
- ▶ Inconsistencies in judicial and law enforcement practices and conflicting regulations
- ▶ Increasing complexity of financial instruments and strategies and/or new products and technologies.

In order to support the decision making process and respond to changes in the level of legal risk in a timely manner, the Bank prepares up-to-date and standardized reports on losses incurred as a result of legal risk, the quality of legal

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risk management and the current status of measures aimed at minimizing legal risk.

The level of legal risk is compared with the data for the previous reporting periods. If there are significant deviations, the Bank analyzes the causes of a sharp increase or decrease in the respective indicator and, if necessary, prepares proposals for changing banking processes.

To manage legal risk, the Bank applies internal rules for the approval and sign-off of legally significant documents. As regards its core activities, the Bank develops and uses standard contract templates, as well as regularly monitors the effective legislation and promptly communicates key changes that are significant to the Bank to its management and personnel of the business units involved. The Bank has internal rules for the approval and sign-off of the Bank's responses to certain claims (complaints) made by its customers and requests submitted by state authorities. Moreover, the Bank has a process in place ensuring that new contracts that are significant to the Bank comply with effective legislation and may check whether the counterparties that are legal entities have appropriate legal capacity. The overall law enforcement practice applicable to the Bank's operations is being established.

Existing and potential lawsuits against the Bank

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

10.8. 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.).

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 of the Bank is informed on the business plan implementation for the current financial year on a monthly basis and on the development strategy implementation on an annual basis. The Management Board makes respective amendments to the strategy and the business plan, if necessary, which are subsequently approved by the Board of Directors.

10.9. Reputational risk

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 management of the Bank as minimal.

10.10. 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 engages in transactions with non-resident counterparties registered in the EU, the USA and Japan.

11. Fair value measurements

Fair value hierarchy

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

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technique:

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

Fair value hierarchy (continued)

As of 1 January 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>
Assets measured at fair value				
Net investments in securities and other financial assets available for sale	439,780	–	–	439,780
Financial assets at fair value through profit or loss	–	1,082,686	–	1,082,686
Total assets measured at fair value	439,780	1,082,686	–	1,522,466
Assets for which fair values are disclosed				
Cash and cash equivalents	–	1,507,476	–	1,507,476
Net loans receivable	–	–	86,694,185	86,694,185
Other assets	–	–	1,103,530	1,103,530
Total assets for which fair values are disclosed	–	1,507,476	87,797,715	89,305,191
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss	–	227,304	–	227,304
Total liabilities measured at fair value	–	227,304	–	227,304
Liabilities for which fair values are disclosed				
Debt securities issued	–	18,639,407	–	18,639,407
Amounts due to credit institutions	–	–	41,804,719	41,804,719
Amounts due to customers other than credit institutions	–	–	12,120,325	12,120,325
Other liabilities	–	–	2,618,193	2 618193
Total liabilities for which fair values are disclosed	–	18,639,407	56,543,237	75,182,644

As of 1 January 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>
Assets measured at fair value				
Net investments in securities and other financial assets available for sale	595,934	–	–	595,934
Financial assets at fair value through profit or loss	–	205,946	–	136,743
Total assets measured at fair value	595,934	205,946	–	801,880
Assets for which fair values are disclosed				
Cash and cash equivalents	–	2,401,651	–	2,401,651

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Net loans receivable	-	-	70,665,345	70,665,315
Other assets	-	-	958,049	958,049
Total assets for which fair values are disclosed	-	2,401,651	71,623,364	74,025,015
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss	-	1,582,363	-	1,582,363
Total liabilities measured at fair value	-	1,582,363	-	1,582,363
Liabilities for which fair values are disclosed				
Debt securities issued	-	15,198,518	-	15,198,518
Amounts due to credit institutions	-	-	34,136,035	34,136,035
Amounts due to customers other than credit institutions	-	-	12,478,991	12,478,991
Other liabilities	-	-	2,429,821	2,429,821
Total liabilities for which fair values are disclosed	-	15,198,518	49,044,847	64,243,365

Financial instruments not carried 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.

	1 January 2019			1 January 2018		
	Carrying amount	Fair value	Unrecognized gain (loss)	Carrying amount	Fair value	Unrecognized gain (loss)
Financial assets						
Cash and cash equivalents	1,507,476	1,507,476	-	2,401,651	2,401,651	-
Net loans receivable	90,027,021	86,694,185	(3,332,836)	74,786,441	70,665,315	(4,121,126)
Other assets	1,103,530	1,103,530	-	958,049	958,049	-
Total financial assets	92,638,027	89,305,191	(3,332,836)	78,146,141	74,025,015	(4,121,126)
Financial liabilities						
Amounts due to credit institutions	41,816,840	41,804,719	12,121	34,130,020	34,136,035	(6,015)
Amounts due to customers other than credit institutions	11,762,065	12,120,325	(358,260)	12,478,991	12,478,991	-
Debt securities issued	18,431,228	18,639,407	(208,179)	15,000,000	15,198,518	(198,518)
Other liabilities	2,659,621	2,659,621	-	2,429,821	2,429,821	-
Total financial liabilities	74,669,754	75,224,072	(554,318)	64,038,832	64,243,365	(204,533)
Total unrecognized change in the fair value			(3,887,154)			(4,325,659)

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 three months), it is assumed that their carrying amount approximates their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

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Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, 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, and obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt with similar terms, credit risk and remaining maturities.

12. Segment reporting

The Bank 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 of 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 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 same methods as those applied in making decisions on resource allocation between segments and performance assessment.

The breakdown of the Bank's assets and liabilities by operating segment in 2018 and 2017 is shown in the table below.

	<u>1 January 2019</u>	<u>1 January 2018</u>
Assets		
Corporate banking	31,609,776	21,065,395
Retail banking	50,831,866	49,014,315
In-house transactions	12,112,230	9,576,793
Total assets	<u>94,553,872</u>	<u>79,656,503</u>
Liabilities		
Corporate banking	4,343,154	3,436,075
Retail banking	2,148,128	1,871,444
In-house activities	68,458,151	60,313,938
Total liabilities	<u>74,949,433</u>	<u>65,621,457</u>

The analysis of the Bank's income and expenses by segment for the year ended 31 December 2018 and 2017 is shown in the table below.

	<u>2018</u>				<u>2017</u>			
	<i>Corporate banking</i>	<i>Retail banking</i>	<i>In-house activities</i>	<i>Total</i>	<i>Corporate banking</i>	<i>Retail banking</i>	<i>In-house activities</i>	<i>Total</i>
Revenue								
Interest income	2,849,944	7,338,636	460,581	10,649,161	2,500,790	7,469,829	424,880	10,395,499

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Fee and commission income	104,043	3,217,268	-	3,321,311	107,025	2,265,057	-	2,372,082
Total revenue	2,953,987	10,555,904	460,581	13,970,472	2,607,815	9,734,886	424,880	12,767,581
Expenses								
Interest expense	(1,294,168)	(3,226,507)	-	(4,520,675)	(856,950)	(2,542,169)	-	(3,399,119)
Fee and commission expense	(9,053)	(1,724,045)	(14,930)	(1,748,028)	(8,737)	(1,063,802)	(7,435)	(1,079,974)
Allowance for impairment	(403,908)	(725,581)	(6)	(1,129,495)	(12,727)	(114,783)	450,264	322,754
Non-interest expense (income)	(294,200)	(744,474)	(445,645)	(1,484,319)	(557,486)	(1,649,279)	(867,709)	(3,074,474)
Other administrative expenses	(406,467)	(1,033,820)	-	(1,440,287)	(391,430)	(1,161,188)	-	(1,552,618)
Total expenses	(2,407,796)	(7,454,427)	(460,581)	(10,322,804)	(1,827,330)	(6,531,221)	(424,880)	(8,783,431)
Profit (loss) before income tax expense	546,191	3,101,477	-	3,647,668	780,485	2,203,665	-	3,984,150
Income tax expense	(303,449)	(771,802)	-	(1,075,251)	(250,573)	(743,333)	-	(993,906)
Total net profit for the year	242,742	2,329,675	-	2,572,417	529,912	2,460,332	-	2,990,244

In 2018 and 2017, 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.

13. Information on compensation system

The Bank's compensation and benefit system is a key factor for motivating employees to be involved in achieving corporate objectives. The Bank's approach to compensation is focused on performance, compliance with the business strategy, securing competitiveness and efficiency of the incentive system.

Therefore, the Bank implements an action plan to develop the system of applied indicators, amend regulations governing authority and issues related to compensations to employees, including employees taking risk and employees of controlling departments.

Departments that monitor compensation, internal control and risk management systems, as well as finance and legal departments of the Bank are directly involved in this process.

Compensation system and procedures are governed by the *Regulation On Compensation to Employees*. This regulation is developed in accordance with the Labor Code of the Russian Federation, Russian law, the Bank's regulations and the Bank's local regulations. The regulation establishes procedure and system of compensations and incentives in order to increase the Bank's employees' material interest in high performance, higher efficiency and quality of work, responsibility for performance of work, as well as in order to comply with the principle of correlation between salary and personal contribution of employees to operating performance of the Bank.

The Regulation is applicable to all the Bank's employees, including:

- Members of the sole executive body, members of the collective executive body and members of committees of executive body
- Employees making decisions to perform operations or enter into other transactions / taking risks that may impact compliance with prudential ratios. The list of these employees is approved by the order of the Chairman of the Management Board
- Employees performing internal control functions
- Employees performing risk management functions

The regulation governs the procedure of calculation and payment of fixed and variable parts of compensation to employees.

Fixed part of compensation includes the amounts of the base salary, reimbursements, incentives and social payments not based on performance.

Variable part of compensation includes reimbursements, incentives and social payments based on performance.

Variable part of compensation is not guaranteed and depends on meeting target performance indicators (quantitative and qualitative) established for an employee to the extent of risks accepted by the Bank and profitability.

Compensation to employees of internal control and risk management departments is arranged in such a way that the fixed part comprises at least 50% in the total amount of compensation to employees of these departments.

All members of the executive bodies and employees performing risk taking functions are informed of short-term targets for the calendar year. The Compensation Committee analyzes annually the achievement of short-term and long-term targets at the beginning of the year following the calendar year. Following the analysis, the Bank's Board of Directors receives a recommendation for the decision to adjust and pay or not to pay the compensation, depending on the achievement of short-term and long-term targets.

The Bank measures current and future risks on the basis of short-term and long-term indicators specified in the internal

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regulatory documents. Upon expiry of a certain period, the Bank analyzes these indicators, and the collegial body of the Bank's Board of Directors decides to confirm or adjust the variable part of compensation paid to risk-taking employees. The characteristics and types of quantitative and qualitative indicators used by the Bank to account for these risks, including risks that are hard to assess, as well as the ways in which they impact the amount of compensation must be approved by shareholders and the Bank of Russia, and the Bank selects a confidentiality strategy for them in terms of disclosing them to third parties.

The compensation to employees of these departments is not linked to the financial performance of departments that make decisions to perform banking and other operations.

Total base salary, reimbursements, incentives and social payments are approved annually by the Bank's Board of Directors as part of annual approval of the budget and business plans.

Employees' compensation is annually aligned with the market level based on labor market review provided by an independent research company. When necessary, the compensation system, is upgraded based on recommendations. An independent assessment of the credit institution's compensation system is performed by the Compensation Committee (representatives of the parent companies of the three shareholders of the Bank) of the Bank's Board of Directors and by the Bank's Board of Directors. The current compensation system for the Bank's employees, including certain categories of risk-taking employees, was assessed as effective and meeting all objectivity and fair payment criteria, including the criteria and requirements of the local regulator.

In 2018, the Board of Directors did not revise the Bank's compensation system.

On 25 February 2016, based on the requirements of Instruction No. 154-I of the Bank of Russia *On Assessing a Credit Institution's Compensation System and Instructing a Credit Institution to Eliminate Irregularities in Its Compensation System* dated 17 June 2014, the Bank set up, on the basis of a decision of the Board of Directors, the Compensation Committee which is a permanent collegial body of the Board of Directors. The Compensation Committee is to organize, monitor and control the compensation system and to help the Board of Directors make decisions related to the organization, operation and assessment of the Bank's compensation system.

The Compensation Committee is responsible for the following matters:

- 1) Preparation of the decisions of the Board of Directors for the approval of documents on the procedure for determining the amounts of the base salary, reimbursements, incentives and social payments not based on performance (fixed pay) for the sole executive body and members of the collegial executive body (hereinafter, "members of the executive bodies")
- 2) Preparation of the decisions of the Board of Directors for the approval of documents on the procedure for determining the amounts, forms and accruals of reimbursements and incentives based on performance (variable pay) for the members of the executive bodies and other managers (employees) who make decisions on the Bank's operations and transactions that could affect the Bank's compliance with prudential ratios or lead to situations threatening the interests of depositors and creditors, including grounds for taking measures to prevent the Bank's insolvency (bankruptcy), and for the employees of departments engaged in internal control and departments engaged in identifying and assessing risks, determining their maximum values and the capital needed to cover them and monitoring compliance with the above limits at the level of individual portfolios, business activities and the Bank as a whole
- 3) Preparation of the decisions of the Board of Directors for the approval of the amount of the Bank's payroll
- 4) Preliminary review of suggestions made by departments engaged in internal control and risk management for improving the compensation system and preparation of the decisions of the Board of Directors, if necessary
- 5) Preliminary review of reports on the monitoring of the compensation system and preparation of the decisions of the Board of Directors with respect to its consideration
- 6) Preparation of information for the Board of Directors on large compensation payments recognized as such under the internal documents establishing the compensation system

As of 31 December 2018, the Compensation Committee of the Bank comprises four (4) members:

Mikhail Yurievich Alexeev – Chairman of the Board of Directors

Bruno Kintzinger – member of the Board of Directors

Graziano Cameli – member of the Board of Directors

Rakesh Kochhar – member of the Board of Directors

In 2018, the Compensation Committee held two meetings, and no compensation was paid to its members.

The Bank has an approved list of positions taking risks and employees that perform control and risk management functions.

As of 31 December 2018, the Bank has 8 risk-taking employees (4 of them are members of the Management Board).

Information on the Bank's structure of payments in 2018

Total amount of payments, including bonuses and compensations	483,805
Fixed part of compensation to risk-taking employees	17,065
Variable short-term part of compensation to risk-taking employees	122,265

In 2018, no adjustments were made to compensation and large payments to risk-taking employees.

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14. 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 and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions with the members of the Supervisory Board and the Management Board

Total compensations to the members of the Supervisory Board and the Management Board included in personnel expenses in 2018 and 2017 amounted to kRUR 98,792 and kRUR 88,699, respectively.

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 in the ordinary course of business. There is no increased risk of overdue debts 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 limited liability company (the Kingdom of the Netherlands) became the Bank's sole shareholder on 30 August 2013. The ownership interest in the Bank's share capital is 100.00%

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 above interests are shown without the interest of Renault S.A., France, in the share capital of Nissan Motor Co., Ltd., Japan, which was 43% as of 1 January 2019.

Shareholders	1 January 2019 BARN B.V.	1 January 2018 BARN B.V.
Other related parties with whom the Bank had transactions	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

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

1 January 2019	Shareholde rs	Other related parties	Insiders	Total
Assets				
Amounts due from credit institutions	-	10,918	-	10,918
Financial assets at fair value through profit or loss	-	207,129	-	207,129
Net loans receivable and similar debt	-	-	792	792
Other assets	-	479,189	2	479,191
Total assets	-	697,236	794	698,030
Liabilities				
Amounts due to credit institutions	-	28,356,840	-	28,356,840
Amounts in settlements	-	3,021	-	3,021
Amounts due to customers (other than credit institutions)	-	6,299,760	-	6,299,760
Current accounts of individuals	-	-	20	20
Financial liabilities at fair value through profit or loss	-	279,679	-	279,679
Other liabilities	-	1,479,428	-	1,479,428
Total liabilities	-	36,418,728	20	36,418,748
Claims and liabilities under derivative financial instruments				
	-	10,037,673	-	10,037,673
Claims under derivative financial instruments	-	5,022,426	-	5,022,426
Liabilities under derivative financial instruments	-	5,015,247	-	5,015,247

1 January 2018	Shareholde rs	Other related parties	Insiders	Total
Assets				
Amounts due from credit institutions	-	13,447	-	13,447
Financial assets at fair value through profit or loss	-	14,566	-	14,566
Net loans receivable and similar debt	-	-	314	314
Other assets	-	275,167	2	275,169
Total assets	-	303,180	316	303,496
Liabilities				
Amounts due to credit institutions	-	24,230,020	-	24,230,020
Amounts in settlements	-	385,506	-	385,506
Amounts due to customers (other than credit institutions)	-	7,392,269	-	7,392,269
Current accounts of individuals	-	-	16	16
Financial liabilities at fair value through profit or loss	-	1,182,076	-	1,182,076
Other liabilities	-	740,308	-	740,308
Total liabilities	-	33,930,179	16	33,930,195
Claims and liabilities under derivative financial instruments				
	-	21,463,733	-	21,463,733
Claims under derivative financial instruments	-	9,860,820	-	9,860,820
Liabilities under derivative financial instruments	-	11,602,913	-	11,602,913

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Income and expenses from transactions with related parties as of 1 January 2019 and 2018, respectively, are disclosed below:

1 January 2019	Shareholders	Other related parties	Key management personnel	Insiders	Total
Interest income	-	2,273,168	-	24	2,273,192
Interest expense	-	(3,548,656)	-	-	(3,548,656)
Changes in provisions for potential losses on loans and other assets	-	-	-	2	2
Net gains from financial assets at fair value	-	530,729	-	-	530,729
Net gains (losses) from dealing in foreign currencies	-	334	-	-	334
Net fee and commission income	-	768,083	-	-	768,083
Provisions for other losses	-	(1,455)	-	-	(1,455)
Other operating income	-	519	-	-	519
Operating expenses	-	(70,175)	(98,792)	-	(168,967)
Tax expense	-	(1,716)	-	-	(1,716)

1 January 2018	Shareholders	Other related parties	Key management personnel	Insiders	Total
Interest income	-	1,913,037	-	91	1,913,128
Interest expense	-	(1,661,491)	-	-	(1,661,491)
Changes in provisions for potential losses on loans and other assets	-	-	-	(1)	(1)
Net gains from financial assets at fair value	-	(1,682,831)	-	-	(1,682,831)
Net gains from securities available for sale	-	(88)	-	-	(88)
Net gains (losses) from dealing in foreign currencies	-	(151)	-	-	(151)
Net fee and commission income	-	145,277	-	-	145,277
Other operating income	-	1,255	-	-	1,255
Operating expenses	-	(352,589)	(88,699)	-	(441,288)
Tax expense	-	(54,433)	-	-	(54,433)

Chairman of the Management Board
Xavier Derot

19 March 2019



Chief Accountant
Darya Dolgorukova