
MAINTENANCE
FAIRNESS
LIABILITY
CARE
ACHIEVEMENT
AGREEMENT
INNOVAT
PERSEVERANCE
TRUST
SOLICITUDE
LOYALTY
RESOLUTION
FAIRNESS CONFIDENCE
SOLICITUDE
RSTANDING
WARMTH FAIRNESS
MENT PROGRESS
LIABILITY
FOCUS
GRATITUDE
HONESTY
UNION
RSHB
Russian Agricultural Bank
DEDICATION DETERMINATION TRUST SOULFULNESS

Boris Listov, Chairman of the Board and CEO of Russian Agricultural Bank





# CHAIRMAN'S STATEMENT

Dear customers, partners and investors,

For us at RusAg, 2019 was yet another year of intense activity and strong performance.

Working to reach the targets identified by our shareholder, we had to keep focus on a number of key objectives to be able to grow agribusiness financing, keep up momentum for our financial result and lay the groundwork for sustainable growth. We launched a digital transformation programme and made an important step forward to develop transactional business.

We earned RUB 4 billion in net profit, **2.6** times up from 2018, which came as a result of a consistent effort to grow business volumes, diversify, increase operating income and improve asset quality so as to achieve the targets set by our shareholder.

Our loan portfolio grew by **8 per cent** and reached **RUB 2.471 trillion**, displaying growth in both corporate and retail segments on the back of improved customer management (up **7.7 per cent** to **RUB 1.998 trillion** and up **9 per cent** to **RUB 473 billion** respectively).

For our bank, corporate customers are primarily agribusinesses. We are proud to say that the segment that is key for us is consistently improving its investor appeal. In 2019, it acted as a locomotive for the domestic economy, delivering national food security in the key food product categories, boosting agricultural exports and helping agricultural producers achieve higher returns. As agribusinesses are transforming into tech companies, we are making a significant contribution to the performance of domestic farmers.

With a supportive environment in place, this sector is able to launch new projects in production and processing, residential housing construction in rural areas, as well as sales and logistics. With our financial support, **387** investment projects worth more than **RUB 132 billion** were launched in 2019, **24 per cent** up from 2018. For over **20** years of operation we have built a unique industry expertise, which we are happy to share with our customers.

In 2019, we continued to adapt our digital products and services for agriculture, with a view to making a digital ecosystem for farmers operational in the near future.

As we prioritise small and micro business development in rural areas and work with the farming community, we have expanded our product line, tailoring it to the needs of farmers. We have offered a 'Farmer' card on special terms as well as 'Turn Farmer', a new loan product for those who are about to start their farming business. Through our support programme, small businesses are able to communicate with us to request a loan, an integrated financial service, or assistance in a product promotion as well as business advice. For farmers, we are the go-to bank.

Russian Agricultural Bank is predominantly a bank for people, and we are developing retail operations in urban and rural areas alike. Through competitive high-tech products we were able to grow the volumes of remote banking transactions, whereas a strong growth in our deposit and loan portfolios is a good indicator of customer confidence.

It would be impossible to improve business indicators and deliver on our plans to finance agribusiness (including SMEs) without growing our capital. 2019 plans to shore up our capital were implemented to the full extent. Alongside successful domestic placement of perpetual subordinated bonds worth **RUB 10.5 billion**, we increased our share capital by **RUB 29.6 billion**. Our equity at 2019 year-end stood at **RUB 199.3 billion** (up from **RUB 151.7 billion** in 2018).

In recent years, our loan portfolio quality has shown a sustainable positive trend on the back of efforts to settle problem debts in our loan book. In doing so, we, as the anchor bank for agribusiness, primarily aim to help the sector retain its assets through various strategies of financial recovery, including arrangements for leasing property to specialist investors. This helps us improve our financial result without putting pressure on production, processing or employment levels in rural areas.

Our team will continue to deliver on the targets set by our shareholder, support the national economy with a special focus on agribusiness and work for the benefit of our society and customers.

I wish to thank everyone who has contributed to our success and to acknowledge the effort of our closely-knit team, a team of like-minded professionals who are passionate and performance-driven.

We have every reason to feel proud as we look forward to our anniversary year 2020.

Yours sincerely,

Boris Listov
Chairman of the Board and CEO
Russian Agricultural Bank

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**Disclaimer**

This report contains certain forward-looking statements with respect to financial conditions, results of operations, and businesses of Russian Agricultural Bank. These statements involve risk and uncertainty, because they relate to events and depend upon circumstances that will occur in the future. There are numerous factors which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. The statements are based on current expected market and economic conditions, the existing regulatory environment and IFRS interpretations that are applicable to the past, current and future periods. Nothing in this report should be construed as a profit forecast.

# 1 BANK PROFILE

Joint stock company **Russian Agricultural Bank** (RusAg, the Bank) is one of the leading Russian banks, established in 2000 to facilitate the development of the national credit and financial system for agribusiness and rural areas. **100%** of the Bank's voting shares are owned by the Russian Federation represented by the Federal Agency for State Property Management.

RusAg is the key participant in the State Program for Agribusiness Development 2013-2025, including the mechanism of agribusiness subsidized lending as the form of state support of the agribusiness sector. The Bank is engaged in implementing the National Priority Projects, the State Program for Integrated Development of Rural Territories through 2025, the SME lending stimulation programs.

Engagement in these development and lending stimulation programs is in line with the Bank's strategic targets on diversifying its loan book while keeping focus on agribusiness.

Delivering its business model of the universal commercial bank, RusAg provides all types of banking services and holds the leading positions in agribusiness financing. The Bank's nation-wide branch network is the 3rd largest in Russia with 9.8 thousand points of sale, which span all Russian agricultural regions. RusAg's representative offices operate in Armenia, Belarus, Kazakhstan and China.

RusAg is among the largest and most stable domestic banks in terms of capital and assets.





## 1.1 STRATEGIC FOCUS AREAS

Strategic focus areas in the Bank's development are (1) functioning as a market-based tool for the support of agribusiness, contributing to its technological re-equipment and enhancing the sector export capacity, (2) developing small businesses in rural areas, (3) providing retail clients and key Russian economic sectors with modern tech-based financial and non-financial services and products.

**Strategic objectives to 2020 inclusive**

In delivering on its strategic objectives, RusAg will have to work in an environment shaped by the COVID-19 pandemic, the growing volatility on the global markets and a realignment of policy priorities by the Russian government. Whatever the scenario, excellent customer service and lending to agribusiness will remain absolute priorities for the bank.

***Maintaining leadership in financing and servicing agribusiness and related sectors***
By financing agribusiness, RusAg aims to deliver national food security, grow actual investment and added value created by agriculture, boost exports of agricultural produce and develop the resources of rural households.

In 2019, RusAg supported agribusinesses and related sectors by providing investment and working capital lending to all the types of entities (including seasonal work). RusAg's lending to the sector is growing with every year as the bank finances seasonal work and supports investment projects that help grow and refurbish production and facilitate preferential lending. Given its extensive expertise in agribusiness, RusAg is building up its status as the anchor bank for the sector in an increasingly competitive environment. In 2019, it was the first bank to start financing agricultural exporters under a new preferential lending programme. RusAg diversifies its product range on an ongoing basis and fully meets the challenges of the sector development and customer needs.

***Diversifying income sources by strengthening RusAg's position in financing and servicing the priority sectors of Russia's economy and its people***
Aiming to grow its interest income and transactional revenues, in 2019 RusAg expanded its services for agricultural producers, businesses in other priority sectors, SMEs, individuals, including in small- and medium-sized urban and rural locations. In addition to reaching out to new clients, both corporate and individual, the bank is improving the quality of its customer base. Customer relation development received further support from an upgrade of the bank's product range and enhanced sophistication of customer service.

***Cementing RusAg's position as a cost-efficient, trustworthy and high-tech financial institution***
In 2019, RusAg delivered consistent growth in operational efficiency by improving internal processes, introducing innovative financial technologies and solutions, upgrading and accelerating its business processes. Working to develop its products and services, RusAg maintained a focus on digitisation, enhancing the quality and speed of customer service in lending and transactional business. This, coupled with better management of overdue receivables, helped the bank boost its net profit more than 100 per cent compared to 2018.

**The Strategy through 2020**

Delivering the Strategy and the business model of a universal commercial bank helps RusAg meet state objectives in agribusiness and other priority sectors, ensure the Bank's sustainable development and competitiveness, comply with regulatory requirements and reach profitability targets.

**2020 Strategy implementation status**

In April 2016, RusAg's Supervisory Board approved a new version of the 2020 Strategy.

The key strategic lines of RusAg development include acting as an instrument of the state support for agriculture; facilitating technological refurbishment and stepping up the export potential of agribusiness; developing small business in rural areas; providing residents and clients in the key sectors of the Russian economy with up-to-date, hi-tech financial and non-financial services and products.

The Strategy establishes quantitative and qualitative development indicators, including financial and non-financial. Business planning is done annually on the basis of strategic indicators. The bank monitors Strategy implementation semi-annually and makes the relevant management decisions.

In terms of 2019 performance indicators and the way they were evolving, the bank was generally compliant with its Strategy targets.

**2019 highlights:**
- RusAg ensured stable positive dynamics of its loan portfolio;
- RusAg significantly improved the quality of the loan portfolio;
- RusAg retained its leadership in agribusiness financing in terms of market share (**30%**);
- RusAg's market share in seasonal work financing stood at **70.4%** as of January 1, 2020 (in 2019, the Bank allocated **RUB 381 billion** for this purpose, up by **17%** from 2018);
- RusAg's net profit for the year came in at **RUB 4 billion**;
- The Bank's retail client pool increased by **2%** to **6.2 million**.

**RusAg Long-Term Development Programme**

In December 2016, RusAg's Supervisory Board approved a new version of JSC Rosselkhozbank Long-Term Development Programme 2014-2020 (LTDP).

LTDP was in due course approved by the relevant federal executive authorities (Ministry of Agriculture, Ministry of Finance, Ministry of Economic Development, Federal Agency for State Property Management, Expert Council of the Government of the Russian Federation) and by the Russian Government.

**Key goals and objectives**

As LTDP is designed to deliver on RusAg Strategy development targets, it decomposes the key provisions of the Strategy into a set of key actions to be taken over the period up to 2020 inclusive across all key business lines of the bank.



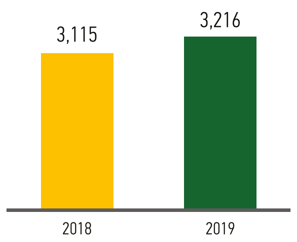
**Actions taken to implement LTDP in 2019**

To achieve its strategic goals, RusAg took the following actions:
- Developed its credit process and risk management system
- Transformed its operational model
- Increased customer management efficiency
- Grew its non-interest income
- Improved business support efficiency.

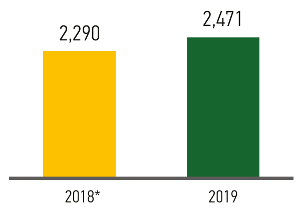
RusAg delivered on the actions listed in its LTDP and scheduled for 2019.

## 1.2 KEY FINANCIAL PERFORMANCE INDICATORS[1]

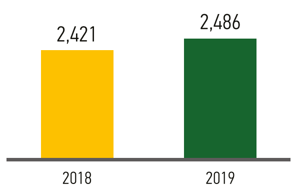
**Assets, RUB bln**



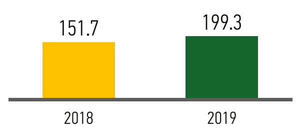

**Gross Loan Portfolio, RUB bln**



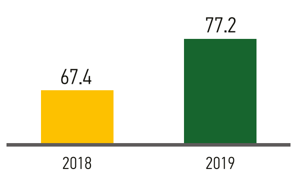

**Customer Accounts, RUB bln**



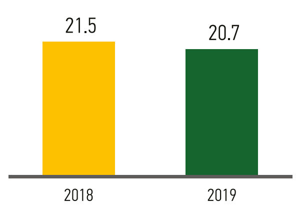

**Equity, RUB bln**



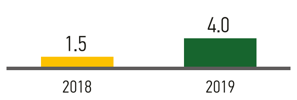

**Net Interest Income, RUB bln**



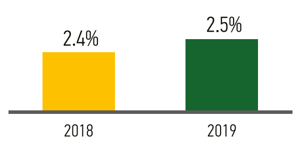

**Net Fee and Commission Income, RUB bln**




**Net Profit / Loss, RUB bln**




**Net Interest Margin, %****




[1] Source: Audited Consolidated Financial Statements (IFRS) of Russian Agricultural Bank Group (Russian Agricultural Bank and its subsidiaries) as of December 31, 2018 and December 31, 2019.
* Note: data reflects the impact of transition to IFRS 9.
** Bank calculations.





## 1.3 MARKET POSITION[2]

Russian Agricultural bank is one of the most reliable Russian banks. It ranks among top national banking sector players by capital and assets size.

**RusAg ranks among the Top-5 largest financial institutions in Russia:**
- Leader in seasonal work financing and long-term lending to agribusiness
- Third largest branch network
- Fourth by retail deposits and corporate loans
- Fifth by corporate deposits
- Fifth by retail lending.

As the main lender to Russian agribusiness, RusAg possesses unparalleled knowledge of this specific market and one of the largest nation-wide branch networks with over 10 thousand points of sale, covering **61.5%** of the country's territory.

In 2019, the Bank maintained the leading position as a major lender to the key agribusiness sub-sectors (by the size of its loan portfolio):
- **39.9%** market share in “Agriculture, Hunting and Related Services”
- **16.7%** – in “Food Production, including Beverages and Tobacco”
- **18.1%** – in “Manufacturing Machinery and Equipment for Agriculture and Forestry”.

In lending to agricultural industry as a whole, the market share of the Bank exceeds **30%**, dominating in seasonal work financing: by the end of 2019 the market share of the Bank (by loan issuance) amounted to more than **70%** and up to **100%** in a number of regions.

The Bank offers a wide range of financial products and services oriented on the target market and its wide regional coverage. RusAg’s local presence provides a significant market advantage, as well as ensures access to the regional client base. The Bank serves over 6.6 million customers nationwide.

RusAg's market share in key market segments as of January 1, 2020:
- **5.5%** – corporate loans (non-financial institutions)
- **4.4%** – corporate customer accounts
- **3.8%** – retail customer accounts
- **2.6%** – retail loans.

Russian Agricultural Bank is focused on maintaining a confident position on the international financial market by continuing to cooperate with its business partners, institutional investors, and credit rating agencies.

Russian Agricultural Bank is ranked No. 224 among Top-1000 banks globally in terms of Tier 1 capital according to the July, 2020 issue of “The Banker” magazine.

[2] Source: Audited Consolidated Financial Statements (IFRS) as of December 31, 2019, RusAg calculation as of January 1, 2020 in accordance with RAS and the Bank of Russia algorithm for calculating indicators of the aggregated balance sheet of the 30 largest Russian banks, Bank of Russia, Ministry of Agriculture of Russia, Expert RA rankings under RAS as of January 1, 2020 and the Banker.

## CREDIT RATINGS[3]

The Bank's credit ratings are assigned by:

**Fitch Ratings**

| | | |
|---|---|---|
| **Long term issuer default rating** BBB- Stable Outlook | **Short term issuer default rating** F3 | |
| **Senior unsecured debt** BBB- | | |
| **Viability rating** b- | **Support rating** 2 | **Support Rating Floor** BBB- |

On 19 August 2019, Fitch Ratings upgraded RusAg's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) from 'BB+' to 'BBB-'. The Outlooks are Stable. The rating action follows Russian sovereign rating upgrade. RusAg's Long-Term Foreign Currency IDR and Support Rating Floor (SRF) of 'BBB-' reflect Fitch's view on strengthening of Russia's financial flexibility, and therefore ability to provide support, in case of need.

RusAg's IDRs are driven by sovereign support and reflect its **100%** state ownership, policy role, record of state capital injections and the reputational/economic risks to Russia of withholding support, if required by the bank.

**Moody's Investors Service**

| | | |
|---|---|---|
| **Long term debt** Ba1 Stable Outlook | **Short term senior debt** Ba1 | |
| **Long term deposit** Ba1 Stable Outlook | **Short term deposit** Not Prime | **Baseline Credit Assessment** B3 |
| **Long Term Counterparty Risk** Ba1 | **Short Term Counterparty Risk** Not Prime | |

[3] As of April, 2020





On 12 February 2019, Moody's upgraded the local and foreign currency long-term bank deposits, and senior unsecured debt ratings of Russian Agricultural Bank. The rating action follows Moody's upgrade of Russia's sovereign debt rating to Baa3 from Ba1 on February 8, 2019. The outlooks on RusAg's ratings have been changed to stable from positive(m).

**ACRA (Analytical Credit Rating Agency, Russia)**

| |
|---|
| **Credit rating (national scale)** AA(RU) Stable outlook |

On 7 April 2020, ACRA affirmed the credit rating assigned to JSC Russian Agricultural Bank and its bond issues as the main components of the assessment are maintained, in particular the high systemic importance of the credit institution for the Russian economy and the very strong degree of the state influence on the Bank.

## MEMBERSHIP AND COOPERATION

Russian Agricultural Bank  is an active member of the Association of Banks of Russia (Association "Russia"), National Finance Association (SRO NFA), FinTech Association, Cash and Valuables Management Association (ANDO), Russian-Chinese Business Council (RCBC), US-Russia Business Council (USRBC), the Canada Eurasia Russia Business Association (CERBA), the International Confederation of Agricultural Credit (CICA), National financial association, and the Russian National SWIFT Association (ROSSWIFT), which underpins the Bank's potential to strengthen its positions both in the Russian Federation and abroad, and to attract clients who carry out major projects in agribusiness and related industries.

Representatives of the Bank participate in international financial congresses, conferences, forums and meetings, which allow to receive information on various innovations and best practices in the banking sector and contribute to further strengthening and development of RusAg's bilateral relations with counterparties.

## 1.4 2019 HIGHLIGHTS[4]

| | | |
|---|---|---|
| **January**<br>— Based on the results of 2018, RusAg entered Top 5 in the Russian Bonds League Tables prepared by Cbonds. RusAg also secured fifth places in the Underwriters League Table for Market Bonds and Bookrunners League Table for Corporate bonds. | **February**<br>— On February 12, Moody's upgraded RusAg's long-term bank deposit rating from Ba2 to Ba1.<br>— RusAg and Russian Export Center signed a Cooperation agreement as part of acceleration programs for Russian agribusiness producers. | **March**<br>— RusAg and the St. Petersburg State University of Economics signed a Cooperation agreement stipulating practical internships for the best students, professional upgrades and retraining events for the Bank's employees. |
| **April**<br>— RusAg and China-based Longjiang Bank Corporation agree to facilitate a cross-border financial platform.<br>— A share capital increase of RUB 15 bln.<br>— Boris Listov was awarded the title "Honored worker of agribusiness of Russia".<br>— ACRA affirmed RusAg's credit rating at AA(RU) with a Stable outlook. | **May**<br>— Boris Listov, Chairman of the Board and CEO of RusAg, was awarded a badge of honor by the Association of Banks of Russia "For the contribution to the Russian banking system development" and for the personal contribution to the strengthening of the Association. | **June**<br>— RusAg and the Republic of Sakha (Yakutia) signed a Cooperation Agreement.<br>— RusAg and "The Monocities Development Fund" signed a Cooperation agreement. |
| **July**<br>— RusAg acted as an official partner the 3rd Global Fishery Forum & International exhibition for fishery, seafood and know-how. | **August**<br>— RusAg and the Orel region signed an Agreement aimed at comprehensive development of the local agriculture and rural areas.<br>— On August 19, Fitch upgraded RusAg's Long-Term Ratings from 'BB+' to 'BBB-'. The Outlooks are Stable. | **September**<br>— RusAg and China Overseas Development Association (CODA) signed a Cooperation agreement for implementation of investment projects in Russian agribusiness. |
| **October**<br>— RusAg and the National Research University - Higher School of Economics (HSE) have launched a joint project and presented a research of global agribusiness trends in three sub-segments.<br>— RusAg acted as the general sponsor of the I International Agribusiness Forum (IAF-2019). | **November**<br>— RusAg became an official sponsor of the XII International Forum Russian Bullion Market, RBF-2019 held on 21 November 2019 in Moscow. | **December**<br>— RusAg became the first Russian bank to place perpetual subordinated bonds worth Euro 150 mln.<br>— A share capital increase of RUB 14,635 bln.<br>— RusAg and the Corporation for Development of Yenisei Siberia signed a Cooperation agreement. |

[4] More detailed information can be found at **https://www.rshb.ru/en/**

2

# A MACROECONOMIC SURVEY

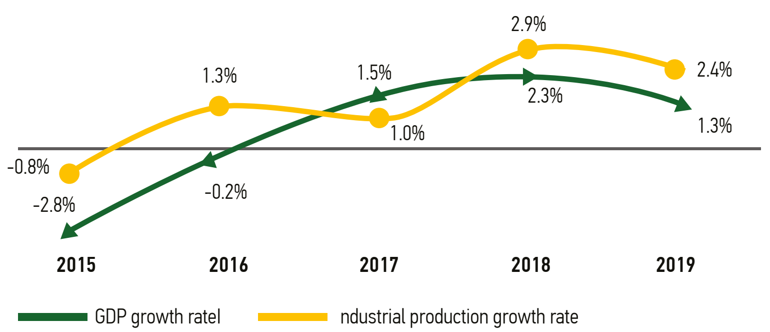
## 2.1. RUSSIAN ECONOMY IN 2019

In 2019 global economic activity continued to slow down amid escalating of trade tensions between the world's largest economies. By expert estimates, in 2019 – for the first time since 2009 – the global economy achieved less than **3 per cent** growth as global uncertainty put pressure on investments and demand for commodities, including oil.

May 2019 marked the onset of an overall downward adjustment of oil prices in a context of global recession and growing trade tensions between the US and China. The average price for Urals in 2019 was **USD 63.59** per barrel, almost **9.2 per cent** down from previous year.

The Russian economy showed a positive trend in 2019, delivering positive growth in Q3 and Q4 after grinding practically to a halt in H1. Russia's GDP grew **1.3 per cent**, driven primarily by such real sectors as industry (**+2.4 per cent**) and agriculture (**+4 per cent**) (Source: Rosstat).

**GDP dynamics, in % to the previous year**

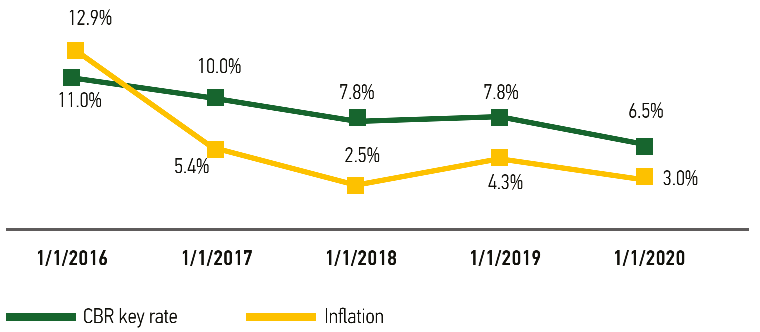



*Source: Russian Statistics Service (Rosstat)*
*Retrospective data for 2015-2017 has been revised to take account of All-Russia Agricultural Census*

The Russian rouble entered the top league of the emerging market currencies. Despite falling oil prices, it gained almost **12 per cent** against the US dollar, demonstrating national economy's resilience to global economic volatility. The rouble was additionally propped up by foreign investors' declining sensitivity to the risks of anti-Russian sanctions tightening. In 2019, the major rating agencies (Fitch, S&P and Moody's) confirmed or raised their sovereign ratings for Russia to investment grade.

Annual inflation in Russia was **3 per cent**, one percent below the Central Bank target. A slowdown in domestic inflation expectations helped significantly ease the regulatory policy in the monetary market and cut the policy rate down to **6.5%** (by 125 bp) (Source: Rosstat).

**Inflation and key rate dynamics**




*Source: Russian Statistics Service (Rosstat), Bank of Russia*

## 2.2. RUSSIAN BANKING SECTOR IN 2019

Loan market growth was mainly driven by retail lending, a segment contributing c. **80 per cent** to total loan growth (up from max. **50 per cent** in 2018), amid policy rate cuts and, consequently, falling lending rates. In Q4 retail loan portfolio growth slowed down to **+18.6%** (against **+22.8%** YoY) after 1 October 2019, when the Central Bank introduced a macro-prudential debt burden standard in a move to disincentivise lending to over-leveraged individuals. Accordingly, the percentage of bad debts in the loan portfolio went down (**-0.8 pp** for 2019).

Corporate lending, performing sluggishly throughout the year, slowed down to **+5.8%** from 2018 and registered **4.5 per cent** growth in lending to non-financial organisations (this and other figures below are net of currency revaluation). Albeit corporate loans achieved a somewhat higher level of quality in Q4, the percentage of overdue debts stayed high (**7.8%**), driving up competition for high-quality borrowers and making banks develop more attractive financial and non-financial terms for the best large businesses and SMEs.

**Key Indicators of the Russian Banking Sector**

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Assets | -1.6% | 3.4% | 9.0% | 6.9% | 5.2% |
| Corporate Loans (excl. credit organizations) | 2.5% | -1.8% | 3.7% | 5.8% | 4.5% |
| Retail Loans | -6.3% | 2.5% | 13.2% | 22.8% | 18.6% |
| Corporate Deposits (excl. credit organizations) | 2.7% | -1.7% | 4.8% | 6.0% | 4.4% |
| Retail Deposits | 16.8% | 11.8% | 10.7% | 6.5% | 10.1% |

*Source: Bank of Russia, excl. the effect of FX revaluation*

The inflow of retail deposits stayed strong throughout the year, much stronger than in 2018 (**+10.1%** vs **+6.5%**). Retail deposits with banks are gradually bouncing back after a decline post 2018 whereas total corporate deposits and accounts gained **4.4 per cent** (cf. **+6.0%** in 2018).

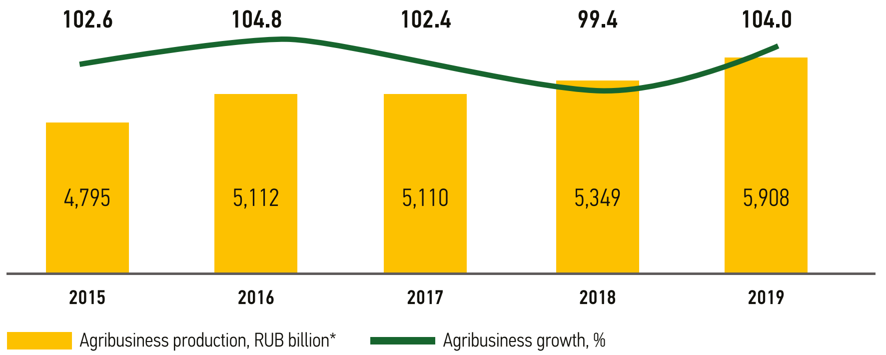




## 2.3. RUSSIAN AGRIBUSINESS IN 2019

In 2019, agribusiness acted as a key driver of the national economy, boosting production by **4.0%** and delivering the best result in terms of growth across the basic sectors of the economy (Source: Rosstat).

**Agribusiness Sector Output**




*Source: Russian Statistics Service (Rosstat)*
**Retrospective data for 2015-2017 has been revised to take account of All-Russia Agricultural Census*

Agribusiness growth was mainly driven by strong crop production. Farms across all types and categories produced **6.5 per cent** more grains and legumes; 1**8.4 per cent** more sunflower; **20.7 per cent** more sugar beet and **2.5 per cent** more vegetables, compared to 2018 (Source: Rosstat). Animal husbandry also displayed a positive, if multidirectional, trend. Meat production (in live weight) continued to fall (to **3.0%** from **3.9%**) mirroring sluggish growth in poultry and cattle production, but milk production showed faster growth (**4.4%** against **3.6%**).

Agricultural exports reached **USD 25.5 billion** which is a **1.2%** growth as compared to 2018 (**USD 24.7 billion**) (Source: Russian Ministry of Agriculture). Grain exports declined in 2018/19 marketing season, while other key agribusiness commodities showed upward dynamics with the strongest export growth posted by oil and fat, meat and milk expanding by over **25%**.

3

# PERFORMANCE OVERVIEW

## 3.1 FINANCIAL AND OPERATING PERFORMANCE[1]

In the reporting period, Russian Agricultural Bank Group (Russian Agricultural Bank and its subsidiaries; hereafter – the Bank, RusAg) presented strong performance across its core businesses showing both loan growth, while continuing to enhance asset quality, and boosting its funding base via attracting funds from core segments – corporate and retail clients. Moreover, RusAg has successfully delivered on the tasks of reinforcing its capital and improving the bottom-line result.

In 2019, the Bank's gross loan portfolio went up **7.9%** reaching **RUB 2.5 trillion**. Corporate loans (including loans to customers measured at fair value through profit or loss) rose by **7.7%** from YE2018 and amounted about **RUB 2 trillion**. Retail loans grew by **8.9%** and totaled **RUB 473 billion**.

RusAg's assets amounted to over **RUB 3.2 trillion**, which is a **3.2%** growth from YE2018.

An active client services development, including Internet and Mobile banking, an upgrade of existing and roll-out of new deposit, card and transaction products, supported an increase in RusAg's client and funding base. Deposits and customer accounts in 2019 grew by **2.7%** and added up to **RUB 2.5 trillion**. Current and settlement accounts grew **21%** up to **RUB 342 billion**. The share of customer funding in the Bank's total liabilities stood at **82.4%**.

In 2019, RusAg showed a solid operating profitability boosting its net profit. Net interest and fee and commission income grew by **10.1%** to **RUB 97.9 billion** from **RUB 88.9 billion** for the previous year. Net profit for the year grew **2.6x** times over 2018 up to more than **RUB 4.0 billion**.

The Bank has carried out all the measures to replenish its equity according to the plan. In addition to successfully placing perpetual subordinated bond in the local market in the equivalent of **RUB 10.5 billion**, RusAg received share capital injections totaling **RUB 29.6 billion**. The Bank's equity amounted to **RUB 199.3 billion**, which is over **30%** growth as compared to YE2018.

During the reporting period, RusAg implemented the policy measures aimed at increasing efficiency in focus areas, including: lending technology, product range, regional network, sales and service channels, personnel, information technology, and management system.

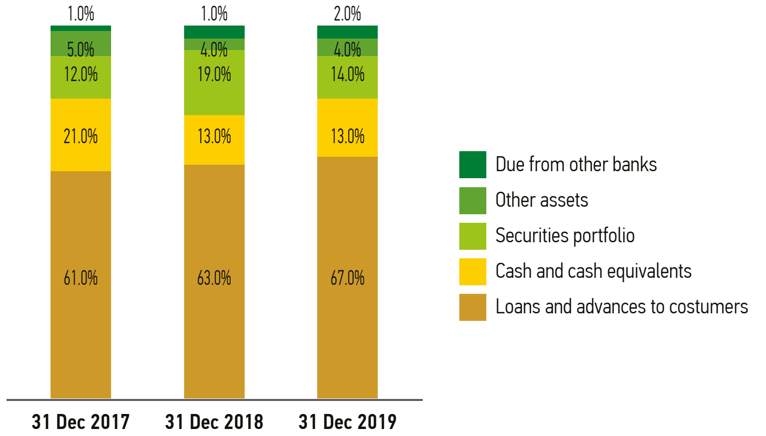
[1] Note: Financial data in this section is prepared under Audited Consolidated Financial Statements (IFRS) of Russian Agricultural Bank Group (Russian Agricultural Bank and its subsidiaries) as of 31 December 2019. All data in percentage (%) terms is calculated based on Russian ruble-denominated financial results. Some detailed information on Russian Agricultural Bank's business performance is prepared under RAS as of 1 January 2020.





## ASSETS AND LIABILITIES

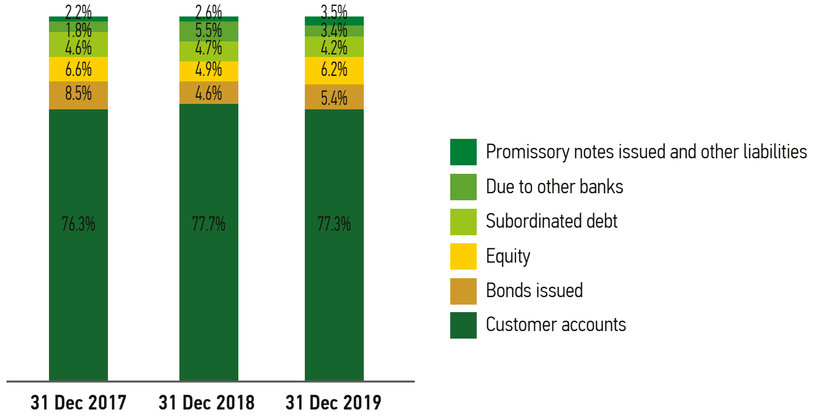
**Asset Structure**




During 2019, RusAg's total assets grew **RUB 101 billion** (**+3.2%**) and totaled **RUB 3.216 trillion**. The Bank's assets pattern is biased toward corporate and retail loans (**67%**), which indicates a high degree of customer loyalty. As at 31 December 2019, the Bank's net loans and advances to customers amounted to **RUB 2.165 trillion**, which is **RUB 207 billion** (**+10.6%**) over the level of the previous year.

Net investments of the Bank in securities and other financial assets as of 31 December 2019 amounted to **RUB 454.3 billion** or **14%** of the total assets. Cash and cash equivalents accounted for **13.2%** of the Bank's total assets, amounts due from other banks – **1.6%**.

**Funding Structure**



In the reporting period, RusAg kept a balanced liabilities structure and comfortable liquidity cushion.

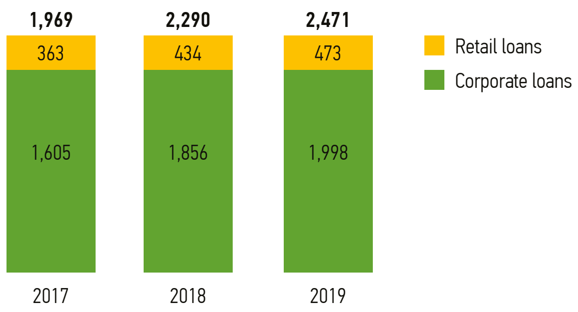
The share of customer accounts in total liabilities and equity amounted to **77%**. The volume of customer accounts in 2019 increased by **RUB 65 billion** (**+2.7%**) and amounted to **RUB 2.486 trillion**. The loan-to-deposit (LTD) ratio stood at **99.4%** as at 31 December 2019.

RusAg's equity amounted to **RUB 199.3 billion** as compared to **RUB 151.7 billion** at YE2018 (**+31.3%**).

## LOAN PORTFOLIO

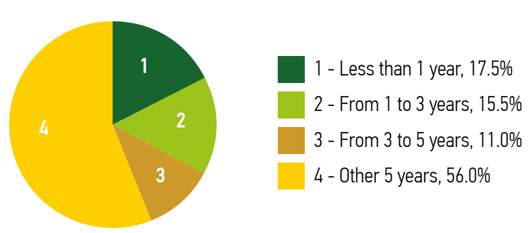
In 2019, RusAg showed a sustainable upward trend in corporate lending while retaining high market shares in lending to agribusiness with a specific focus on enhanced asset quality. The Bank's gross loan portfolio went up **RUB 180.8 billion** (**+7.9%**) reaching **RUB 2.471 trillion**.

**Loan Portfolio Structure, RUB billion**




The principal portion of the Bank's gross loan book is traditionally made up of corporate loans, which accounted for **81%** of the total portfolio as of YE2019. Corporate loans (including loans to customers measured at fair value through profit or loss) added **RUB 142 billion** (**+7.7%**) from YE2018 and totaled **RUB 1.998 trillion**.

**Corporate Portfolio Split by Maturity[2]**




[2] Data is prepared under RAS as of 1 January 2020.





The major share of the Bank's lending falls on borrowers in the agricultural sector. In 2019, financing for domestic agribusinesses from RusAg exceeded **RUB 1.3 trillion**, including seasonal field works financing of **RUB 381.2 billion** (**+17%** over the level of 2018), lending to farmers in the amount of **RUB 15.6 billion** and personal households – **RUB 631 million**.

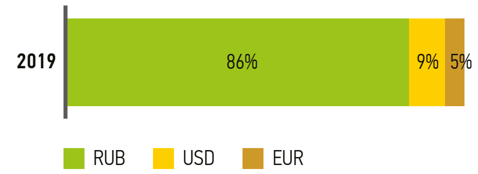
RusAg provides financial support to export-oriented agricultural companies. As of 1 January 2020, the portfolio of such loans amounted to **RUB 225.7 billion** (**+17.1%** year-on-year). During 2019, the Bank extended loans to export-oriented agricultural companies in the amount of **RUB 241.5 billion**, which is **21.6%** more than the year before.

In 2019, the Bank allocated **RUB 202.2 billion** for the development of small and medium-sized enterprises (SMEs), while **RUB 181.4 billion** were allocated to agricultural borrowers. In total, since the Bank started operating, it has issued loans to SMEs in the amount of **RUB 3.2 trillion**, including more than **RUB 2.2 trillion** to agribusiness.

RusAg's retail loan portfolio grew by **RUB 38.8 billion** (**+8.9%**) to **RUB 473 billion** as at 31 December 2019. The Bank's market share in retail lending – **2.3%**. In 2019, the Bank was one of the leaders in terms of mortgage lending – **RUB 89.0 billion** for such loans were issued.

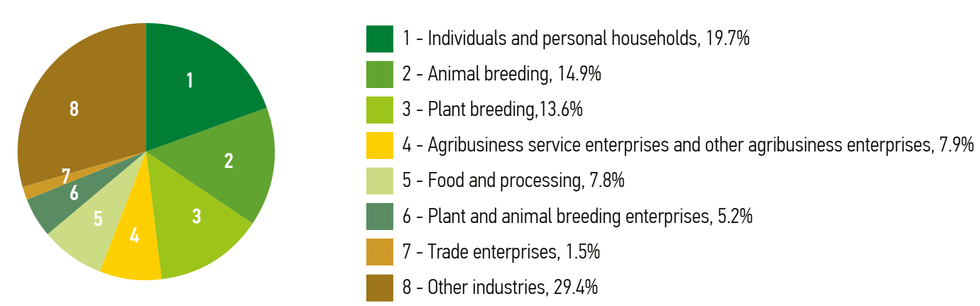
As at 31 December 2019, the share of loans to ten largest borrowers (groups of borrowers) amounted to **26%** of total loans and advances to customers before impairment.

**Loan Book Currency Structure**

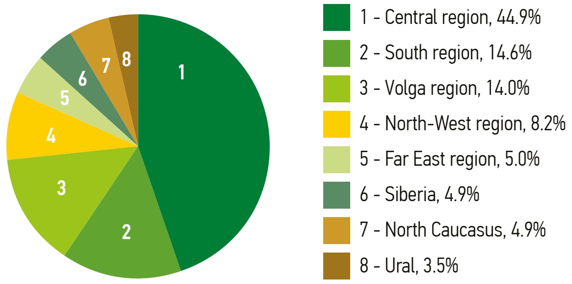



The Bank's loan portfolio is well-diversified within the agribusiness sector (includes over 20 sub-sectors) and related industries, as well as in the sectors prioritized by the Government.

**Loan Portfolio Diversification by Sector**



**Loan Portfolio Diversification by Region**




## LOAN BOOK QUALITY

RusAg made further progress towards enhancing its loan book quality. In 2019, the Bank decreased charges for loan impairment provisions to **RUB 39.6 billion** from **RUB 58.6 billion** a year earlier.

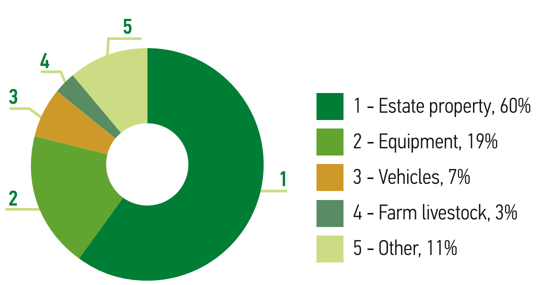
RusAg takes measures to decrease the level of impaired loans through financial restructuring, assignment of rights of claim, sale of pledged assets, write-offs. The Bank consistently reduces the amount of problem loans on its balance sheet. In 2019, NPL90+ loans amounted to **11.7%** as compared to **14.9%** a year earlier.

The Bank accepts different types of collateral, such as: real estate, land plots, equipment, including agricultural machinery, motor vehicles, inventories (finished products, raw materials, goods in turnover), construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of the Russian Federation and municipal guarantees.

Among other measures aimed at credit enhancement is the Bank's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation with the Bank.

RusAg monitors the condition and reviews the structure of the collateral.

**Loan Portfolio Collateral Structure**



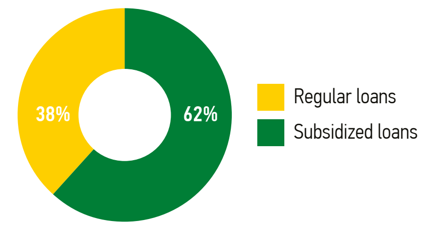





## SUBSIDIZED LENDING

RusAg is a key participant in the mechanism of lending to agricultural producers at a reduced rate (concessional lending), implemented under the State Program on Agribusiness Development (Decree of the Government of the Russian Federation as of 29 December 2016 № 1528), and maintains a leading position in the market.

**Share of Subsidized Loans in RusAg's Corporate Loan Portfolio**



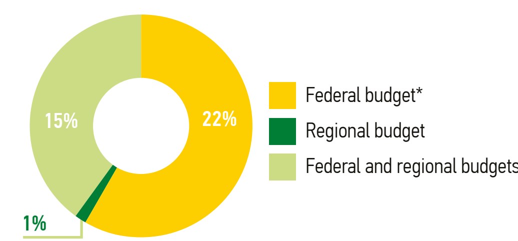

Within the framework of the concessional lending mechanism, subsidies are provided directly to authorized banks as a contribution for lost income (in the amount of **100%** of the Bank of Russia key rate on loans issued in 2017-2018, and **90%** – on loans issued in 2019 and subsequent years).

In 2019, a new measure was introduced using the concessional lending mechanism aimed at supporting agribusiness companies that have concluded agreements on improving competitiveness (Decree of the Government of the Russian Federation as of 26 April 2019 № 512, shortlisting started in September 2019), the amount of subsidies stipulated in 2019 – **RUB 20.7 billion**.

RusAg became the first authorized bank to conclude an agreement (in August 2019) with the Russian Ministry of Agriculture on the implementation of the concessional lending mechanism for companies that entered into agreements on improving competitiveness.

The significance of credit instruments in state support of the agricultural sector is growing: the share of subsidies for concessional lending to agribusiness companies in the total funding of the State Program on Agribusiness Development increased from **23%** in 2019 to **32%** in 2020.

**Sources of Subsidies**



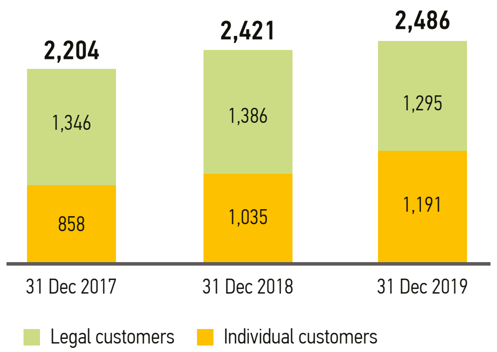

**Note: Including 19.9% under the Russian Ministry of Agriculture Program and 0.7% under Russian Ministry of Economic Development Program.*

Overall, the Group reinforced both its capital and liquidity cushions, which created additional opportunities for expanding lending to Russia agribusiness and other prioritized sectors. RusAg will continue to grow financial support of agricultural producers, including in the framework of the new subsidized lending procedures, thereby promoting better efficiency and production capacity in agribusiness, and enhancing the country's export potential.

## CUSTOMER BASE

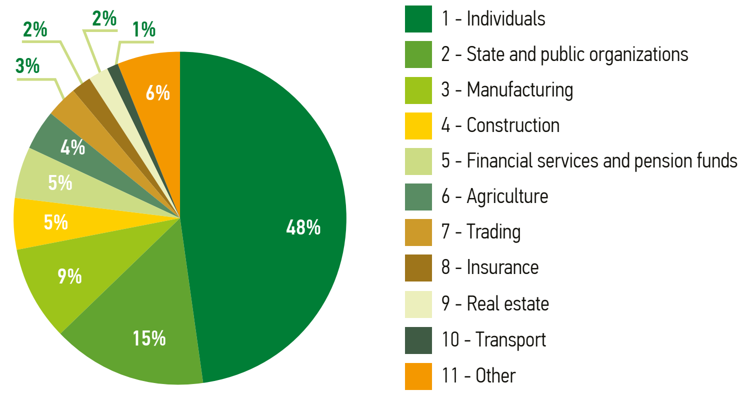
Active client services development, including Internet and Mobile banking, upgrade of existing and roll-out of new deposit, card and transaction products, supported an increase in the Bank's client and funding base. Adding modern competitive hi-tech products to the Bank's product suite underpinned a larger number of transactions carried out via remote banking channels and a rise in current and settlement account balances.

**Deposit Growth, RUB bln**




Deposits and customer accounts in 2019 grew by **RUB 65.1 billion** (**+2.7%**) and added up to **RUB 2.486 trillion**. As at YE 2019, corporate customer accounts (excluding state and public entities) came in at **RUB 911.5 billion**, expanding by **15%** (**+RUB 118.9 billion**).

**Customer Accounts by Sector**

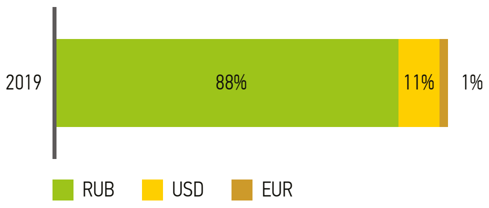







To maintain a stable and diversified funding mix, the Bank has significantly reduced funding attracted from state and public organizations down to **RUB 383.1 billion**. Retail deposits and customer accounts grew **RUB 156.6 billion** (**+15.1%**) from YE 2018 and amounted to **RUB 1.191 trillion**. Current and settlement accounts grew **21%** up to **RUB 342 billion**.

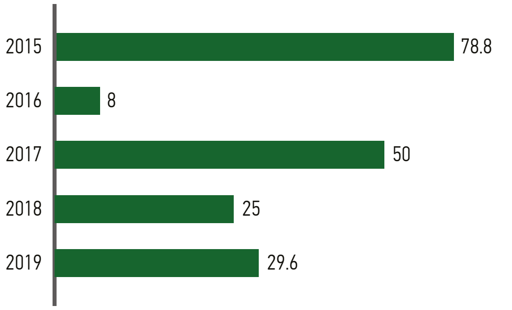
**Customer Accounts Currency Composition**




## CAPITAL

In 2019, the Bank has carried out all the measures to replenish its equity according to the plan. In addition to successfully placing perpetual subordinated bond in the local market in the equivalent of **RUB 10.5 billion**, the Bank received share capital injections totaling **RUB 29.6 billion**. Consequently, the Bank's share capital amounted up to **RUB 439.5 billion** (nominal value) and total capital reached **RUB 506.2 billion** (in accordance with Basel III).

**Share Capital Growth, RUB bln**




*Note: 19 capital injections in 2000-2014 for the total amount of RUB 248.05 billion; a total of 29 contributions to the Bank's capital from the date of its establishment to the present.*

## CAPITAL ADEQUACY RATIOS

During 2019 the Bank's capital adequacy ratio exceeded the minimum level as required by the Bank of Russia Regulation № 646-P Methodology for Capital Adequacy Calculation by Credit Organizations (Basel III) and the Bank of Russia Instruction № 180-I Methodology for Mandatory Prudential Ratios Calculation by Banks.

| Bank of Russia Basel III Capital Ratios | YE 2019[3] | Min. Ratio | Extra buffers[4] | Min. incl. buffers |
|---|---|---|---|---|
| CET1 Ratio (N1.1) | 9.9% | 4.5% | 2.8% | 7.3% |
| Tier1 Ratio (N1.2) | 11.3% | 6.0% | 2.8% | 8.8% |
| Capital Adequacy Ratio (N1.0) | 15.1% | 8.0% | 2.8% | 10.8% |

## INCOME AND EXPENSES

In 2019, RusAg showed a solid operating profitability boosting its net profit. Net interest and fee and commission income grew by **10.1%** to **RUB 97.9 billion** from **RUB 88.9 billion** the previous year.

The Bank's profit before tax amounted to **RUB 8.4 billion** as compared to **RUB 7.5 billion** in 2018. Net profit for the year grew **2.6x** times over 2018, up to more than **RUB 4.0 billion**. Such improvement in the Bank's bottom line was supported by consistent upgrade of asset quality and a rise of operating income.

The total comprehensive income of RusAg for 2019 amounted to **RUB 14.5 billion**, compared to a total comprehensive loss of **RUB 4.3 billion** the previous year.

Net interest margin stayed flat year-on-year. The Bank's cost-to-income ratio (CIR[5]) stood at **54%** in the reporting period.

[3] Note: Ratios calculated including Events after the Reporting Period.
[4] Note: Capital Conservation Buffer and Systematically Important Institution Buffer.
[5] Note: Operating expenses, not including expenses for deposit insurance, divided by net operating income (before allowance for credit losses).





## 3.2 CONTRIBUTION TO THE DEVELOPMENT OF AGRIBUSINESS[1]

Strategic focus areas in the Bank's development are (1) functioning as a market-based tool for the state support of agribusiness, contributing to its technological re-equipment and enhancing the sector export capacity, (2) developing small businesses in rural areas, (3) providing retail clients and key Russian economic sectors with modern tech-based financial and non-financial services and products.

The Bank's strategy is aligned with the State Program[2], which provides measures for the integrated development of agribusiness and related sectors.

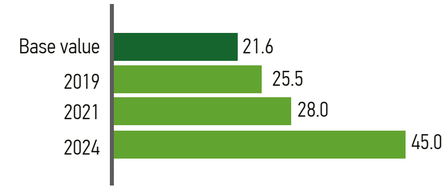
The core goals of the State Program for 2018-2025 (II implementation stage) are as follows:

**1.** Ensuring the food independence of Russia with account of economic and territorial accessibility of agribusiness foodstuffs
**2.** Growth of value added of agribusiness output
**3.** Growth of agribusiness exports
**4.** Increase in investments in fixed assets employed in agriculture
**5.** Growth of disposable resources of households in rural areas.

In 2019, the consolidated budget expenditures for agribusiness support within the framework of the State Program grew **22.6%** reaching **RUB 311.5 billion** vs **RUB 254.1 billion** in 2018.

**Growth of agribusiness exports**
According to key parameters outlined in the National Projects[3], Russia should boost exports of agricultural produce twofold to **USD 45 billion** by 2024. Russian agricultural exports totaled **USD 25.5 billion** as of YE 2019.

**Agribusiness exports from Russia, USD bln[4]**




[1] Note: Financial data in this section is prepared under RAS as of 1 January 2020.
[2] The State Program on Agribusiness Development and Market Regulation for Agricultural Products, Raw Materials and Foodstuffs.
[3] National Priority Projects developed according to the Presidential Order No 204 dated 7 May 2018 "On the National Goals and Strategic Tasks of Development of the Russian Federation for the period up to 2024".
[4] Based on the passports of the national projects approved by the Presidium of the Presidential Council for Strategic Development and National Projects on December 24, 2018.

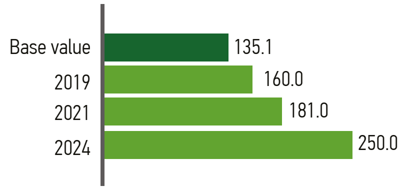
In 2019, as a part of the Presidential Decree "On the National goals and Strategic tasks of the Russian Federation through 2024", the Bank supported the promotion of non-commodity exports, including agribusiness exports. The Bank currently services every eighth exporter in agribusiness.

By 2024 the Bank expects to grow its share to **35%**, reaching out to every third exporter. To this end, the Bank has built a streamlined business process to support export operations. The Bank's product offering for exporters includes programs for foreign trade support, FX conversion, cash and settlement services, documentary operations, letters of credit, FX risks hedging and bank guarantees.

In 2019, the Bank issued **RUB 241.5 billion** in loans to export-oriented companies up by **21.6%** from 2018 (YE 2018: **RUB 198.6 billion**).

**Exports of non-resource and non-energy goods**
Russian exports of non-resource and non-energy goods should grow by **85%** to **USD 250 billion** by YE 2024. Exports amount to **USD 135.1 billion** as the base value. Exports of competitive industrial products should grow by **80%** against the base value to **USD 205 billion** by YE 2024 year-end. Non-resource and non-energy goods export should grow by **8%** year-on-year and reach **USD 160 billion** in 2019.

**Exports of non-resource and non-energy goods from Russia, USD bln[5]**




**Ensuring the food independence of Russia**
According to a report by the Ministry of Agriculture, the minimum self-sufficiency targets (percentage of foodstuffs, raw materials and agribusiness commodities of domestic origin in total output (incl. the structure of carry-over stocks)) set forth by the Food security doctrine have been reached and exceeded in fish, grain, seed oil, beetroot sugar, meat and processed meat. In 2019, the share of agribusiness, forestry and fishery accounted for **5.2%** of Russian GDP.

Agricultural production rates stood at **104.0%**, which included **106.1%** in plant breeding and **101.6%** in animal breeding.

The 2019 index of livestock production was up by **1.9%,** showing growth in such key production segments as meat (**+3.0%**), milk (**+4.4%**) while staying flat in eggs output (**-0.1%**). Foodstuffs and processing sub-sectors production grew **3.6%** year-on-year. Agribusiness exports grew **1.2%** from 2018 and totaled **USD 25.5 billion**.

[5] Based on the passports of the national projects approved by the Presidium of the Presidential Council for Strategic Development and National Projects on December 24, 2018.



**Increase in investments in fixed assets employed in agriculture**
The work done by the Bank in the sphere of financing long term investment and seasonal field work financing, increasing the availability of lending in remote regions and within challenging climatic conditions, have secured sustainable growth rates in domestic agricultural production. In the framework of the 2020 State Program, from 2013 through 2019, the Bank has provided almost **3.4 million** loans totaling **RUB 6.3 trillion** with **RUB 1.3 trillion** disbursed in 2019.

**Small-scale business support**
Given that small-scale businesses often play the role of the key employer, create jobs for rural residents, are a source of local fiscal revenues, starting 2019 to establish new farms and rural consumer cooperatives, to increase their members' pool, incl. through engaging more households, the Russian Ministry of Agriculture launched the Federal Project "Development of the system for farmers' support and enhancing agricultural consumer cooperation."

Overall expenditures for the federal project amount to **RUB 37.4 billion**, with **RUB 5.37 billion** allocated for 2019.

Starting 2019, Russian regions can apply for subsidies for the following purposes:
- Setting up and developing farms ('Agro startup' grant)
- Incorporating and developing agricultural consumer cooperatives
- Managing and fulfilling KPIs of competence centers in the sphere of rural cooperation and farmers support.

On the back of the Government support the share of farms in gross agricultural output grew from **12%** to **13.6%** during 2019.

## FINANCING THE AGRIBUSINESS INDUSTRY UNDER THE STATE PROGRAM ON AGRIBUSINESS DEVELOPMENT

One of the Bank's strategic targets is to secure a leading position in lending and servicing agribusiness/related sectors, including a larger market share in seasonal field work and project finance.

Russian Agricultural Bank's business model of the universal commercial bank is aimed at ensuring sustainable balanced development, including through combination of customized loans for large business and standardized product offerings for micro, small, mid-sized business and retail customers.

The Bank puts the priority on agribusiness and related sectors that are part of value chain (from raw materials providers to the end consumer) as well as population and businesses operating in rural and semi-urban areas.

Loans to corporate borrowers have traditionally accounted for the major part of the Bank's loan book. As at 1 January 2020, these loans accounted for **81.0%** of total loans[6].

[6] Data is prepared under RAS as of 1 January 2020.

Agribusiness borrowers account for the major part of the Bank's corporate loan book. In 2019, the Bank has increased its financing of this sector by **10.8%** from RUB 1,213.8 billion up to **RUB 1,300.7 billion**. At YE 2019, the share of agribusiness and related sectors in the Bank's loan portfolio stood at **57.4%**[6].

Major guidelines for the Bank's lending support to agribusiness are determined by its active engagement in reaching the targets outlined in the State Program.

To achieve the targets set forth by the Program, the Bank has developed a wide product offering covering the needs of agribusiness producers for financing their working capital and investments at all stages of production, processing, and sales, as well as financing of facility upgrades, introduction of innovations and modern technologies.

The product offering is aligned with the State Program and comprises more than **50** types of loans for corporate borrowers. Moreover, the Bank offers a few universal banking products and ad hoc programs for developing forestry and fishery sectors. The Bank offers standard loans that meet the needs of all sectors. Some projects can be individually structured, including on the basis of project financing.

Loans can be made available against collateral of the purchased agricultural machinery, transport, processing equipment, farm animals, and farm land. Lending for seasonal field works comprising a wide range of loan types is customized to cover the needs and specific features of each sub-segment in the industry.

In 2019, the Bank extended more than **484,600** loans to the agribusiness sector in the total amount of **RUB 1,300.7 billion** which is **10.8%** higher than in 2018. Farms received **2,400** loans totaling **RUB 15.6 billion**, an increase of **4.9%** year-on-year.

Total loans outstanding to agribusiness added up to **RUB 1,300.7 billion**, outperforming the lower threshold of the target range set by the State Program. Short-term loans account for **72.9%** of loan disbursements.

Lending to agribusinesses that work towards expanding their export operations is one of the key priorities for Russian Agricultural Bank. As at 1 January 2020, loans outstanding to export-oriented agribusinesses totaled **RUB 225.7 billion**, rising by **17.1%** year-on-year. In 2019, the Bank issued **RUB 241.5 billion** to this segment, up by **21.6%** (**RUB 43.0 billion**) year-on-year.

Overall in 2006-2019, during the implementation of the 'Agribusiness Development' National Priority project, which was later succeeded by the state programs for agribusiness development, the Bank was providing financial support to enterprises, organizations and farms for implementing **5,192** investment projects on construction, overhaul and upgrade of livestock (poultry) facilities and other agribusiness projects with total investments of **RUB 900.5 billion**. Out of all projects financed by the Bank, **4,177** production facilities have been put into operation as of 1 January 2020, with **29** projects put into operation in 2019.

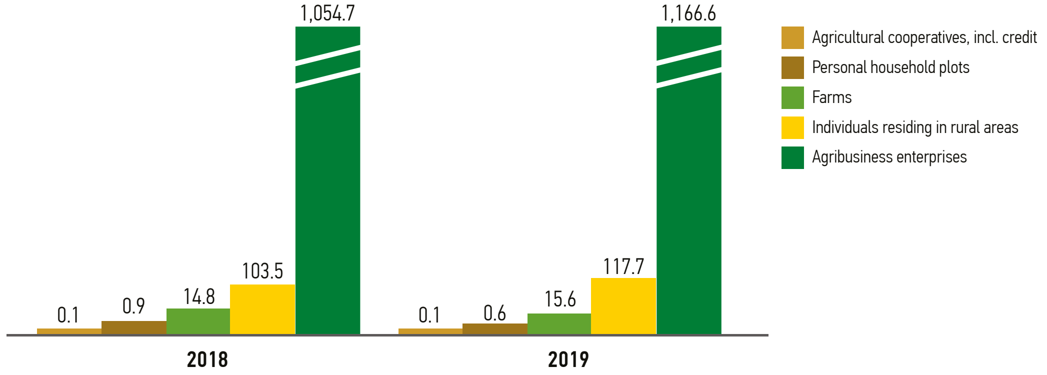
[6] Data is prepared under RAS as of 1 January 2020.





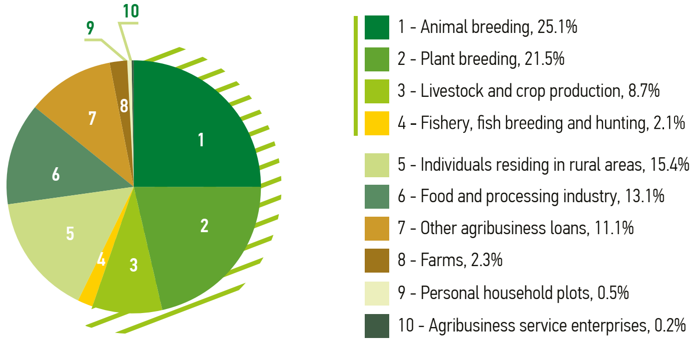
The Bank's portfolio within the objectives of the State Program comprises loans to the following entities:
- Agribusiness enterprises – **89.7%** or **RUB 1,166.6 billion**
- Individuals, residing in rural areas and mid-sized towns[7] – **9.1%** or **RUB 117.7 billion**
- Family-operated farms – **1.2%** or **RUB 15.6 billion**
- Owners of individual household plots – **0.05%** or **RUB 0.6 billion**
- Agricultural consumer cooperatives – **0.01%** or **RUB 0.1 billion**.

**Agribusiness loans by types of borrowers, RUB billion**




As shown in the chart below, at YE 2019, agricultural producers (incl. animal breeding, plant breeding, livestock and crop production, fishery and hunting) accounted for **57.4%** of the financial resources allocated to agribusiness. The share of loans to the food and processing industry accounted for **13.1%**, and individuals residing in rural areas – **15.4%**.

**Loans to Agribusiness by sub-sector, %**[8]

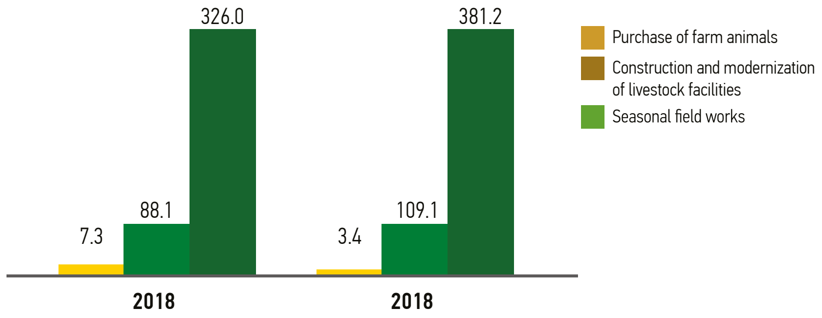



[7] Settlements with a population of up to 100,000.
[8] Data is prepared under RAS as of 1 January 2020.

Russian Agricultural Bank focuses on lending to several major segments within the framework of the State Program.

— Seasonal field work. In 2019, the Bank issued **RUB 381.2 billion** in loans for this purpose (**+16.9%** as compared to 2018);
— Construction and overhaul of livestock facilities. In 2019, the Bank extended **RUB 109.1 billion** (**+23.8%** as compared to 2018) within this segment;
— Purchase of farm animals. For this purpose, during the reporting period, the Bank issued **RUB 3.4 billion** in loans (down **54%** as compared to 2018).

**Agribusiness Loan Issuance by Purpose, RUB billion**




As part of implementing the measures of state support to small businesses, the Bank has worked out a wide range of products including working capital and investment financing, adapted for the specific features of these businesses. For example, the Bank offers loans against warranties provided by guarantee funds as well as special uncollateralized loans.

The Bank's product offering includes ad hoc loans for micro businesses. One of the type of loans is uncollateralized, loans for working capital financing can be disbursed with maturity of up to 36 months, investment loans – for a term of up to 120 months.

In 2019, the Bank provided **RUB 56.9 billion** to small agribusinesses up from RUB 54.5 billion in 2018.

In 2019, Russian Agricultural Bank has provided **RUB 202.2 billion** to SMEs[9], with **RUB 181.4 billion** allocated to agribusiness enterprises.

In 2019, the Bank offered new upgraded loan types for corporate clients:
— Lending against collateral of revenues under export contract, lending under EXIAR insurance designed for export-oriented companies to promote foreign trade operations and boost agribusiness exports;
— Contract performance loans and Tender loans designed for the companies engaged in contract operations;
— Lending to renew the stock of cattle designed to support agricultural cooperatives in terms of replacing ill or infected animals.

[9] Defined according to the Federal law No 209-FZ dated July 24, 2007 "On the small and medium-sized enterprise development in the Russian Federation"





## FINANCIAL REHABILITATION OF AGRIBUSINESS ENTERPRISES

Since 2002, Russian Agricultural Bank has been implementing governmental policy on the financial rehabilitation of agricultural producers.

Such measures are taken by the Bank with consideration of the need for business conservation while mitigating the negative impact on the Bank's financial performance. The loan book to agricultural producers, participating in the financial rehabilitation program, totaled **RUB 72.9 billion** at YE 2019.

## CORPORATE BUSINESS DIGITALIZATION

To support its functions as the core Bank for agribusiness and expand the non-financial services offering for SME clients, the Bank launched a project for building a digital ecosystem for agribusinesses. The primary objective is to build an ecosystem for providing digital services in agriculture, based on an innovative tech platform, enabling access of agribusinesses to various services thereby allowing them to invest more time and effort into production while receiving business support services in a convenient digital format.

## NATIONAL PRIORITY PROJECTS[10]

RusAg engages in the implementation of Russia's National Priority Projects – Priority Areas of the Strategic Development of the Russian Federation – "International Cooperation and Exports", "Housing and Urban Environment", "Small and Medium Businesses and Support for Business Initiatives".

**The National Project "International Cooperation and Exports"**

The International Cooperation and Exports national project is intended to expand the presence of Russian goods and services on the global markets with the help of state regulatory instruments and industry and corporate programs, including export financing, equity financing, leasing, and long-term support measures. The government is planning to ensure competitiveness of Russian goods on the foreign markets through special investment contracts and the mechanism of "first delivery support". In the service sector, Russia will compete in IT, construction, financial services, and tourism. Bureaucratic barriers will be eliminated by updating rules for direct, mixed, and combined cargo and introducing electronic workflows.

[10] National Priority Projects developed according to the Presidential Order No 204 dated 7 May 2018 "On the National Goals and Strategic Tasks of Development of the Russian Federation for the period up to 2024".

**The National Project "Small and Medium-Sized Businesses and Support for Individual Entrepreneurs"**

The Small and Medium-Sized Businesses and Support for Individual Entrepreneurs national project includes five main lines of effort: improving conditions for doing business, providing access to concessional financing, accelerating SMEs, supporting farmers and agricultural cooperatives, promoting entrepreneurship as an activity. In particular, the state is planning to simplify access to financial resources for small businesses and expand the list of SMEs which provide goods and services for state-owned companies. Special attention will be given to high-tech companies, startups, and social entrepreneurs. Specialized informational services will make entrepreneurs aware about available measures of state support and will give them access to educational platforms.

**The National Project "Housing and Urban Environment"**

The Housing and Urban Environment national project is designed to increase residential construction, to improve the mechanisms for financing this sector, to enable people to move from old inadequate accommodations to modern comfortable apartments and houses, and to carry out urban landscaping measures on a massive scale. Also, mortgage loans must become much more accessible. The project places special emphasis on managing urban environment in small towns and historical settlements.

## 2020 FOCUS AREAS

Russian Agricultural Bank intends to expand lending to agribusiness, other priority sectors and retail clients. The Bank plans to increase the share of income generated by transaction and other fee-based products, as well as sales of products and services of its subsidiaries. The Bank will proceed with the streamlining of its operating model and increasing business processes efficiency, ensure further enhancement of its IT systems and higher efficiency of sales/service channels by a well-balanced development of direct and remote points of access to the Bank's product offering, mobile and Internet banking.

Overall, Russian Agricultural Bank plans to maintain leadership positions in lending to agribusiness, and other prioritized industries, and strengthen its position as the key instrument of implementing the state programs designed to support these sectors.



## 3.3 RETAIL BANKING[1]

Russian Agricultural Bank offers a wide range of high quality retail services and products, accompanied by professional advice and effective management. These services are made available via multiple distribution channels.

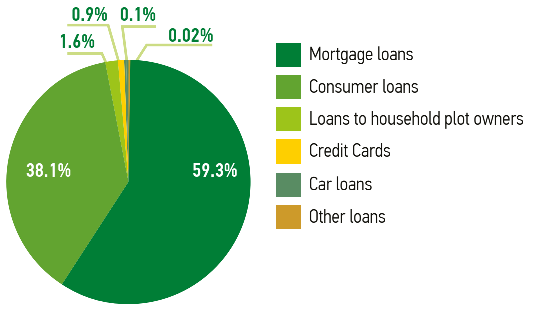
In 2019, on the back of increased consumer activity supported by easing monetary policies in H2 2019, Russian banks posted a **18.5%** lending growth in the retail segment. The share of overdue debts in retail loan book has shown a decline from **5.1%** down to **3.8%** on the back of asset quality improvement underpinned by effective risk management and tightening underwriting standards.

Russian Agricultural Bank continued to develop its retail business retaining focus on mortgage, consumer loans, and growing the client pool using card products. On the liabilities side, the Bank targets a higher share of long term deposits and growth of current accounts balances. In 2019, retail loans expanded by **8.9%** up to **RUB 473.0 billion**. The Bank's market share in retail lending amounts to **2.6%**.

## LOANS

Based on 2019 results, Russian Agricultural Bank ranks **5th by retail loan portfolio** in Russia according to Expert RA. The Bank was one of top mortgage segment players with **RUB 89.0 billion** originated in mortgage loans during the year.

**Retail Loan Book Composition**




In accordance with priorities of the adopted credit policy, the Bank offers loan products designed for personal household owners and individuals residing in rural areas. Loans to this segment comprised **1.6%** of the retail loan portfolio. For the most part, this type of loans is used to purchase livestock. A smaller share of loans is intended for social rural development, setting up businesses not directly related to agriculture, such as rural tourism and trade, folk arts, and crafts. Consumer loans adapted for the members of Non-profit organization "Gardeners' Union".

[1] Note: Some detailed information is prepared under Russian accounting standards as at January 1, 2020.

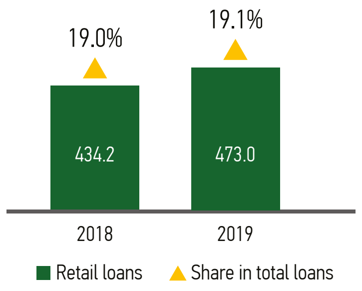
Consumer lending continues to be the most in-demand product in rural areas. In 2019, Russian Agricultural Bank issued approximately **337,000** consumer loans, totaling **RUB 94.5 billion**, which represented **47.9%** of total retail loan issuance for the year.

During 2019, the Bank significantly enhanced business in terms of card sales. By YE 2019, the Bank's credit card portfolio grew **21.6%** with outstanding debts reaching **4.4 billion**. The Bank issued **201,000** credit cards, which is **34.6%** higher than last year.

The following retail lending programs accounted for the largest share of new loan issuance in 2019:
- "Pension" – the Bank extended circa **174,000** loans totaling **RUB 33.0 billion**
- Unsecured consumer loans – the Bank extended about 100,000 loans totaling **RUB 38.7 billion**
- "Pre-approved" loan – more than **31,600** totaling **RUB 6.7 billion** extended in 2019.

In 2019, Russian Agricultural Bank extended about **89,250** residential mortgage loans adding up to more than **RUB 89 billion**. In the reporting period, the Bank's mortgage loan book rose by **12.6%** and amounted to more than **RUB 273 billion** as at 1 January, 2020.

**Retail Loan Portfolio Dynamics, RUB billion**




## SPECIAL PURPOSE AND STATE SUBSIDIZED MORTGAGE LENDING PROGRAMS

Russian Agricultural Bank provides mortgages to young families, families with children (under Federal Special Purpose Programs), mortgages that allow to spend maternity capital for down payment, and military servicemen (pursuant to the Russian Federal Law No. 117-FZ "On the Mortgage Savings System for Housing Provisions for Military Servicemen").

To facilitate the Government housing programs in 2019, the Bank engaged in mortgage lending for Russian families with children (in Accordance with Russian Government Resolution No. 1711, Dated 30 December 2017 "On approval of Rules for subsidies from the federal budget to Russian credit institutions and the Agency for Housing Mortgage Lending (AHML) for reimbursement of unearned income under issued (purchased) residential loans to citizens of Russia with kids").

In 2019, RusAg extended **RUB 2.4 billion** in mortgage loans to military servicemen, which is almost **5x** times more as compared to 2018. Loans outstanding to this segment totalled **RUB 3.7 billion**. This is **3x** the size of loan book reported at YE 2018.

In late 2019, Russian Agricultural Bank announced it is fully ready to implement the program for subsidized mortgage lending in rural areas that would come into force on 1 January 2020. Building a framework for providing rural residents with affordable and comfortable housing is a part of the State Program for Integrated Rural Territories Development for 2020-2025. The annual interest rate is set by the Ministry of Agriculture from **0.1%** (accounting for co-financing from the regions) up to **3%**. The federal budget expenditures allocated for rural mortgages total **RUB 1 billion** for 2020.

In 2019, as part of the abovementioned mortgage lending program, the Bank provided **1,527** loans totaling **RUB 4.5 billion**.

Mortgage and consumer loans accounted for **93%** of total retail loans extended in 2019.

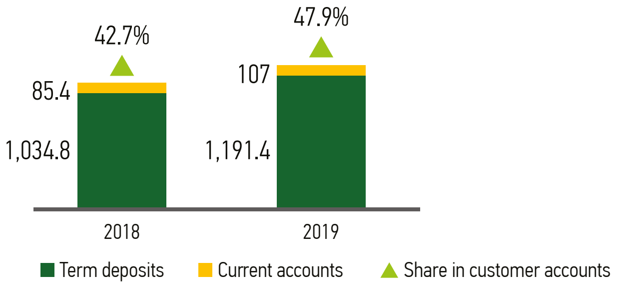
## DEPOSITS

Russian Agricultural Bank's wide territorial coverage makes it possible for the Bank's branches and POS to effectively raise deposits from retail customers residing in rural areas. Based on 2019 results, Russian Agricultural Bank ranked **4th by retail deposits** in Russia.

During the reporting period, retail customer accounts and deposits rose **RUB 156.6 billion** (**+15.1%**) reaching **RUB 1,191.4 billion** as compared with **RUB 1,034.8 billion** in 2018. The system-wide growth reached **7.3%**. The share of retail customer accounts in total customer accounts stood at **47.9%** at YE2019. The Bank grew its market share by 0.2 pp to **3.8%** at YE 2019.

'Dokhodnyi' (High yield) retail deposit available for opening via remote service channels received the 'Best Deposit of the Year 2019' from Vbr.ru (Выберу.ру) portal.

**Retail Customer Accounts Dynamics, RUB billion**



# BANK CARDS

Targeting the diversification of income sources by strengthening its position in financing and servicing priority sectors and retail customers in line with the 2020 Strategy, Russian Agricultural Bank took consistent steps towards growing the percentage of income from transaction products and fee-based products. Rolling out transaction and fee-generating products for all segments, including salary projects, acquiring, credit cards, payment services, etc. will be instrumental in delivering on this target.

Russian Agricultural Bank issues debit and credit cards of international payment systems (Visa International, MasterCard Worldwide, China UnionPay) and the National Payment Cards System MIR for multiple customer segments. The Bank's cards are customized for personal use, for payroll projects, covering the needs of SMEs and large businesses; for taking out a loan, including special loans for household plot owners; for payroll clients and clients with a positive credit track record; for pensioners; for charitable donations.

The Bank's products are adapted for a wide range of customers residing both in rural and urban areas.

Offices of Russian Agricultural Bank operate in **82** constituents of Russia, including remote, rural communities, where it is especially important to promote cashless settlements. To attain this goal, the Bank offers such privileges to cardholders as loyalty programs and customized lending products.

In 2019, Russian Agricultural Bank further developed its credit and debit card offering, including further upgrades and improvement in the co-branded card and client loyalty program. In 2019, the number of cards outstanding grew **1%** reaching **4.3 million** as at January 1, 2020. The number of new credit cards issued went up **35%**.

**Transfers and payments**
In 2019, Russian Agricultural Bank continued cooperating with Western Union (WU), Unistream, CONTACT international money transfer systems.

Amount of transfers through these systems in 2019 totaled **RUB 11.6 billion**, growing by **7.6%** year-on-year. The number of transactions totaled **276,000**, growing by 17% year-on-year. To cover the client demand, the Bank upgraded its functionality by launching a full-scale use of WU and Unistream money transfers in its Retail online bank.

**Merchant services**
The Bank provides merchant acquiring services to a wide range of customers, including small farms and large national retail chains.

In 2019, the Bank expanded its equipment lineup to include mobile acquiring. In particular, the Bank introduced Ingenico RP750x Chip & PIN Bluetooth Mobile Card Reader compatible with a merchant's smartphone/tablet. This service helps reach out to clients engaged in delivery services, taxis, travel agencies and cut the Bank's equipment expenses.

To embrace the full functionality of payment systems and expand the scope of operations offered through payment terminals, the Bank introduced a cash withdrawal feature at merchants' POS along a Mastercard and





Visa purchase. This service will attract new clients and increase the number of purchases as the clients do not need to search for an ATM to withdraw cash.

To develop its Internet acquiring, the Bank passed the certification by JCB international payment system, opening way for JCB cards acceptance at e-commerce outlets serviced by the Bank. In Q3 2019, the Bank was the first Russian issuer to introduce P2P transfers with the use of JCB payment system via the Bank's remote channels including ATMs, retail remote service channels, at the Bank's Internet site.

Targeting further development of Internet acquiring the Bank in 2019 initiated procedures to complete the certification by Union Pay International and American Express payment systems, which will open the way for UPI and AE cards acceptance at e-commerce outlets serviced by the Bank.

In 2020, the Bank will work further towards developing its acquiring network. The pipeline includes the launch of acceptance of American Express cards at the Bank's ATMs and payment terminals, cash withdrawal at merchants' POS along a 'MIR' card purchase, launching C2B (Consumer to Business) transfers operated by the Bank of Russia Faster payments system (FPS).

In 2019, the Bank upgraded software installed to prevent unauthorized money transfers with focus put on detecting fraudulent actions involving social engineering methods.

Working towards digitalization, the Bank grew its card product offering and now incorporates contactless payment solutions through Mir Pay for MIR cardholders, Huawei Pay for UnionPay cardholders, Koshelek Pay and SwatchPAY! for Mastercard holders.

Moreover, Visa and Mastercard holders are able to use their cards with Apple Pay, and Mastercard holders in addition can use their cards with Samsung Pay and Google Pay through a simplified procedure via Mobile Bank.

**Remote Service Channels**
With a view to reinforce the Bank's position as an efficient reliable and hi-tech financial institution, significant effort has been invested in growing the share of operations through remote service channels.

The Bank puts priority on upgrading its remote service channels as part of card business development.

The Bank serviced **1.7 million** customers using remote banking services (Internet Bank) as at YE 2019.

**Key results, Card business and online banking**

| | 2017 | 2018 | 2019 |
|---|---|---|---|
| Outstanding credit card loans, RUB mln | 2,717 | 3,589 | 4,359 |
| Payment card balances, RUB mln | 52,002 | 63,108 | 67,148 |
| Retail Internet bank users, thousand | 404 | 761 | 1,737 |

**Digital transformation**
Pursuing a digital transformation of its retail business, the Bank works towards creating digital products, services, client origination channels, and sale processes. As part of this initiative RusAg looks to build digital ecosystems to cater for clients' demand for buying houses and cars, build a personal finance management system via a mobile app, roll out other types of digital processes enabling the sale of banking services.

In 2019, the Bank ensured that its entire POS network is equipped with biometric capture devices thereby fully complying with the requirements under the Federal Law No. 482-FZ dated 31.12.2017. The Bank has rolled out the remote client identification for Russian citizens and was among the first banks to service customers earlier remotely identified through the Unified Biometric System. This system is designed to enable customers' access to the full range of bank services from home.

## 2020 FOCUS AREAS

Targeting a higher share of fee income, Russian Agricultural Bank will continue to develop transaction and fee-based services across all client segments, including payroll projects, card business, cash services for corporate and retail customers, brokerage, packaged insurance products.

In 2020, the Bank will further advance its retail remote banking platforms and introduce innovations in cards and payments. These solutions will help enhance attractiveness, tech level and competitive advantages of the Bank's products in the Russian market.





# 3.4 FINANCIAL INSTITUTIONS AND INTERNATIONAL OPERATIONS

RusAg holds a leading position in the banking sector of Russia, being a base bank for servicing agribusiness exports and a number of other significant export-oriented industries. The Bank is actively strengthening its image as an open, fair and reliable partner on international markets. The Bank constantly interacts with key financial market participants, including international and local rating agencies, institutional investors, and foreign counterparties, and participates in the activities of interstate business councils and intergovernmental commissions.

RusAg's transparency has been acknowledged by leading global rating agencies and national rating agencies accredited by the Bank of Russia.

## CORRESPONDENT RELATIONS

In 2019, the Bank has further strengthened and expanded its Loro and Nostro correspondent network.

The number of Loro accounts opened to Russian and foreign banks at the end of 2019 amounted to **177**.

In the reporting period, in order to expand its correspondent network and optimize settlements, the number of Nostro accounts opened by the Bank in Russian and foreign banks increased to **77**.

In addition, in 2019 RusAg actively expanded cooperation in the financial market. During the reporting period **195** contracts and agreements were concluded to support the Bank's activities on financial markets.

The total number of existing cooperation agreements at the end of 2019 amounted to:
- **182** General agreements on General terms and conditions for conducting transactions on the interbank and foreign exchange markets;
- **56** General agreements on term transactions in financial markets, including credit support agreements (under Russian and English law);
- **42** General agreements on securities market operations, including REPO operations;
- **119** banknote transaction agreements;
- **19** agreements on the General terms of transactions with precious metals on the interbank market;
- **3** agreements on the General conditions for concluding and executing transactions for the purchase and sale of precious metal coins with a legal entity.

## FOREIGN TRADE FINANCE AND RELATED LENDING

RusAg takes an active part in the implementation of the Decree of the President of the Russian Federation as of 7 May 2018 № 204 "On national goals and strategic objectives of the development of the Russian Federation for the period up to 2024" in terms of ensuring the growth of Russian exports. During the reporting period, the Bank set up import letters of credit in the amount of **USD 134.6 million**, advised and confirmed export letters of credit totaling **USD 576.7 million**, advised guarantees of foreign banks in the amount of **USD 41.6 million**, and issued guarantees on behalf of third-party banks in the amount of **USD 5.9 million**.

In addition, in 2019, RusAg conducted operations on reimbursement of letters of credit issued by counterparty banks in the amount of **USD 3 million**, operations on reimbursement obligations without issuing an IRU in the amount of **USD 0.7 million**, as well as on documentary collection in the amount of about **USD 11.2 million**.

In order to support the export of Russian products, the Bank has actively provided loans to resident banks of the countries of the Eurasian Economic Union:

- in the framework of documentary credit operations, financing was provided in Russian rubles, US dollars and Euros for a total amount equivalent to **RUB 4.3 billion**, for a period of up to 1 year;
- in the framework of bilateral interbank credit agreements, credit resources were provided in Russian rubles, US dollars and Euros for a total amount equivalent to **RUB 30.9 billion**, for a period of up to 1 year;
- in the framework of syndicated loan agreements (including the agreement on assignment of claims for syndicated loans), in 2019 credit resources were provided in the amount of **Euro 13 million** for a period from 143 to 365 days.

## CAPITAL MARKETS OPERATIONS

RusAg offers a comprehensive range of debt instruments to reduce risks by placing funds in the market and by raising additional funds, via: REPO operations, ruble-denominated bonds, loan participation notes, government and municipal debt securities, corporate debt securities, and promissory notes and equities.

As part of the formation of its resource base for long-term lending, the Bank placed the following bond issues in 2019:

- in April – issue of exchange-traded ruble bonds in the amount of **RUB 10 billion**, circulation period of 364 days, and a coupon rate of **8.35%** per annum;
- in June – issue of exchange-traded ruble bonds in the amount of **RUB 10 billion**, circulation period of 728 days, and a coupon rate of **8.15%** per annum;
- in September – two issues of short-term exchange-traded ruble bonds totaling of **RUB 3.36 billion**, with circulation period of 14 and 60 days, and coupon rates of **6.55%** and **6.83%** per annum respectively;
- in October – issue of short-term exchange-traded ruble bonds in the amount of **RUB 1 billion**, circulation period of 14 days, and a coupon rate of **6.59%** per annum;
- in November – two issues of exchange-traded ruble bonds for the total amount of **RUB 10 billion**, with circulation period of 1085 and 1456 days, and coupon rates of **6.75%** and **7.0%** per annum respectively;
- in December – issue of perpetual subordinated bonds for the total amount of **EUR 150 million**, with a coupon rate of **5.0%** per annum (for the first 11 coupon periods).





## INTERNATIONAL OPERATIONS

The sectoral sanctions applied by the US and EU, as well as other governments, in respect of RusAg are not blocking and do not provide for any measures to block payments or assets of the Bank abroad.

The Bank continues to carry out settlement operations for customers in all major currencies. For settlements in foreign currencies, the Bank uses direct correspondent accounts opened in leading US, European and Asian financial institutions.

In order to maintain the interest and trust in RusAg on the part of the investment and banking community, as well as the investment attractiveness of the Bank's debt instruments, the target audience is regularly informed on the Bank's financial and operational results and its strategic development plans. Round tables, conferences and meetings are organized, and specialized events are held to maintain relationships with a wide range of counterparties and investors in the traditional capital markets and markets of Southeast Asia and the Middle East. The Bank maintains up-to-date information on its website, which is specially designed for an international audience.

RusAg's representatives regularly participate in international conferences, financial conventions, forums and meetings, which allow the Bank to get information on various innovations and best practices in the banking sector, international business practices, as well as to establish and develop bilateral relations of the Bank with counterparties. This work also contributes to the search for new solutions for the export of Russian agricultural products.

Activities of RusAg's representative offices in the countries of the Eurasian Economic Union and Southeast Asia ensure the Bank's presence in the target international markets, increase its brand awareness, improve the access of foreign trade companies to sales markets and expand exports of Russian agricultural products. The Bank's representative offices operate in three former Soviet republics (the Republic of Belarus, the Republic of Kazakhstan, and the Republic of Armenia) and in the People's Republic of China.

4

# CONTROLS AND PROCEDURES

## 4.1 RISK MANAGEMENT

Risk is defined as “uncertainty” with a loss attached to it. This “loss” in case of banks is multidimensional. There can be a financial loss, or a reputation loss, market share loss, confidence loss and so forth. There are many events or circumstances in a bank’s daily business, outcome of which may be uncertain. They cannot be fully eliminated, however they can be foreseen. Risk management is essentially a way of knowing what type of uncertainties are out there and taking steps to counter them and be fully prepared for eventualities. Decisions have to be taken, and business needs to be conducted.

In Russian Agricultural Bank the whole system of risk management is focused on identifying uncertainties and helping the Bank to make informed decisions. As for a major nationwide bank, for Russian Agricultural Bank this is a fundamental capability as it buys and sells risk every day. The Bank has moved its focus to just-in-time risk management and to efficient use of regulatory capital in line with best industry practices. While traditional models of risk management face obsolescence in today’s highly mutualist environment, Russian Agricultural Bank has been making huge efforts to natively enable risk control and optimization at every step of the front-to-back value chain. To be operationally effective, it requires from the Bank more than just sophisticated risk models, but an end-to-end risk management framework embedding real-time limits control, risk indicators and remediation workflows to manage centrally risk related business processes.

The whole risk management framework in Russian Agricultural Bank is based on the following internal documents:
— The Risk Management Policy
— The Risk and Capital Management Strategy

The organization of risk management in the Bank is built on a multilayer principle where every level of hierarchy contributes to efficiency of the whole system.

The Supervisory Board as a supreme governing body exercises the following risk management related functions:
— endorsement of the Risk Management Policy and the Risk and Capital Management Strategy
— consideration of reports on risks taken by the Bank





The Management Board is responsible for approving of internal documents which ensure general functioning of the risk management system. The Management Board also approves internal procedures of capital adequacy assessment.

The Risk Management Committee covers the following activities:
— assessment of risk management system efficiency and regular introduction of upgrades and improvements
— control of risk appetite and aggregate risk profile of the Bank
— control of risk management system compliance with the requirements of the regulating authorities, including those in the field of implementation of standards of the Basel Committee on Banking Supervision (BCBS) in the Russian Federation

Operational risk management is conducted by the Management Board, the Chairman of the Management Board, the Risk Management Committee and other collegiate bodies and separate units and officers of the Bank according to their authorities.

The independent analysis and risk assessment are performed by the Bank`s dedicated structural units: Risk Management Department and Risk Management Services in regional branches.

Risk Management Department’s competence embraces such areas like methodological support of risk management system, introduction of principles and methods of identification, assessment, monitoring and control of financial risks (credit, market, interest, liquidity) and operational risk, including one at the regional level.

Certain risk management functions are exercised by other involved internal units: Legal Department, Department of Strategic Development, Public Relations and Marketing Communications Department, Internal Treasury Department, Department of Compliance Control.

In 2019, the Bank delivered significant improvements in the risk management system on the aggregate level:
— revision of risk appetite indicators for the Bank and the Banking Group
— major updates of the Risk Management Policy and he Risk and Capital Management Strategy
— introduction of macro scenarios in stress-testing models

Corporate and credit risk management was strengthened by the following add-ons:
— introduction of macro scenarios in stress-testing models
— implementation of corporate clients internal credit ratings methodology which covers small businesses

The Bank also centralized retail loans decision-making process at the HQ level. The whole process was standardized and automated to a pipeline mode. This technology enables the Bank to extend loans of a targeted quality. The core decision-making process is also in permanent improvement. In 2019, it was modified by several directions. The Bank optimized credit policies in the field of stop-factors and reinforced customer identification and data-check depending on a scoring model. All scoring models in every single product segment were updated. It resulted in a fundamental shift in approaches to assessment of customers` pay-capacity and their credit limits. It especially influenced retail and mortgage loans business.

In 2019, to further improve liquidity risk management, Russian Agricultural Bank closely followed recommendations and requirements of the Bank of Russia and the BCBS. In the context of this process, the Bank seriously updated its approaches to liquidity loss stress-testing.

Interest risk of the Bank Book (BB) management saw minor upgrades in the reporting period, mostly regarding net interest income of the BB exposure limits to interest rates changes.

More significant improvements were delivered to market risk management in 2019. They include:
— fine-tuning of data sources
— elaboration of product risk models (i.a. price setting and revaluation of financial instruments), counterparty market and credit risk assessment models, limit setting and deals hedging methodologies
— introduction of limits module setting patterns
— setting of market risk limits alongside with structural limits for new types of operations processed by the Bank

For better operational risk management the Bank made the following improvements in 2019:
— adoption of the Conception and road-map for operational risk management development
— expansion of data sources of information on potential/actual losses caused by operational risk events
— implementation of various improvements planned for the year 2019 in the field of enhancement of the integrated system ensuring continuity of the Bank`s operation and (or) fast recovery in case of emergency
— installment of additional backups for critical processes and reservation of extra working spaces for staff outside the HQ

In the year 2020, the Bank will develop corporate and credit risk management in the following directions:
— further introduction of newer approaches to internal credit ratings and other quantitative risk-metrics in decision-making process
— development of quantitative credit risk assessment methodology (e.g. probability of default (PD) assessment model, loss given default (LGD) assessment model, exposure-at-default (EAD) assessment model)
— more sophisticated algorithms of corporate customers creditworthiness evaluation with broader use of external sources of information (financial reporting, participation in tenders and supplies, litigation involvement, data from the Ministry of Agriculture and credit bureaus)

For the year 2020, the Bank has an ambitious goal to significantly improve the quality of its retail loan portfolio and optimize decision-making process in credit limits calculation. To achieve this, the following actions are scheduled to be taken:
— modification of scoring models with new data sources
— increase both in total numbers and share of automated credit decisions made in a pipeline mode
— optimization of risk-oriented price setting and credit limit setting (RBP, RBL) to achieve maximum product attraction for customers which will retain existing clients and win new ones

In the framework of liquidity risk management and interest risk of the Bank Book there are important upgrades set for the coming year. The Bank will elaborate management accounts and tune interest risk assessment methodology with consideration to the BCBS standards and the requirements of the Bank of Russia.





In the sphere of market risk management Russian Agricultural Bank plans to further work on limits module, start to set limits for cap/floor operations for providing customers with more advanced trading instruments, improve daily reporting on market risk situation.

For enhancement of operational risk management the Bank will promote implementation of the road map Conception of market risk management. Special efforts will be made on improvement of information collection and procession for the purpose of the Bank's operational risks monitoring. Traditionally, the Bank will pay close attention to staff training and will continue to enroot high standards of risk management culture.

## CREDIT RISK

The Bank manages credit risk as risk of losses arising as a result of the failure to perform or the inappropriate performance by a client or counter-party their financial obligations to the Bank (including those from financial markets operations).

To manage credit risks, the Bank assesses the structure of transaction and all available information on a counterparty's (groups of counter-parties) credit profile; uses risk mitigation tools (incl. liquid collateral, guarantees and sureties); includes credit risk premium in credit pricing; sets limits for individual counter-parties (groups of counter-parties) affiliated based on legal or economic factors; continuously monitors credit risk exposures. The Bank's authorized management bodies approve internal regulations that contain formalized descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank takes risk of credit concentration related to lending to the core market niche (agribusiness and related industries) and manages it with following instruments:
— lending to the whole value creation chain (production, storage, processing and sales to the end consumer)
— lending to borrowers with broad product range
— geographical diversification of loan portfolio
— diversification of total loan portfolio by lending to other sectors of economy

## LIQUIDITY RISK

The Bank manages liquidity risk to secure complete and timely meeting of its obligations to clients and counterparties. The Bank is exposed to liquidity risk because of daily calls on its available cash resources from customer accounts, demand deposits, maturing inter-bank loans (deposits), term deposits and issued securities, loan drawdowns, and guarantees, as well as from margin and other calls on cash settled derivative instruments.

The main methods of analysis and evaluation of liquidity risk are:
— daily analysis of asset and liability maturities mismatch (GAP-analysis)
— analysis of actual values and the dynamics of liquidity indicators – internal, as calculated by the Bank itself
— analysis and control of the Banks's liquidity ratios set by the Bank of Russia
— stress-testing

The Bank manages liquidity risk by planning its assets and liabilities composition, setting and controlling limits and indicators of liquidity risk (both external set by the Bank of Russia and calculated in-house), maintaining liquidity cushion, engaging in prior planning and preparing measures aimed at maintaining and restoring liquidity in unfavorable conditions.

## MARKET RISK

Market risk is the risk of losses arising from unfavorable changes in the market value of financial instruments in the Bank's trading portfolio and derivative financial instruments (equity risk), as well as in foreign currency and precious metals exchange rates (currency risk).

The Bank manages market risk to constrain taken risks within the restricted confines and to minimize financial losses in case of unfavorable events realization. To analyze and evaluate market risk, the Bank makes a daily assessment of equity, currency and interest rate risks arising from market uncertainty via VAR (Value-at-Risk) analysis, which represents a statistical assessment of the maximum losses for a given time period with a specified confidence level. In addition to VAR, the Bank also calculates the ES indicator (the Expected Shortfall), which represents the monetary value of expected losses in case of excess VAR.

The Bank manages market risk by:
- setting and controlling structural and position limits, as well as stop-loss limits
- diversifying and hedging risk exposures
- conducting prior planning and preparing measures aimed at minimizing losses in case of unfavorable events

To control currency risks, the Bank monitors currency position for each currency and the amount of all foreign currency positions to comply with the Bank of Russia Instruction No. 178-I, dated 28 December 2016, 'On Establishing Values (Limits) of Open Currency Positions, Methods for their Calculation and Specifics of Supervision over their Compliance by Credit Institutions'. The CBR caps maximum exposure to currency risks at **10%** of total equity for a single currency and at **20%** of total equity for aggregate exposure to all currencies.

## INTEREST RISK

Interest rate risk is the risk of deterioration of the Bank's financial position due to capital decrease, fallen income, negative revaluation of assets caused by an unfavorable change in the interest rates.

The Bank manages interest risk using the following basic methods:
- evaluating gaps between the Bank's assets and liabilities which are sensitive to interest rate level changes – the GAP method
- assessing interest risk of the Bank Book (BB) to changes in the interest rates on the market

The Bank also valuates interest risk with a breakdown into main currencies and certain operations/deals by analyzing expected cash flow changes in the case of changes in market conditions, financial positions and/or actions undertaken by the Bank's clients and/or counter-parties.

## OPERATIONAL RISK

Operational risk is the risk of losses resulting from inadequate or failed internal processes, their discrepancy with the Bank's character and scale of business, errors made by staff members and/or other people (due to incompetency, unintentional or deliberate actions or inaction), insufficiency (deficiency) of IT and other technological systems or their failures caused by external effects.

The Bank manages operational risk to secure sustainability and reliability of banking operations in line with strategic goals and targets. The specialized Operational risk management system (ORMS) is a complex environment of measures and processes (including automated ones) in which the Bank's internal units operate. The ORMS provides a comprehensive coverage of operational risk management for all engaged participants through unified methodological principals. The ORMS main features and guidelines are specified in the Bank's internal documents.

## 4.2 THE INTERNAL AUDIT SERVICE (IAS)

The Internal Audit Service in Russian Agricultural Bank is an independent structural body which is formed and functions in accordance with the Russian legislation, the Banks Articles of Association, the IAS Provision adopted by the Supervisory Board and other internal regulations.

The head of the IAS is appointed and released by the Supervisory Board. Size of staff and technical infrastructure of the IAS are closely monitored and kept on sufficient levels to enable the unit to perform with maximum effectiveness based on scale of its activity. The character of risks taken by the Service defines high standards of expertise, integrity and perseverance of its staff.

The IAS provides independent advice, opinion and recommendations on the quality and functioning of internal control systems inside the Bank on the whole and its certain units. While the IAS's responsibilities cover a wide range of tasks, its general mission is to make reports and recommendations to the Bank's management on how other Bank's units can improve their internal processes and raise performance in the field of risk management, controls and governance.

The key functions of the IAS are the following:

— supervision and general assessment of internal control; monitoring of execution status of decrees issued by the Bank's governing bodies (General Shareholders' Meeting, Management Board, Chairman of the Management Board)

— efficiency control of risk management methodology and risk management procedures; general audit of internal procedures, programs, instructions in terms of integrity and applicability

— assessment of reliability of internal control in the field of IT systems, cyber security, data protection, combating of unauthorized access attempts and other related activities in accordance with protocols adopted for emergency events to secure a continuality and/or recovery of Bank's operations

— testing of integrity, completeness and promptness of accounting and financial reporting, including process of information collection for these purposes

— review of employed protocols and procedures aimed to secure safety of Bank's property

— assessment of economic viability and efficiency of Bank's operation and financial deals

— examination of certain internal control processes and procedures

— other functions which may be in demand temporarily or for certain cases

The IAS functions under direct control of the Supervisory Board. It reports to the Supervisory Board no less than two times a year. It reports on inspection results every half a year which includes information on flaws revealed, recommendations made and measures taken. This information is also reported to the Management Board and the Chairman of the Management Board.

The activities of the Bank's IAS are audited by an independent outside examiner (an audit company) no less than once in five years with independent judgment reported to the Supervisory Board.





### MAIN RESULTS OF THE IAS ACTIVITIES

As the IAS is authorized to carry out inspections of other internal units and divisions, it acts under quarterly schedule endorsed by the IAS head officer.

In 2019, the IAS officers carried out 83 internal inspections, including:

— **28** comprehensive inspections of financial and operational activities of regional branches

— **16** inspections of the Bank's HQ units

— **39** inspections of affiliate entities of the Bank (in the framework of the Checkup committee/exercising auditor functions)

Another **1442** inspections were accomplished by the IAS officers operating in regional branches of the Bank. They carry out inspections of various formats including all-round audit of regional branches and their internal structural units.

In view of the results of inspections, the IAS designs new actions aimed at developing the internal control system. New forms of inspections and excises promote modernization of business processes, actualization of internal protocols, staff training and better awareness of professional standards and practices throughout the Bank.

### THE IAS DEVELOPMENT

In accordance with the requirements of external regulators and shareholders, the IAS constantly upgrades its protocols to provide management bodies of the Bank with an expert judgment in line with the best international practices. This work secures efficient and flexible functioning not only of the Bank itself but the Russian Agricultural Bank's Group on the whole.

In 2019, a special focus was made on test procedures of the Bank and its affiliate entities operational activities.

The IAS worked out various approaches to analyze and reveal flaws of the management processes throughout the Banking Group. The head IAS unit coordinates efforts of internal audit services in the Bank's affiliate entities to harmonize specific techniques for better management of the Group. Such approach proved its effectiveness in optimization of financial and economic activities in member entities with unique business profiles. A systematic and consistent analysis of the risk management system alongside with assessment of internal control procedures guarantee an effective corporate governance which leads to accomplishment of major goals set by the shareholders. That is why it is absolutely crucial for the Group to support and develop the IAS. In a world with rapidly changing business environment and emerging challenges, the IAS plays a role of a core unit to consolidate the integrity of the Bank and its affiliates.

The Russian Agricultural Bank Group has a solid record of internal audit system development and is committed to implement both evaluational and innovative approaches in this field in a decade to come.

## 4.3.1 INTERNAL CONTROL

The general system of internal control in Russian Agricultural Bank is arranged in accordance with the legislation of the Russian Federation and requirements of the Bank of Russia.

To make it highly efficient in answering specific challenges Russian Agricultural Bank may and does face, the system is kept finely tuned to business environment and emerging risks. A special focus is made on its flexibility and resilience.

The Bank`s internal control system comprises the following bodies and units:
Governing bodies:
— General Shareholders` Meeting
— Supervisory Board
— Management Board
— Chairman of the Board

Internal control:
— The Internal Audit Service
— The Internal Control Service
— Responsible officer for anti-money laundering and combating the financing of terrorism
— Controller for professional securities market participant
— Other units and officers involved

Other units and individuals in charge:
— The Revision Commission
— Chief Accountant
— Directors and chief accountants of branches

The Bank's Articles of Association regulates division of authorities on every level of the company's structure. An effective distribution of powers between governing bodies is an essential factor for performance of the whole system.

The Supervisory Board is responsible for:
— establishment and general functioning of internal control system;
— assessment of the Bank`s internal control system efficiency, and analysis of its further development
— consideration of improvement of organizational structure and regulative documents
— establishment of the Audit Committee of the Supervisory Board

The Management Board is mainly responsible for:
— overseeing implementation of the Bank's strategy in the field of internal control
— delegating responsibilities to work out rules and procedures of internal control to other units involved in the process
— analyzing obedience to internal rules of internal control
— assessment of adequacy of internal documents regulating internal control
— analyzing of internal control efficiency based of checks results
— establishing of effective data systems to allow fast information availability for all Bank's units involved in internal control process
— establishing of a resilient system to expose and eliminate violations of internal control protocols

The Chairman of the Board is involved in internal control while exercising the following functions:
— releasing of orders, decrees, and instructions on Bank's daily operations
— approving of internal units' provisions, Bank's working schedule, staff hiring procedures in the headquarters and regional branches
— endorsing of awards and penalties for staff
— allocating of authorities between members of the Management Board

## 4.3.2 COMPLIANCE CONTROL

Russian Agricultural Bank is a dynamic and rapidly developing financial institution with an important mission and ambitious goals. To the only way for the Group to secure the accomplishment of its targets is to hold leading positions on the focus market and expand its business to other sectors of the financial market. But the process of growth always goes along with new risks which threaten both business performance and brand's perception. It is highly ineffective or even dangerous to react to emerging risks after they have already started realizing. That is why it is hard to overestimate the role of Compliance in modern economic environment.

In Russian Agricultural Bank the Department of Compliance Control (DCC) exercises certain functions related to regulatory risk (compliance risk) management which are defined by the regulatory act of the Bank of Russia. The DCC also acts as an internal control service alongside with other departments according to their fields of concern.

The DCC is accountable to governing bodies of the Bank. It regularly reports on the state of regulatory risk management and general compliance discipline in the Bank. The procedures under which regulatory risk is managed are built in most banking processes to secure their comprehensive and mandatory following.

Apart from internal control functions set by the regulatory act of the Bank of Russia, the DCC is also involved into corruption combating, supervision of compliance with international requirements, observation of laws related to personal data security, combating of insider information usage and market manipulation.

The DCC structure includes a Controller for professional securities market participant. This officer supervises compliance with relevant legislation of the Russian Federation in the field of securities trading, investor rights protection, and harmonization of internal protocols with external requirements.

In 2019, the system of internal control in Russian Agricultural Bank continued its evolution in line with best international practices. Adopting innovative approaches and modified procedures, the Bank closely monitors their compatibility with existing system to avoid structural conflicts. Such policy makes the whole internal control system integral, viable and effective.

The major upgrades in the reporting period were the following:

- formation of compliance control policy in the field of personal data security which is regulated by the respective legislation of the Russian Federation
- significant update of internal protocols aimed to combating market manipulation which was demanded by amendments in the Russian legislation
- adoption of effective processes to comply with legislation related to foreign tax residents

In 2020, a special focus will be made on introduction of strong compliance culture throughout different entities of the Banking Group. The ultimate goal is to implant high compliance values deep into heart and soul of every staff member of every Russian Agricultural Bank Group entity no matter of his or her position, accountability and responsibilities.



## 4.3.3 FINANCIAL MONITORING SERVICE

In 2019, Russian Agricultural Bank prolonged its flawless record of strict compliance with the legislation of the Russian Federation in the sphere of anti-money laundering and combating the financing of terrorism.

In accordance with the Federal Law No. 115-FZ On Countering Money Laundering and the Financing of Terrorism, the Bank acts on the basis of the Rules of internal control in Russian Agricultural Bank of anti-money and combating the financing of terrorism (the Rules).

In the reporting period the Bank also adopted an annex to the Rules aimed against financing of weapons of mass destruction proliferation. The annex defines rules and procedures to secure a reliable control on the issue.

Realization of the Rules is supervised by a dedicated officer in the HQ and authorized officers in regional branches.

The Know-Your-Customer rule (KYC) is a cornerstone principle for any financial operations in the Bank. It stipulates profound knowledge and reliable verification of customers' information and profile, data on their representatives, beneficiary owners, financial operations and other deals, including corresponding counter-parties.

For better compliance with the Rules, the Bank conducts regular trainings for the staff. Every officer in Russian Agricultural Bank passes special tests aimed to enhance awareness of the rules and procedures in the field of anti-money laundering and combating the financing of terrorism. It results in high standards and security of all financing operations processed by the Bank.

The Bank does not open and run accounts for anonymous individuals and entities. Every client is required to provide the Bank with identification information which is strictly verified. In case of incomplete information, the Bank does not sign customer agreements on any banking products and services.

The Bank also does not open current and savings accounts for private individuals or legal entities without client's personal presence.

Russian Agricultural Bank is an active player on the inter-bank market with many non-resident counter-parties. This business requires comprehensive knowledge of international law and practices in addition to home legislation. The Bank does not establish business relations with banks without permanent bodies on soil where they are legally incorporated. The Bank also does not maintain accounts with those banks that may be transit banks for third-party banks with no physical presence in their country of registration.

5

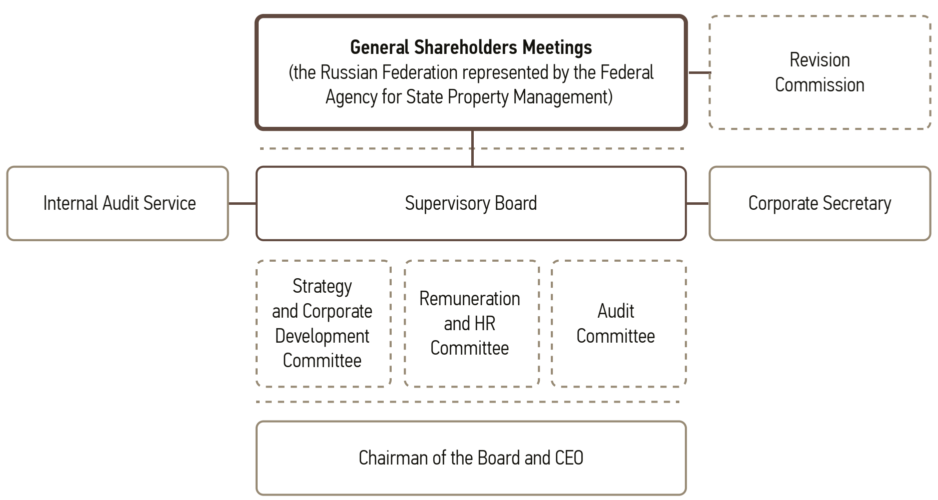
# CORPORATE GOVERNANCE

Efficient corporate governance practices underpin the successful operations of a company, its sustainable development, risk management, ensuring a balance of the rights and interests of the shareholders, management and other stakeholders. Pursuing the best corporate governance standards also positively impacts the company's operating results, internal efficiency, investors' valuation of the company's securities and ability to raise capital needed for further development.

Russian Agricultural Bank regards good corporate governance practices as a key to its long-term success, creating trust and engagement between the Bank and its shareholder, stakeholders, employees, and clients.

The corporate governance structure ensures a proper balance of governance bodies, leverages authority, and distinguishes between general management process carried out by the General Shareholders Meeting and operations management that is carried out by executive bodies - the Chairman of the Management Board and the Management Board.

The chart below shows the Bank's top level organizational chart comprising four tiers, namely the General Shareholders Meeting, the Supervisory Board (SB), the Chairman of the Management Board and the Management Board (MB).








An effective system of mechanisms and approaches (directing and controlling the Bank) ensures that decision making is fast, transparent, and result-oriented. It enables the Bank to control risks effectively, and to react promptly to any changes in the business or economic environment.

Russian Agricultural Bank's only shareholder is the Russian Federation, represented by the Federal Agency for State Property Management (Rosimushchestvo), which holds the Bank's issued and outstanding ordinary shares (**78.66%** from total share capital), the Ministry of Finance of the Russian Federation, which holds the Bank's issued and outstanding preference shares (**5.69%** from total share capital) and the State Corporation "Deposit Insurance Agency", which holds the Bank's issued and outstanding Type A preference shares (**15.65%** from total share capital).

Rosimushchestvo is the sole owner of the Bank's voting stock. Pursuant to the Russian Federation Government Decree No. 738 dated December 03, 2004 "On Management of Federally Owned Shares in Joint Stock Companies and Exercise of the Special Right of the Russian Federation to Participate in Joint Stock Companies' Management" ("Golden Share"), Rosimushchestvo exercises the powers of the General Shareholders Meeting. The decisions of the General Shareholders Meeting are executed in the form of an order by Rosimushchestvo.

Thus, SB composition is determined by the direction of Rosimushchestvo upon the instructions of the Russian Government. The Chairman of the Supervisory Board is chosen by a vote among SB members by a majority vote.

The Bank's shareholders have equal and fair opportunity to take part in profit distribution through dividend payment.

The Bank has drawn up and follows all the requirements of the internal documents compulsory for joint-stock companies (Charter documents, Provision on the General Shareholders Meeting, Provisions on the Supervisory Board and Management Board, and the Revision Commission, etc.). The Bank timely discloses complete, updated, and correct information on its operations to ensure the Bank's shareholder and investors can take substantiated decisions.

The SB remuneration system provides for closer alignment of interests of the SB members with the shareholder's long term financial interests. The only form of remuneration applied by the Bank to the SB members is fixed remuneration. The remuneration of the executive bodies and other key personnel is linked to the Bank's results and their personal contribution to achieving these results. Russian Agricultural Bank has introduced long term motivation for executive management and other key personnel.

Russian Agricultural Bank has established an effective risk management and internal controls framework ensuring reasonable confidence that the Bank accomplishes the set targets. The Bank has set up internal units working on risk management and internal controls.

The Bank's Internal Audit Service reports functionally to the SB. Its functions comply with the recommendations of the Corporate Governance Code and among others include: (1) assessment of the efficiency of the internal control system; (2) assessment of the efficiency of the risk management framework.

The Bank has drawn up and introduced anticorruption policies that set forth measures aimed at creating corporate culture blocks, organizational structure, rules and procedures preventing the cases of corruption.

## THE SUPERVISORY BOARD

The Supervisory Board exercises the overall management excluding the solution of issues assigned pursuant to the Federal Law No. 98 "On joint-stock companies" dated December 26, 1995, and the Bank's Charter to the competence of the General Meeting of Shareholders.

The role and responsibilities of the SB include: considering and approving the long-term strategic guidelines, KPIs, approaches to the risk management and internal control frameworks, controlling the performance of the Bank's executive bodies. The Supervisory Board also provides advisory assistance to the Management Board on comprehensive issues, in accordance with the Bank's core values of transparency, trust, and integrity.

The SB as the key element of corporate governance framework sets forth strategic directions of a financial institution and acts as a kind of a guarantor balancing the interests of its management, shareholders and other stakeholders.

The Bank's SB determines key strategic long-term guidelines, controls executives bodies, sets approaches to risk management and internal controls, sets the remuneration policy of the SB members, the executive bodies and other key management personnel. The Bank's SB constantly monitors the Bank's operations and the executive bodies, assesses their activity as to whether it corresponds to the nature, scale, and conditions of the Bank's development, sets the key performance indicators (KPIs) and controls their achievement.

As at January 1, 2020, the Bank's Supervisory Board comprised 8 members.

| | |
|---|---|
| **Chairman of the Supervisory Board** | |
| Dmitry N. Patrushev | Minister of Agriculture of the Russian Federation<br>Elected SB Chair on July 23, 2018<br>Re-elected SB Member on June 27, 2019 |
| **Members of the Supervisory Board** | |
| Arkady V. Dvorkovich | Co-chairman of the Skolkovo Foundation Council, Chair of the Skolkovo Foundation<br>Re-elected SB Member on June 27, 2019 |
| Oleg A. Bogomolov | Advisor to Chairman of the Management Board of JSC Rosselkhozbank<br>Re-elected SB Member on June 27, 2019 |
| Andrei Y. Ivanov | Deputy Finance Minister of the Russian Federation<br>Re-elected SB Member on June 27, 2019 |
| Boris P. Listov | Chairman of the Board and CEO of JSC Rosselkhozbank<br>Re-elected SB Member on June 27, 2019 |
| Vladimir I. Strzhalkovsky | Chairman of the Moscow City Organization "All-Russian sports and physical culture society "Dynamo"<br>Re-elected SB Member on June 27, 2019 |
| Alexander S. Galushka | Advisor at the International Congress of Industrialists and Entrepreneurs<br>Elected SB Member on June 27, 2019 |
| Oksana N. Tarasenko | Deputy Minister of Economic Development of the Russian Federation<br>Elected SB Member on June 27, 2019 |



## PERFORMANCE OF THE GOVERNING BODIES

In 2019, four General Shareholder Meetings were held: four extraordinary meetings and an annual General Shareholder Meeting in June. In particular, the annual General Shareholder Meeting elected the Revision Commission, the composition of the Supervisory Board, approved the Bank's external auditor, the Bank's annual report, and the accounting (financial) report for 2018. Besides, the annual General Shareholders Meeting approved the internal regulation on the Bank's GSM and looked into other issues on the agenda.

During 2019, the Supervisory Board convened **29** times and in total addressed **116** issues. The committees functioning under the SB convened **39** times.

These bodies addressed the following key issues on the Bank's Strategy and Long-term development program implementation, key indicators accomplishment; cost-cutting measures; performance under business plan; credit policy; risk management policy; risk and capital management strategy; large risks reports; mandatory ratios compliance; capital size and results of the capital adequacy assessment; purchasing activities; non-core assets disposal; corporate governance framework, etc.

The authorities are distributed among the SB members through the establishment of specialized committees. The Provisions on the Bank's SB and on SB Committees envisage that SB members may provide written opinions regarding issues on the agenda in case of their personal absence.

The Supervisory Board of Russian Agricultural Bank established three SB committees:

- the Audit Committee reviews the Bank's accounting and risk policies, as well as the internal control environment
- the Strategic Planning and Development Committee sets forth and supervises general and priority strategic objectives, makes recommendations on the Bank's dividend policy, and evaluates the Bank's operational efficiency
- the Human Resources and Remuneration Committee approves the Human Resources Policy and the remuneration policy for senior executives.

The specialized committees under the SB perform a preliminary review and prepare recommendations on issues within the competence of the Board. All issues concerning operational and strategic management, financial planning, asset and liability management, and business segments are submitted for approval to the SB pass preliminary review by the Management Board.

The SB elects chairs and members of these committees among the Supervisory Board members for a period until the General Shareholders Meeting elects a new Supervisory Board.

The composition of the Supervisory Board Committees:

The Strategic Planning and Development Committee:

| | Composition as at January 1, 2020 | Composition as at January 1, 2019 |
|---|---|---|
| **Chair:** | A.V. Dvorkovich | A.V. Dvorkovich |
| **Members:** | A.S. Galushka<br>A.Y. Ivanov<br>B.P. Listov<br>O.V. Tarasenko | A.Y. Ivanov<br>M.Y. Genis<br>B.P. Listov<br>M.A. Eskindarov |

The Audit Committee:

| | Composition as at January 1, 2020 | Composition as at January 1, 2019 |
|---|---|---|
| **Chair:** | V.I. Strzhalkovsky | M.A. Eskindarov |
| **Members:** | O.A. Bogomolov<br>A.S. Galushka<br>A.Y. Ivanov<br>A.V. Dvorkovich | O.A. Bogomolov<br>M.Y. Genis<br>A.Y. Ivanov<br>V.I. Strzhalkovsky |

The Human Resources and Remuneration Committee:

| | Composition as at January 1, 2020 | Composition as at January 1, 2019 |
|---|---|---|
| **Chair:** | A.Y. Ivanov | V.I. Strzhalkovsky |
| **Members:** | A.V. Dvorkovich<br>V.I. Strzhalkovsky | A.V. Dvorkovich<br>M.A. Eskindarov |

## THE REVISION COMMISSION

The Revision Commission is the body responsible for controlling the Bank's financial and business activity. It carries out the revision of compliance of current operations with the financial plan, analyzes the Bank's financial position, evaluates the functioning of internal control and risk management systems, and checks the legitimacy of selected transactions.

The Revision Commission is elected according to an order of Rosimushchestvo.

The Commission comprises **5** members and currently includes representatives of Rosimushchestvo, the Ministry of Agriculture and the Ministry of Finance of the Russian Federation.

## THE CORPORATE SECRETARY

The Corporate Secretary is responsible for ensuring procedures aimed at championing the rights and interests of the Bank's shareholders and support the SB efficient work. The Secretary participates in arranging the General Shareholders Meeting and Supervisory Board meetings and works out resolutions that need the approval of the Bank's shareholder. The Corporate Secretary secures effective cooperation between the shareholder and the Bank's management team.

The Corporate Secretary reports to the Supervisory Board and is appointed by its decision.

## THE MANAGEMENT BOARD

The Chairman of the Board and the Management Board are Russian Agricultural Bank's sole and collective executive bodies. They perform general duties related to achieving the Bank's key business goals, accomplishing long-term targets set forth by the shareholder, supervising the compliance of Bank operations with all relevant laws and regulations, overseeing the introduction and functioning of appropriate risk management systems including defining the Bank's risk appetite, monitoring the environment in which the Bank operates, and strengthening the Bank's corporate culture.

The composition of the Management Board as at January 1, 2020 was as follows:

| | |
|---|---|
| Boris P. Listov | Chairman of the Board and CEO of JSC Rosselkhozbank |
| Irina V. Zhachkina | Board Member, First Deputy Chairman of the Board |
| Kirill Y. Levin | Board Member, First Deputy Chairman of the Board |
| Aleksei Y. Zhdanov | Board Member, Deputy Chairman of the Board |
| Ekaterina A. Romankova | Board Member, Deputy Chairman of the Board, Chief Accountant |
| Pavel D. Markov | Board Member, Deputy Chairman of the Board |
| Andrei N. Barabanov | Board Member, Deputy Chairman of the Board |
| Olga S. Suvorova | Board Member, Deputy Chairman of the Board |
| Denis V. Konstantinov | Deputy Chairman of the Board |
| Elena A. Lesina | Deputy Chairman of the Board |
| Maksim G. Lyubomudrov | Deputy Chairman of the Board |
| Konstantin Y. Styrin | Deputy Chairman of the Board |

The MB is supported by a number of specialized committees and commissions, including:

**1. The Strategy and Corporate Development Committee.**
The Committee draws up proposals and recommendations for the MB and its Chairman, and makes decisions to enhance governance at the Bank and across the Group in the following areas: strategic development, corporate governance, development of the functional model and organization structure, project activities, business process optimization, general approach to segmentation and customer work, communications and brand management; document flow management.

**2. The Credit Committee**

The Credit Committee considers issues related to lending, setting credit risk for corporate clients limits. The Credit Committee is not authorized to take decisions regarding the settlement of corporate problem loans.

The Credit Committee engages in the implementation of the Bank's credit policy and its enhancement, as well as the minimization of credit risks. It ensures that lending transactions yield a return and are effective, by introducing improved quality and faster decision making, and standardized credit processes.

**3. The Junior Credit Committee**

The Junior Credit Committee engages in the implementation of the Bank's credit policy and its enhancement, as well as the minimization of credit risks. It ensures that lending transactions yield a return and are effective, by introducing improved quality and faster decision making, and standardized credit processes.

**4. The Finance Committee**

The Finance Committee coordinates multiple aspects of business planning, cost management, pricing, and profitability analysis of banking operations. It is also involved in improving the management of the Bank's financial and business activities.

**5. The Asset and Liabilities Management Committee (ALCO)**

ALCO develops and makes decisions on asset and liability management related issues including: operations to raise funding or allocate funds on the financial markets (securities and derivatives market, FX and money market, stock market and OTC market, where the Bank raises funding and allocates its funds or currency assets, engages in securities transactions, issues or redeems its debt obligations). ALCO is also tasked with decision-making on distributing funds amongst the Bank's units, managing market risk (including interest and currency risks) and liquidity risk; and developing the Bank's tariff and interest policy; approving internal accounting and tax regulations.

**6. The Technology Committee**

The Technology Committee reviews, coordinates and settles disagreements related to the development and implementation of IT employed in the roll-out and support of the Bank's products, services and transactions, including the building of software and IT platforms of the Bank, the development of the Bank's information security system; developing internal regulations setting forth the procedure for IT support, including information security, banking products, services and operations; improving of existing and developing new banking IT, including information security system; taking part in planning purchases, development and installation of new software and IT infrastructure and information security tools.

**7. The Branch Network Committee**

The key functions of the Branch Network Committee include elaboration and decision-making related to enhancing the efficiency of regional branch network's operation, development, and manageability (including internal units). Moreover, the Committee assesses the performance and takes action to enhance the efficiency of the regional branch network. The Committee is tasked with improving branch network management, early identification of negative trends in branch workflow, and selecting measures to increase their efficiency; coordination of branch liaisons with local authorities and the Bank of Russia territorial divisions; coordination of the course of action in case of emergencies within the branch/points-of-sale locations.

**8. The Problem Loan Management Committee**

The Problem Loan Management Committee considers and resolves issues of settling corporate problem loans/debts and assets/non-core assets recorded on the Bank's or its subsidiaries' balance sheet as part of settlement procedures.

The Problem Loan Management Committee implements the Bank's policy in problem loan management and develops proposals for the Bank's Management Board to improve that policy, the quality of the Bank's loan portfolio, and the efficiency in settling distressed loans. The Committee ensures that uniform approaches are applied in the implementation of the problem loan management policy as well as to any non-core assets that the Bank may receive in the course of problem loan settlement. The Committee takes part in decision-making on settlement of problem/overdue loans; approval of general principles how to interact with the Bank's subsidiaries and third parties outsourced for a problem loans work-out.

**9. The Corporate Ethics and Discipline Committee**

The Corporate Ethics and Discipline Committee exercises overall control of the implementation of shared corporate values and ethical norms, and facilitates the development of a unified corporate culture, including in the sphere of preventing corruption.

**10. The Risk Management Committee**

The Risk Management Committee controls the target risk appetite and the aggregated risk profile of the Bank and the Group, making sure that the risk taken falls within the existing limits and thresholds. It monitors the key risk factors that affect the aggregated risk profile of the Bank and the Group, and takes action so that the risk management system (including risk identification, assessment, monitoring, and control processes) functions efficiently and is improved on an ongoing basis; control of the risk management framework compliance with the regulatory requirements, including in view of the introduction of standards of the Basel Committee on Banking Supervision.

**11. The Compliance Committee**

The Committee engages in enhancing internal control efficiency including regulatory risk management; working out decisions related to internal control framework.

**12. The Retail Business Development Committee**

The major tasks of the Retail Business Development Committee include working out proposals and decisions on enhancing efficiency and demand for retail product range, monitoring yield and profitability of retail products; terms of retail loan and fee-based products, lending and sales procedures and pricing; control of elaboration and launch of retail products; settling problem/overdue retail loans.

The Retail Business Development Committee implements the Bank's credit policy/policy in problem loan management, minimizing credit risks and ensuring yields on retail loans, ensuring efficiency through higher quality and speed of decision making, introduction of unified retail service standards.

# 6 INFORMATION TECHNOLOGY

Russian Agricultural Bank considers cutting-edge IT solutions an important competitive advantage allowing businesses to keep pace with Russia's fast-changing banking landscape. The Bank services more than 6 million clients through a vast points-of-sale network and remote banking channels.

The Bank's consistent and thorough approach to IT systems secured the level of technological development that enabled access of millions of people and companies to financial services and increased the banking sector penetration in Russia.

Pursuant to its Strategy through 2020, the Bank carries out a number of strategic projects targeting an increase in business efficiency and stipulating, in the first place, operating model transformation and lending process improvement.

To deliver on the 2020 Strategy targets, the Bank pursues project-based solutions in the following areas:
- Digitalization of retail and corporate business
- Developing lending and transaction business
- Upgrading operational business support efficiency

These initiatives will enhance the Bank's lending technologies, product suite, sales and service channels, incl. digital and remote channels, IT, higher management systems efficiency.

These projects are designed to upgrade lending technologies (including problem loans management), product line up, IT, sales and service channels, including remote, enhance efficiency of the Bank's management systems. In 2019, Russian Agricultural Bank continued its IT evolution in line with the Strategy. The key focus areas are installation of modern platforms, operational streamlining, and centralizing all services and business applications.

The Bank's ad hoc IT Strategy through 2020 is aimed at increasing the technological level and maximizing the Bank's profit generated by each client segment. The primary focus area is an installation of a new core IT system incorporating the most recent and prospective technologies for faster banking products roll-out, straight





through client services and a larger share of automated operations. The priority tasks set forth by the IT Strategy comprise sales process support; remote service channels development; fee-based products roll-out; corporate lending process support; reporting and analytical functionality improvement.

Currently the Bank continues transitioning to the new Core banking system (CFT-Bank). The System has been successfully rolled out and is running in 33 branches. The Bank contemplates the creating of an easily customizable multi-branch modular platform. The new core system will feature centralized settlements, back-office processes unification, multi-channel and end-to-end customer service that enables customers to use any POS across the Bank's network, irrespective of the location where the account was originally opened.

The installation of the new banking system will sufficiently bring down the internal execution costs for client transactions and the number of manual operations, speed up the bringing of new products to the market.

Russian Agricultural Bank works towards automating retail problem loans management and building a target process for handling corporate problem loans.

The Bank rolled out a Collection component of Retail business analytical CRM, designed to segment retail clients to streamline overdue debts collection.

Pursuing further development of lending (incl. problem assets) and transaction business, the Bank implemented and automated a target process for handling retail and corporate problem loans. These measures resulted in an increase of cash recoveries from disposal/collection of problem loans.

To improve transaction business the Bank carries out a program for building a hi-tech SME transaction bank. The core objective is to create effective remote channels to attract SME clients through Internet and social media, its partners, open a corporate call center to process applications through remote service channels. These steps will support the yield on the Bank's products. As part of this program, the Bank has developed a new role model to attract and service clients in the SME frontline.

As part of **upgrading business support efficiency**, the Bank completed project designed to ensure compliance with the Bank of Russia requirements and the IFRS Committee related to preparation of consolidated financial statements under IFRS 9 "Financial Instruments".

The Bank successfully installed a Unified front-office solution for Retail units enabling automated end-to-end client procedures. The Bank completed the introduction of a functional organizational and functional (role-based) frontline model throughout the Bank's branch network.

With a view to **increase client focus**, Russian Agricultural Bank continuously upgrades its CRM systems. The Bank completed the installation of (1) analytical CRM for corporate business, which is designed to boost sales via marketing campaigns based on client preferences analysis. (2) CRM system for corporate business in part of "Managing potential problem loans".

In 2019, the Bank completed the installation a unified Front-office for Retail business of the operational CRM system for retail division. These solutions supports the deployment of new sales and service strategies.

During the past year the Bank put into operation (1) Mobile front to service retail customers via mobile gadgets (Easy front) enabling managers to register new retail clients, issue non-personalized cards, open settlement and savings accounts, connect to remote service channels; (2) Radar AML developed as part of the project to detect suspicious operations on card accounts of retail customers, designed to process and analyze whether data (behavioral and financial actions of retail customers) matches the schemes of terrorism financing and/or involving in illegal military acts in foreign territories; (4) Problem Debt Infomart; (5) a unified Front-office for Retail business; (6) Financial markets support platform.

The Bank put into operation an Automated Corporate Mobile Bank as part of the initiative "Installing a Corporate Mobile bank". A mobile application Business-Online was launched specially for entrepreneurs and allows the client to manage the account worldwide. The app is synched with remote banking 'Internet-Client' providing such features as statement of account, signing and sending payment orders.

To develop its Retail remote bank, RusAg has adapted its systems to cover the needs of physically impaired persons, people with limited mobility and elderly people, rolled out push-messages, access via reading a QR-code from the mobile app, and improved functionality, incl. based on "Markswebb Rank and Report" recommendations.

Regarding IT infrastructure, the Bank works on a comprehensive and ongoing basis to make its internal interaction processes and IT structures more mature. The Bank carries out upgrades of the local area network, data back-up systems.

RusAg has installed a unified system to manage user accounts and access rights to corporate IT resources (IDM). IT access management for a vast branch network requires high quality. The new solution helped optimize and speed up user access to IT resources.

The Bank has integrated its IT systems with National Payment System - operational and payment clearing center of the Faster Payments System to comply with the Bank of Russia Ordinance No. 5209-U dated 16.07.2019 "On amending the Bank of Russia Regulation dated 6 July 2017 No. 595-P "On the Bank of Russia payment system" (p. 4, paragraph 4) in part of C2C transfers – from individual to individual.

RusAg implements a project for electronic document flow development aimed at expanding tech and user functionality through additional process automation and streamlining based on best banking practices.

## 2020 FOCUS AREAS

Keeping pace with the trends prevailing in the bank and financial markets RusAg introduces innovations, incl. a program for building a hi-tech transaction bank for SMEs and retail business digital transformation program.

The Bank launched a project to build its data management systems, aimed at providing quality, up-to-date and reliable data to support its business processes. These systems will help the Bank better understand its customers' needs and build targeted product offerings. The proposed data management infrastructure will cut data storage and processing costs, increase labour and IT productivity.

In line with the strategic objective to cement its position as an efficient, reliable and hi tech financial institution RusAg contemplates to further transform the operational model and enhance the efficiency of business processes and POS, grow the share of operations carried out using remote service channels.

# 7 BRANCH NETWORK, SALES AND SERVICE CHANNELS DEVELOPMENT

Russian Agricultural Bank leverages its strong territorial presence, and sales and service channels to support its long-term sustainable business growth, diversify income sources, and make financial products available to various client segments. With **66** branches and **1300** points-of-sale, the Bank securely holds its position among Top-3 bank POS networks in Russia. The Bank operates in **82** constituents of the Russian Federation. This solid foundation underlies the Bank's strong regional franchise in rural territories, towns, mid-sized and large cities, including areas in which no other banks are present. More than **74%** of the Bank's branches are located in communities with less than 100,000 residents.

The following chart shows the Bank's branch network structure as of January 1, 2020.

| | | |
|---|---|---|
| Universal product offering | **66 flagship points of sale** | |
| 284 operational offices<br>985 additional offices | **Standard:** wide product offering;<br>**Mini:** basic services mainly for retail customers;<br>**Light:** basic retail and small business product offering;<br>**Segment-wise specialization** on<br>(1) retail; mortgage loans<br>(2) large, small business | **1,269 points of sale** |
| | 2 mobile (vehicle-based) offices<br>6 self-service offices (kiosks)<br>11 remote work stations<br>4,011 ATMs<br>1,665 self-service terminals | Flexible opening hours and easier accessibility |





Moreover, **662** authorized representatives provide access to the Bank's services in mid-sized cities not covered by the Bank's branch network. The average territorial coverage across Russia with the account of the Bank's representatives stands at **61.5%**.

The number of points of access to the Bank's products and services in 2019 totalled more than 10,000.

RusAg's representative offices operate in China, Belarus, Kazakhstan, and Armenia. The Bank leverages its presence in the Eurasian Economic Union and South-East Asia to reach out to new clients, increase the efficiency of liaising with interbank counterparts, improve the access of the existing client pool to consumer markets and the Bank's brand awareness in the countries of presence.

The short- and mid-term tasks are envisioned in the Strategy through 2020 and outlined in detail in the Branch network development program. The Bank's strategic focus areas are to develop small businesses in rural areas, provide retail clients and key Russian economic sectors with modern tech-based financial and non-financial services and products. The Bank will continue its efforts to make retail and corporate banking service more readily available across Russia.

As part of strategic planning the Bank has identified the following key strengths it can capitalize upon:
- a reliable bank with **100%** state ownership
- the Bank operates a wide-spread POS network, present in most municipalities in Russia
- large client pool in mass market segment
- close liaison between heads of branches and local administrations in Russian constituents.

The Bank identified the following factors as its key opportunities:
- unoccupied niche where the Bank can secure key positions in small, mid-sized settlements, and in rural areas
- development of alternative sales channels, especially for remote regions
- low competition in the target segment.

The broader strategic goals are decomposed into the following objectives:
- matching the throughput capacity with business targets
- attaining higher efficiency and cost efficiency
- making services available to clients in any locations (flexible in terms of client location).

The key milestones on the way to strategic objectives accomplishment are (1) an increase in the front office staff workload (loans and deposits per employee), (2) product diversification tailored to match regional customer preferences, (3) faster decision-making process and enhanced service quality, (4) sales personnel motivation, (5) priority on deployment of remote service channels and less capital intensive POS formats (please refer to section ATM and Self-Service Network).

The Bank's key objectives while planning to open POS in medium and large cities are as follows:
- The need to reach out to clients in retail business, not ready to use remote service channels (target segment)
- Rendering services to micro-, small and mid-sized businesses that require consultations, operations with personal attendance at POS.

In addition, the Bank contemplates rendering services to high-net-worth individuals, carrying out complex transactions, incl. mortgage loans.

The Bank actively engages in implementing the Integrated Rural Areas Development Program. As part of this work, the Bank looks to:

- Cover **100%** of rural areas with banking services
- Finance/co-finance projects in transport and engineering infrastructure, complex residential construction
- Provide mortgage lending for improving housing amenities, and commercial projects in rural communities that received new development stimulus

In 2019, the Bank proceeded with branch network transformation by developing alternative channels, replacing inefficient POS with new offices located in promising regions and growing POS efficiency. As part of optimizing the Bank's presence in Russia, the Bank opened 15 operational offices and closed 1 operational office.

## ATM AND SELF-SERVICE TERMINALS NETWORK

In the reporting period, the Bank continued to develop its ATM and self-service terminals (SST) network. At 1 January 2020, it comprised **5,663** self-service machines, including **4,011** ATMs and **1,665** SST terminals.

The Bank has established a shared ATM network through reciprocal partnership with Rosbank and Raiffeisen Bank. The total number of ATMs in a network arranged through partnership with Alfa-Bank, Promsvyazbank, Rosbank, and RaiffeisenBank stood at **11,158** as of 1 January 2020.

To enhance client service standards the Bank in 2019 launched an ATM renovation program, with **918** ATMs replaced as part of this initiative. All the newly bought ATMs support cash acceptance. Besides, the Bank actively installs cash recirculation feature. Such devices can disburse cash earlier accepted from clients.

In 2019, cash withdrawal through Russian Agricultural Bank's ATM network totaled **RUB 400 billion**, which is a **4.5%** growth versus 2018. Cash withdrawal from the Bank's proprietary cards at the Bank's ATMs was up **2.6%** and totaled **RUB 289.1 billion**. Cash withdrawal from third-party banks' cards at the Bank's ATMs rose **10.1%**, up to **RUB 110.9 billion**.

The amount of cash accepted through the Bank's self-service network (ATMs and self-service terminals) reached **RUB 79.1 billion**, a rise of **5.4%** versus 2018.

Fees generated from operations in the self-service network reached **RUB 400 million**, which is **5.2%** higher than the 2018 level.

Pursuing higher service standards, Russian Agricultural Bank has expanded its Mobile and Internet Bank functionality for retail customers. The current functionality and features are in line with the best market standards.





The Bank has seriously reworked the user interface of its Mobile Bank. The Bank launched the Faster Payments System operated by the Bank of Russia. RusAg's retail remote banking channels received awards from Retail Finance Awards, GlobalCIO and FinAward.

In 2019, in addition to wide functionality, the Bank's retail remote bank was adapted to cater to the needs of vision-impaired people under the Bank of Russia recommendations.

Remote bank functionality improvement underpinned a 2.3-times increase in the number of users as compared to November 2018. The average daily number of transactions processed through the Retail Mobile and Internet Banks totals **52,000**. The Bank's clients have deposited **RUB 69 billion** through remote service channels. According to Markswebb Rank&Report, which assesses functionality and user convenience, RusAg's remote bank came in 15th in 2019 as compared to 31st in 2016.

The Bank's Internet and Mobile Bank solutions comply with modern security standards and work in conjunction with a new anti-fraud system in remote retail service channels.

In 2020, the Bank will further work on developing its remote service channels and deployment of modern solutions in cards and payments. These measures will help to enhance attractiveness, technological and competitive advantages of the Bank's products in the market of remote retail services and settlements.

In 2020, Russian Agricultural Bank plans to open, change locations and/or the format of **48** points of sale with focus on localities with less than **100,000** residents.

Within the strategic timeframe, the Bank proposes to enhance efficiency of its POS network by a balanced development of types and formats of points of access to the Bank's products and services, including direct and remote channels.

## 2020 FOCUS AREAS

In 2020, Russian Agricultural Bank will work towards the targets set by its Branch network development program. The program stipulates opening **48** POS, **89** remote workstations, coordinating **730** authorized representatives, and renovation (change in location) of **41** POS.

Pursuant to the 2020 Strategy, the Bank enhances efficiency of its branch network by a balanced roll-out of layouts and types of points-of-access (incl. renovation and redesign), including direct and remote channels, by optimizing the office locations while maintaining the territorial coverage. Diversification with a clearer focus on less capital intensive formats and remote access channels will help to boost cost efficiency of the network without compromising on territorial coverage and availability of the product offering.

Russian Agricultural Bank's strong regional footprint, profound expertise in agribusiness financing and close liaisons with regional governments as well as large mass market customer base are the key competitive advantages in growing client base and increasing customers' loyalty throughout Russia.

# 8 HUMAN RESOURCES MANAGEMENT

Seeking to accomplish the key targets outlined in the Strategy through 2020, Russian Agricultural Bank consistently works towards enhancing its human capital management. As part of this effort, the Bank places priority on strengthening the Bank's employer brand and building a professional, loyal and motivated team who is able to deliver on the tasks set forth by the shareholder.

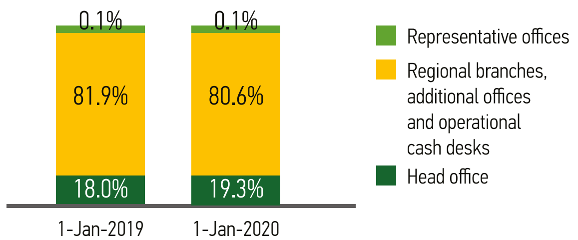
RusAg in 2019 pursued the following tasks: upgrading staff professional expertise and professional standards implementation; building internal succession pool; corporate culture development targeting team work, joint performance, encouraging personal accomplishments; supporting the Bank's employer brand attractiveness; enhancing employees' engagement and loyalty.

To achieve sustainable business results, Russian Agricultural Bank seeks to enhance staff performance by upgrading their qualification level, increasing engagement, and strengthening morale. The outcome has been an unfailingly responsible attitude of the Bank's employees to their duties, their aspiration towards highest achievements for the benefit of the Bank and its clients.

Effective human capital management at Russian Agricultural Bank is solidly underpinned by sound financial and non-financial motivation, consistent recruitment, appraisal and training, and strong internal social policies.

## PERSONNEL OVERVIEW[1]

Russian Agricultural Bank is one of the largest employers in the Russian banking sector. In 2019, the actual number of the Bank's employees reached **27,749**[2].

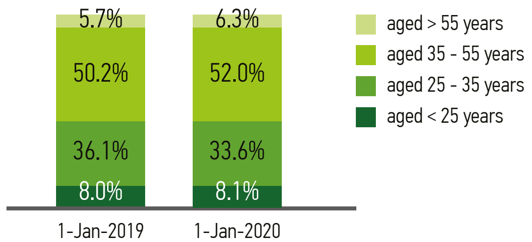



[1] Source: Bank information as of December 31, 2019.
[2] Note: the total number of personnel for Russian Agricultural Bank on a standalone basis. The number does not include contract employees.

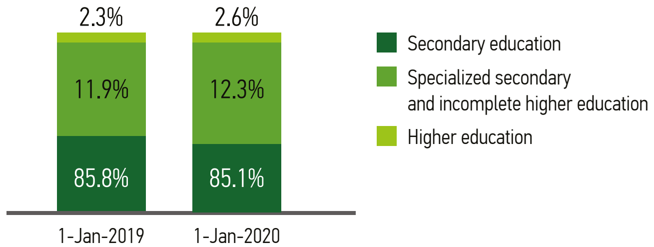




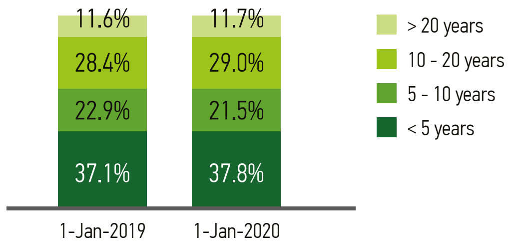
**Staff Breakdown by Age**




**Staff Breakdown by Education**




**Staff Breakdown by Work Experience in the Banking Sector**




For the most part, the Bank's staff has higher education and considerable prior banking industry experience. The average age of the Bank's workforce is 38.

# HUMAN CAPITAL INVESTMENTS

## PERSONNEL RECRUITING, ASSESSING AND RETAINING

When recruiting new staff, the Bank is guided by non-discrimination and fairness principles as well as professional expertise criteria. The Bank's focus on agribusiness makes it desirable that future staff possess both professional banking knowledge and knowledge of the core borrowers' industry. Newly recruited employees pass adaptation trainings.

The recruitment process solidly rests upon the following principles:

- Building internal and external succession pools.
- All candidates for vacant positions are treated equally without any discrimination on any ground.
- The Bank applies identical requirements to nominees that apply at the same time for the same position.
- The Bank seeks to employ high-potential candidates to ensure their future successful work and advancement within the Bank.

To ensure the required qualification and potential, in 2019 the Bank carried out standardized assessment and recruitment procedures, including personality and skills tests, **360**-degree feedback tests. The Bank continues to apply a new tool – verifying the key motivation factors and the level of satisfaction. The results of the conducted assessments are used to upgrade managers' efficiency in recruitment, planning and training, building succession pools, rotation and recognizing performance.

**720** candidates for managerial and linear staff positions took assessment incorporating skills tests, personal and motivational questionnaires, comprehensive assessment – **2,620** employees, evaluation of labour motivation factors – **790** employees, professional tests – **990**, attestation – **640**.

The results of this assessment were instrumental in increasing managers' efficiency, candidate selection, planning training process, internal reserve pool replenishment, rotation, and rewarding highly effective and qualified employees.

The comprehensive personnel assessment system is designed to ensure the necessary qualifications and performance by executive personnel across the branch network. To ensure talent acquisition from the market and in-house, the Bank puts special focus on the personnel qualifications, potential and competencies.

Operating in an environment of the knowledge-intensive economy and accelerating technological change, the Bank contemplates the introduction of professional standards as another priority area for ensuring the personnel qualification.

The Bank maintains its internal succession pool, ensuring timely and effective filling of vacant executive positions, as well as reducing management turnover.





The Bank has in place a thoroughly elaborated internal succession planning process which comprises 'talent reviews' and ongoing development at all levels. The internal talent pool ensures timely recruiting for vacant management positions. This mechanism also mitigates HR risks and shortens the employee adaptation period when appointed to management positions, provides career growth opportunities and motivates the staff to upgrade their qualification. This approach ensures development, progress and mitigates employee turnover risks.

In 2019, the internal pool comprised more than **1,516** employees. The existing assessment procedures allowed to fill in **40%** of key vacant positions in branches with the pool candidates.

To comply with regulatory requirements, the Bank introduced the following professional standards in its HR processes: accountant, internal auditor, risk manager, financing monitoring specialist, payment services specialist, HR specialist, occupational safety specialist, corporate secretary, process management specialist, marketing manager.

## COOPERATION WITH HIGHER EDUCATION ESTABLISHMENTS

The student scholarship program aims at supporting agrarian students and retaining young professionals in rural areas, thus contributing to revival of such communities, as well as strengthening the Bank's attractiveness as an employer brand among younger generation and creating a succession pool based on young specialists.

In 2019, RusAg continued cooperation with more than 300 higher educational establishments. The Bank takes part in initiatives designed to getting a competitive advantage and building an external employee pool.

The Bank's representatives took part in "Career days" hosted by the Finance University under the auspices of the Russian Government, M.V. Lomonosov Moscow State University, Russian State Agrarian University – Moscow Timiryazev Agricultural Academy, the Russian Presidential Academy of National Economy and Public Administration (RANEPA).

In 2019, **265** students from **53** universities operating under the auspices of the Russian Agricultural Ministry enrolled in the Bank's scholarship program.

In 2020, the Bank contemplates expanding its scholarship program targeting an increase in the workforce capacity in agribusiness and implementing the State Program for Integrated Rural Territories Development.

RusAg also supports workforce retention by building closer co-worker connections through arranging various social, cultural and sports activities.

## TRAINING AND DEVELOPMENT

Russian Agricultural Bank's human capital management aims at increasing engagement of every employee, and fully equipping all business units with highly qualified staff. This approach contributes to preserving and accumulating the Bank expertise, and also limits the risk of a shortage of talent. The Bank has a well-developed training system, which comprises both external and internal trainings customized for all employee grades. Self-education is encouraged through user-friendly online resources. On-the-job learning and mentoring are also available. The core vehicle for carrying out staff education is the Bank's Corporate University, which operates through six training centers at the Head Office and in the regions, offers an integrated educational environment contributing to creating teamwork skills and like-minded thinking. The Corporate University is a multi-functional structure that sets forth strategic tasks, works out methods and arranges education and development across the Bank's offices and branches. New knowledge is promptly disseminated across the Bank by cascading (a top down approach) through on-site seminars and distance learning tools.

The existing corporate training framework covers all employee groups and comprises the following types of learning targets: training under regulatory requirements; development of professional knowledge and skills; development of personal and managerial efficiency.

To ensure continuous education for new hires and to involve remote branch employees in on-site trainings without compromising on their core activity, the Human Resources have set up a pool of internal coaches for retail, small and mid-sized businesses, which currently comprises **138** employees.

In 2019, the Bank held **5,700** courses and tests for employees of various levels.

Overall, the Corporate University has compiled a portfolio of more than **50** programs of on-site and more than **300** distance learning courses across various specializations for all functional roles. All the programs fall into the three broad categories: skills training designed to develop product sales, enhance client service quality, management skills, and personal efficiency; professional training in financial analysis, accounting, back-office and cash operations, credit risks, collateral handling; product-specific trainings.

Employee training and development tasks are aligned with broader strategic goals outlined in the 2020 Strategy. In this context, the Bank will place special focus on increasing customer service speed and efficiency of the personnel as part of retail business development.

The Corporate University adds to the positive social impact of the Bank's core operations and its CSR activities by arranging financial literacy seminars for the Bank's clients, business community and local authorities, people employed in agribusiness, household plot owners, schoolchildren, students and general public. More than **33,800** people took part in such initiatives in 2019.



## MOTIVATING AND RECOGNIZING PERFORMANCE

One of the Bank's priorities is a continuous improvement of professional competences and enhancing individual and teamwork efficiency in all spheres. The Bank strives to ensure employee performance recognition, encourage further achievement through ongoing training and development, as well as to promote employees' personal well-being (and that of their dependents). To this end, the Bank has put into place a motivation and incentive policy.

RusAg holds professional excellence contests and competitions to reward business activity results for department staff teams, individual employees and branches, delivering on business plans and based on the results of strategic business sessions the best performing employees and branches were awarded certificates of merit, letters of acknowledgment. The "Best in Profession" contest has been held for 9 years in succession with the goal of incentivizing employees' strong performance. The photos of best employees are displayed in the Bank's offices.

The children of employees had an opportunity to display their talents in an arts competition. In total, **306** artworks were submitted; the winners received prizes based on the results of voting on the internal website.

Contests are designed to improve employee efficiency, service quality, and deliver on key performance targets.

The provision of a competitive package of benefits is an important factor in attracting and retaining the talented staff the Bank needs to deliver on its strategy objectives. Compensation for the work done is supplemented by a bonus system which is tied to achieving key performance indicators (KPIs). The Bank's non-financial incentives comprise commendations and letters of appreciation awarded to the most effective employees.

## INTERNAL SOCIAL POLICIES AND WORKING ENVIRONMENT

RusAg's corporate culture capitalizes on both traditions and innovations to bring the best practices to the every-day professional life of its employees and to create an environment supportive of growth and collaborative spirit.

Thus, corporate culture helps to align long term goals with corporate behavior and enables business goals accomplishment. HR policies facilitate seamless adoption of the right corporate values, which contributes to high staff morale and cohesion. Russian Agricultural Bank considers employee care and merit recognition to be priority directions for its internal social policy. Rules of professional conduct and outfit, basics of ethical conduct are effectively presented to the employees by means of leaflets and handouts.

HR policy is aimed at ensuring social protection, continuous improvement, and expansion of additional support of employees. The core social benefits comprise voluntary medical insurance, including medical services in the office, workplace accident insurance, one-off financial allowances for certain family circumstances, and discounts from partner companies. The Bank makes all mandatory contributions to the Russian Social and Pension Funds, in accordance with applicable Russian legislation.

The Bank runs a corporate retirement plan operated by a leading Russian non-state pension fund. Under the terms of the pension plan, the Bank provides employees who spent three or more years with the Bank with additional financial and social protection benefits upon their retirement. RusAg makes regular contributions to individual accounts with the non-state pension fund depending on the size of an employee salary.

Russian Agricultural Bank takes precautions to ensure the occupational safety of its employees. The Bank's policies help to avoid workplace accidents, health accidents, and professional diseases. RusAg provides workplace safety and safe behavior education and certifies workplaces in terms of ecological safety. All employees have to take part in fire evacuation drills. Moreover, the Bank provides comprehensive medical checkups and vaccination against viral infections.

A healthy lifestyle is one of the core elements of the Bank's corporate culture. Internal policies encourage fitness and sports activities, abandoning bad habits, smoking in particular. In 2019, the Bank held 'A health week' to draw employees' attention to the healthy lifestyle principles, pass knowledge tests, attend sports classes and get medical advice.

Strengthening employees' health, promoting healthy lifestyle are among the key priorities for the Bank that are incorporated in its Corporate Ethics Code. The Bank has created numerous opportunities for its employees to follow a healthy lifestyle. The employees can enroll in the futsal, volleyball, skiing, hockey teams and chess tournaments. Members of these sports teams make successful appearances at various interbank competitions. In 2019, corporate teams won gold medals in a Rural skiing competition, bronze medals in a futsal tournament, etc.

The Bank has arranged voluntary insurance in order to maintain and improve the health of its employees. Overall, **30,807** employees have enrolled in voluntary medical insurance programs. Starting 2019, all the Bank's employees, over **31,000**, are insured against workplace accidents.

## DIALOGUE BETWEEN MANAGEMENT AND EMPLOYEES

To increase staff involvement, HR policies provide for open and regular communication. Russian Agricultural Bank maintains an ongoing dialogue between staff and management via the internal website where personnel can discuss important questions or make a proposal on increasing overall effectiveness or upgrading business processes.

RusAg's corporate culture encourages staff participation in the Bank's activities. The employees have a chance to submit their opinions through regular polls and the "Open dialogue with the Bank's management" project. These opinions are taken into consideration.

The intranet website and 'Agrocredit' magazine are important components of the internal communications framework. The internal website gives employees a clear picture of the Bank's latest developments and serves as a platform for receiving feedback from employees on corporate social and charity activities. The magazine provides employees with an opportunity to better understand the Bank's mission and strategy, macroeconomic environment, industry specifics and recent events and to feel themselves an integral part of the entire Bank network.

The Agriculture Workers' Day, the Defender of the Fatherland Day, the Victory Day, International Women's Day, the New Year and the Bank's anniversary are major holidays that are popular among employees. The employees are specially greeted and receive small souvenirs to mark these memorable dates. Professional and creativity contests for employees and their family members have also become a good tradition with Russian Agricultural Bank.

## ANTI-CORRUPTION POLICIES

In order to ensure compliance with regulatory requirements and effectively prevent such issues as inducement to corruption, conflict of interest, disclosure of income and accepting presents by staff holding certain positions, the Bank has charged HR department with the respective functions. In 2018, the Bank took further steps to create a "zero tolerance" environment related to any forms of corruption and to streamline anti-corruption procedures and campaigns. To maintain a negative attitude of employees towards corruption, the Bank carries out knowledge tests on the internal website; informational e-mails dedicated to the International Anti-Corruption Day.

## 2020 FOCUS AREAS

In 2019, the Bank worked in line with its long-term strategic goals in the sphere of human capital development. In particular, the Bank made progress in strengthening its corporate culture, enhancing employee engagement and creating a rewarding and motivating environment.

In 2020, the Bank looks to further implement measures aimed at ensuring social benefits for its employees, building a strong corporate culture and enhancing loyalty. Social benefits package will be expanded in line with the existing market trends.

The Bank also contemplates holding circa 2,000 in-person training events and more than **2,300** distance training and testing events. In particular, the Corporate University will work towards:

- developing the coaching system to improve adaptation of newly hired employees during the trial period and those assuming new roles
- rolling out new forms and methods of training
- introducing new types of cooperation with top universities
- introducing a mobile learning platform
- reaching out to more employees through the Corporate University, incl. via setting up learning classes based in the Bank's branches.

# 9 CORPORATE SOCIAL RESPONSIBILITY

Long term values creation for any organization, especially one of systemic importance and whose work in many ways impacts the stakeholders and broader communities, solidly rests upon sustainable business practices. Russian Agricultural Bank since its inception has year over year adopted CSR principles that helped to pursue sustainable business practices. Given they are consistently pursued and upheld, such principles will inevitably be translated into a sustainable future for customers, shareholders and the wider community.

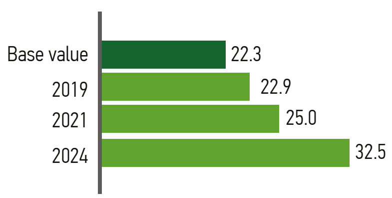
Sustainability approach is organically integrated in Russian Agricultural Bank's core business and operations. The Bank's sustainable business practices link back to its mission, vision, and values and are targeted at ensuring national agribusiness development, the country's food security, achieving the status of Russia as the world's leading food producer and exporter, increasing financial literacy and upgrading the overall welfare of the rural population. This is achieved through supporting SMEs, developing rural territories and mid-sized cities, promoting innovations and resource-efficient technologies in agribusiness, facilitating investments and improving investment climate, diversifying the product range, increasing access and affordability of high quality financial services.

## FINANCIAL SUPPORT OF SME

The Russian Government attaches special importance to the support of small- and medium-sized enterprises (SMEs). SMEs heat up competition and prevent monopolization in a large number of spheres.

As part of the National project "Small and Mid-sized Entrepreneurship and the Support for Business Initiatives"[1] the Government has approved a federal project "Small and medium-sized business and support for individual entrepreneurial initiatives" with total allocations of **RUB 37.4 billion**.

**Share of SMEs in Russian GDP, %[2]**




[1] National Priority Projects developed according to the Presidential Order No 204 dated 7 May 2018 "On the National Goals and Strategic Tasks of Development of the Russian Federation for the period up to 2024".

[2] Based on the passports of the national projects approved by the Presidium of the Presidential Council for Strategic Development and National Projects on December 24, 2018.





One of the main problems faced by entrepreneurs is an access to financial resources. In the framework of the National Project "Small and Mid-sized Businesses and Support of National Entrepreneurship" the authorized banks offer loans to small production businesses at the interest rate calculated as the CBR key rate plus **2%** with the overall rate capped at **8.5%** p.a.

Russian Agricultural Bank views activity of SMEs as an area of unlocking prospects and growth drivers for the national economy. Therefore, the Bank puts special focus on financial support of SMEs. Currently, Russian Agricultural Bank offers more than **30** lending programs tailored for this business segment. Since the start of operations (data on SMEs is tracked since 2008), the Bank has provided more than **RUB 3.2 trillion** for SMEs development, with more than **RUB 2.2 billion** provided to agribusiness SMEs.

The Bank partners with non-governmental organizations that work to promote business development and entrepreneurial culture:

**All Russia Public Organization "Delovaya Rossiya"**
Cooperation is aimed at creating favourable conditions that foster dialogue and partnership with business community. As part of the agreement the parties arrange events at federal and regional level – roundtable discussions where participants have a chance to work out proposals on important business issues. Hands-on cooperation between the partners is available in regions where the Bank is present.

**OPORA ROSSII, All-Russia Non-governmental Organisation**
The Bank partners with OPORA ROSSII to hold the 'Business Success' National Award. The Bank established the "Best Agricultural Project" category and its representatives sit on the Fiduciary Council of the award.

During 2019 the Bank arranged more than **10** regional forums. Achievements of more than **30** farmers have been recognized and marked by awards. Via OPORA ROSSII and as part of drawing attention to key business areas and state support programs, the Bank takes part in forums and conferences both at federal and regional levels.

Since 2016, the Bank takes part in the SME soft lending programs (6.5 Program under the direction of the SME Corporation (until 1 January 2019), Subsidized Lending Program under the direction of the Ministry of Economic Development of Russia).

**The Ministry of Economic Development (MED) Programme (Government Resolution No. 1764)**
In 2019, the Bank embarked on a new mechanism of state support of small and medium business with the interest rate capped at **8.5%** p.a. The program measures prioritize SME projects in Russian priority industries, incl. agribusiness. The program will expire in 2024.

**The National Guarantee System**
Under the National Guarantee System Russian Agricultural Bank offers unsecured/partially unsecured loans, guarantees/sureties and accepts only purchased assets as collateral. Working with the SME Corporation, the SME Bank and regional guarantee issuers in Russian regions, the Bank is closely involved in the establishment and development of the National Guarantee System. Russian Agricultural Bank accepts guarantee products from the SME Corporation and the SME Bank as the key security for its loans.

## PARTNERSHIP PROGRAMMES FOR SME

Russian Agricultural Bank develops partnership programmes with domestic manufacturers to create a favourable business environment in Russia and has been particularly successful in engaging with the major domestic producers that are establishing a new technology base for SMEs and other sectors. These programmes help cut costs on equipment purchases for entrepreneurs who can buy cheaper, take out smaller loans and pay less interest.

Non-banking services offered at the Bank branches:

**Zero Loss Business insurance packages from RSHB-Insurance**
In January 2017 the Bank and its partner RSHB-Insurance launched a joint programme to promote Zero Loss Business, a new insurance policy product for SMEs.

**Legal support for corporates from Amulex**
In March 2017 the Bank partnered with law firm National Legal Service AMULEX to offer corporate legal protection certificates.

**Beeline**
In December 2018, under a cooperation agreement with a mobile operator Beeline, the Bank launched a partnership programme to enhance Bank customer loyalty through preferential terms for Mobile Enterprise sales management platform, a Beeline product. The programme covers all clients in micro, small and medium segments and operates in all regions of the Bank's presence.

**MTT**
The purpose of this partnership programme launched in 2018 under a cooperation agreement with telecom company MTT was to drive the Bank's customer loyalty by corporate discounts offered by MTT on mobile phone communication services. The programme covers all clients in micro, small and medium segments and operates in all regions of the Bank's presence.

**DocLab**
The Bank embarked on this partnership programme in December 2018 under an agency agreement with DocLab to stimulate Bank customer loyalty through reduced tariffs. Bank clients are offered a **30%** discount on annual unlimited tariffs for the FreshDoc. Document Designer service.

**ASP**
Under a cooperation agreement with the Bank, ASP offers a **10%** discount and free advice during six weeks to clients who have installed ASP products to integrate their corporate accounting systems with Federal Information System Mercury in sectors such as meat processing, dairy, poultry farming, seafood production, distribution and retail sales.

In 2019, the Bank expanded its partner services for industry clients.





**Zoloto Poley**
In April 2019, the Bank opened a partner programme with Zoloto Poley, a manufacturer of organo-mineral fertilisers; offering Bank's customers in the corporate and self-employed segments an option to buy Zoloto Poley's products with a **10%** discount.

**Bionovatic**
In April 2019, the Bank signed a cooperation agreement with Bionovatic, a Russian company developing, producing and introducing macro- and micro-biological products for crop protection. Bank's customers are offered a **25%** discount on all Bionovatic products.

**Hevel Energoservice**
Hevel Energoservice designs and builds network-based and stand-alone solar power plants of any capacity. It also constructs stand-alone hybrid power plants and mini hybrid power plants, designed specifically for isolated regions without electricity supply (such as remote farms, stand-alone homes, herding stations, etc.). Stand-alone mini power plants are particularly relevant for remote areas where small farms require cheap electricity for their operations.

**Mir Yagod**
In October 2019, the Bank offered its clients preferential terms to use federal e-platform RosDikoros, a service that helps companies to purchase fruits, berries, nuts, mushrooms and other wild-growing forest foods from individuals on a legal basis.

## PARTNERSHIP PROGRAMMES FOR SME WITH DOMESTIC MANUFACTURERS

The Bank develops partnership programmes to establish a favourable business environment in Russia and has been particularly successful in engaging with the major domestic producers that are putting in place a new technology base for SMEs and other sectors.

These programmes help cut costs on equipment purchases for entrepreneurs who can buy cheaper, take out smaller loans and pay less interest.

Among others, the Bank is partnering with Kamaz, Voronezhselmash, Melinvest and Petersburg Tractor Plant.

**Kamaz**
Russia's premier vehicles manufacturer KAMAZ joined the list of the Bank's partners in 2016. The current cooperation programme offers potential clients who buy KAMAZ machines direct from the manufacturer on credit from the Bank a discount of up to 6% on the most popular pieces of equipment.

**Voronezhselmash**
In 2017, the Bank launched a joint programme with Voronezhselmash, a major Russian manufacturer of grain handling equipment. Under this programme SMEs can use Bank loans to buy elevator and drying units, feed and seed plants, grain cleaning and transport equipment at a special price. Given that Voronezhselmash offers

a discount of five per cent off the base price, it helps considerably reduce the costs of launching such large-scale operations as elevators. The programme helps cut costs on equipment purchases, take out smaller loans and pay less interest.

The minimum down-payment to be made by the borrower under the Bank's credit programme is **25%** of the equipment price, and the tenor is up to eight years.

Voronezhselmash offers about **100** types of equipment for grain cleaning, drying and storage. The company is currently selling through more than **60** dealers in Russia and abroad.

## ENHANCING ACCESS TO FINANCING

Higher banking sector penetration increases competitiveness in the sector, thus promoting social equality and inclusion. Making financial resources more readily available to small businesses and rural residents is a task of paramount importance at the federal level and is predictably one of the Bank's priorities.

In almost every region Russian Agricultural Bank provides financial support to entrepreneurs employed in trade, tourism, household services, and other services not directly related to agribusiness. Thanks to this, the commercial sector, in fact, is also engaged in developing rural territories. More than **74%** of the Bank's branches are located in communities with less than **100,000** residents. The Bank increases the operational efficiency of its POS setup, location, and overall business processes, thus satisfying the real needs of local communities.

In line with the national development priorities, the Bank places special focus on financing: promising investment projects in the Far East that facilitate better social and economic conditions in the regions and enhanced environmental protection.

## ENGAGEMENT WITH LOCAL COMMUNITIES AND AUTHORITIES

Russian Agricultural Bank leverages its countrywide footprint and strengthens liaisons with regional authorities, SME financing funds and guarantee agencies in the territories in which it is present to prepare and implement regional development strategies and federal policies in economic, social, educational and other spheres.

As part of this effort, the Bank signed **82** bilateral cooperation agreements with Russian regional authorities to implement the State Program[3].

In 2019, the Bank signed **7** cooperation agreements in the sphere of priority social and economic development in the regions. The agreements are aimed at expanding cooperation between the Bank and the regional administrations related to industrial and agribusiness production, construction, housing and utilities, transport, and other spheres.

[3] The State Program on Agribusiness Development and Market Regulation for Agricultural Products, Raw Materials and Foodstuffs.





In 2019, Russian Agricultural Bank and the Corporation for Development of Yenisei Siberia signed a Cooperation agreement. In the framework of the Agreement Russian Agricultural Bank will take part in considering potential financing of projects in various spheres of social and economic development of the Krasnoyarsk region, the Republic of Khakassia and the Republic of Tyva. Comprehensive investment project Yenisei Siberia (CIP), combining three regions, was established on the initiative of heads of constituents and received support of the Russian Government. Currently CIP combines **32** investment projects with total declared investment value of more than **RUB 1.9 trillion** for the period 2019-2027. More than **60** companies take part in implementing the project. Cooperation will cover such sectors as agribusiness, transport, power generation, coal mining, extraction and forestry.

In 2019, Russian Agricultural bank and the non-profit organization "the Monocities Development Fund" have signed a Cooperation agreement. The parties have agreed to cooperate in the sphere of implementing investment projects and SME support in monocities, including in agribusiness. Financing will be provided in the form of the Fund's resources and the Bank's loans and guarantees. In particular, as part of subsidized loans for SMEs in the amount of up to **5** to **20 million** at **0%** interest rate. The partnership between Russian Agricultural Bank and MONOCITIES.RF will facilitate the inflow of investments to monocities, economic diversification and creation of new jobs.

## INVOLVEMENT IN GOVERNMENT PROGRAMS

Playing a pivotal role in agribusiness financial support, Russian Agricultural Bank, for **more than 15 years** now, has participated in the government sustainability programs focused on social aspects.

The State Program encompasses a number of key focus areas: providing consumers with safe agricultural products and foodstuffs; enhancing competitiveness of the domestic produce in internal and external markets; ensuring sustainable development of rural areas, employment of rural residents, upgrading living standards and qualification; preservation and reproduction of natural resources used in agriculture.

- **Lending for various purposes**, such as: machinery, livestock, grain, fuel, and fertilizers purchases, land, warehouses and facilities lease with priority given to agribusiness producers, farmers, **agricultural consumer cooperatives, food processing companies, fisheries and aquaculture producers, markets and shopping facilities**;
- **Financing seasonal field works**. The Bank accounts for **70.4%** of total seasonal field works financing, with **RUB 381 billion** in loans issued for this purpose in 2019;
- **Lending to agricultural credit and consumer cooperatives**. This type of support contributes to closer cooperation and integration in rural areas. Credit and consumer cooperatives are an important vehicle for rural financial stability;
- **Financing investment projects for constructing and upgrading greenhouses, livestock and fish breeding facilities**. Since 2013 the Bank has financed **1,107** agribusiness investment projects with total financing amounting to **RUB 674 billion**. Lending disbursed by the Bank under such projects amounted to **RUB 492 billion**. In 2019 Russian Agricultural Bank embarked on implementing 70 investment projects on construction, overhaul and upgrade of agribusiness facilities, including those targeted at boosting exports.

— **Developing all forms of small business, including family-operated farms and startups**. Fostering agribusiness startups creates new jobs for young professionals and qualified personnel retention in rural areas;
— **Agribusiness subsidized lending programme (Government decree No. 1528)** As part of this procedure in 2019 the Bank provided **RUB 794.5 billion** to agribusiness producers. Under the agribusiness soft lending programme Russian Agricultural Bank lends at maximum **5%** p.a. Subsidies are paid directly to banks, which gives farmers easier access to state support;
— **Support of export-oriented businesses**. The Bank's efforts in this area contributed to national foodstuffs and raw materials exports reaching **USD 25.5 billion** in 2019, outperforming the target of **USD 24 billion**. Russian Agricultural Bank issued **RUB 241.5 billion** in loans to export-oriented agribusinesses which is **41.2%** above as compared to 2018 (**RUB 198.6 billion**).

The Bank is actively involved in implementing five special purpose federal subprograms:
— **Integrated development of rural areas**. This program is aimed at upgrading living standards, stimulating investments in agribusiness, strengthening positive attitudes towards rural life and developing non-agricultural production and employment; promoting the creation of hi-tech employment opportunities. In total, to finance the program from 2020 to 2022 **RUB 105.2 billion** will be earmarked from the Federal budget.
— **State program for construction development**. The program is aimed at support of residential construction for certain categories of citizens, support of solvent demand for housing, enhancing quality of utility services. As part of this program, the Bank is involved in the sub-program 'State subsidized mortgage lending'. Moreover, the Bank is a participant of other sub-programs by financing development projects aimed at providing affordable and comfortable housing to Russian citizens and industrial projects designed to provide high-quality utility services.
— **Subsidized SME lending programme (Government Decree No. 1764)**. The program is aligned with the federal project Improving Access to Finance for SMEs, Including Soft Financing (which is part of the nation-wide project Small and Medium Businesses and Support for Business Initiatives). The programme caps the final subsidized rate at **8.5%** per annum for the borrower and covers SMEs in prioritized sectors, including agribusiness. As at 1 January 2020, the Bank concluded 540 loan agreements totaling more than **RUB 12.07 billion** with disbursements amounting to **RUB 10.01 billion**. Please refer to section "Financial support of SMEs".
— **Increasing competitiveness of domestic agricultural produce (Government decree No. 512)**. In 2019, the Bank and the Ministry of Agriculture signed an Agreement stipulating subsidized lending to agribusinesses as part of the Government Resolution No. 512 dated 26.04.2019. The new procedure for providing subsidies is aimed at increasing competitiveness of domestic agricultural foodstuffs and growing the output through better marketability. At 1 January 2020, the Bank concluded 14 agreements for a total of **RUB 28.1 billion**.

For further details please refer to Section 3.2 Contribution to agribusiness development, page 31.





## INCREASING PRODUCT DIVERSIFICATION AND AFFORDABILITY

Operating through its widespread branch network present both in large and smaller urban and rural communities, the Bank takes efforts towards enhancing the quality of services and designing a highly demanded and well-balanced product offering, satisfying the needs of various customer segments.

Russian Agricultural Bank developed special product offerings incorporating attractive terms for pensioners, household plot owners, military servicemen and public sector employees.

Russian Agricultural Bank strives to develop products and services – both financial and non-financial – that add value to traditional banking solutions via fostering a favorable business environment, supporting employment and contributing to social and economic progress.

The Bank offers a wide range of loan facilities to agribusiness producers. Special focus is placed on projects involving export-oriented operations, renovation of agribusiness facilities, technological upgrades.

Russian Agricultural Bank provides mortgages to young families, families with children (under the Federal Special Purpose Programs) and military servicemen (pursuant to the Russian Federal Law No. 117-FZ "On the Mortgage Savings System for Housing Provisions for Military Servicemen").

In 2019, Russian Agricultural Bank worked towards further modernization and enhancement of its product offering:
— 'Rosselkhozbank-Vordi' card in partnership with the Association of families with disabled children aged above 18 years. Part of revenues from each purchase on the card are transferred to Vordi for treatment, rehabilitation, and adaptation of physically impaired children
— 'Rosselkhozbank-AKKOR' card for client-members of the Association of Farmers' Households and Agricultural Cooperatives of Russia with increased cash-back for certain goods
— 'Trade Unions card' for clients-members of labour unions association which is part of the Union "Moscow regional association of trade unions"/the Moscow Trade Unions Federation
— In August, the Bank launched Micro agribusiness loan for farmers and individual entrepreneurs. The funds can be utilized for working capital replenishment, seasonal farm works under a fast-track procedure. Micro agribusiness features a simplified approval process. The decision to open a credit line is taken based on minimum document kit within at least 3 business days. Loan amount is a minimum of **RUB 5 million** for a 1-year term with the interest rate capped at **5%** p.a.
— In 2018, Russian Agricultural Bank embarked on implementation of the road-map on cooperation with "Gazprom gas-engine fuel" Limited Liability Company - a sole operator focused on expanding the use of natural gas as a vehicle fuel. As a result, Russian Agricultural Ministry on Russian Agricultural Bank's initiative included gas-engine vehicles and methane into the list of subsidized expenses for agrarians. The Bank puts focus on developing gas fuel market, incl. via support of pilot projects on upgrade and construction of gas pipelines in a number of regions in total worth **RUB 400 billion**. Besides offering loans for purchase of natural gas and gas-powered machinery, the Bank engages in consultations on advantages of alternative fuels.

## QUALITY MANAGEMENT

The Bank's reputation is directly linked with its image and customer perception. To decide whether the Bank is trustworthy and its services are good value for money, the customer assesses such parameters as **impressions of the first contact / visit, service quality, staff skills, office design / content and resolution time**.

In 2019, Russian Agricultural Bank started to deliver the Concept for Quality Management System adopted in late 2018. The Bank has set for itself a strategic target to become by 2020 a leader in customer experience by securing a long-term competitive advantage through excellent customer experience and by wide-ranging efforts to meet customer needs and boost customer loyalty.

The Bank has broadened the list of applicable quality parameters and identified targets for 2019.

## NEW TARGETS FOR 2019

— Service level index, based on the mystery shopper technique
— Customer satisfaction / loyalty level index
— The number of customer complaints per **1,000** customers

The key efforts made by the Bank in 2019:
— Established a single competency centre to organise, control and manage service quality at all levels (sales offices, regional branches, and head office)
— Established a Customer Satisfaction Service for the regions and a Resolution Service
— Created a customer management function on the regional level
— Centralised operations to resolve all customer queries on a single platform
— Enabled an IT platform to resolve customer queries
— Implemented a new Resolution Process
— Launched a Bank hotline on information portal Banki.ru
— Put in place a new Service Quality Monitoring Regulation
— Launched an advanced monitoring system (customer satisfaction / loyalty assessment; mystery shopper technique; a comprehensive complaints review)
— Implemented an integrated system to convert shortfalls identified through customer experience monitoring into targeted action
— Launched regional controls to monitor customer experience and compliance with Bank standards
— Approved new approaches to manage customer flow and customer waiting times at points of sale
— Introduced new standards for sales office content
— Set enhanced targets for service quality indices
— Introduced a new motivation system and approved the Calculation Methodology for the Service Level Adjustment Ratio with regard to bonuses payable to all regional staff
— Customer emotion management tools are being introduced as part of customer service at the Bank's points of sale (neuro-marketing)
— Regional branch managers are engaged in quality improvement through personal involvement in the resolution process.





The Bank also maintained a focus on the following key logical blocks: Create a Friendly Customer Environment at Points of Sale; Make Sales Offices More Comfortable; Faster Customer Service; Staff Motivation and Skills; Better Resolution Efficiency; Agenda-Shaping Voice of the Customer.

The incoming data was used to build communications and implement processes to help resolve customer issues on an expedited basis. The Bank is now reviewing more than **90%** of all queries within seven days, whereas the percentage of repeat queries is limited to **1%**. Customer complaints are down by **5.7 percentage points** to **10.3%** of all customer queries (as at 2019 year-end).

In 2019, the Bank delivered growth and met its targets in the following key service quality indicators: customer satisfaction / loyalty level; service level index based on the mystery shopper technique; waiting times.

## MOBILIZING THE INFLOW OF FOREIGN INVESTMENTS

Russian Agricultural Bank's international operations facilitate the inflow of foreign investments into the Russian financial and agricultural sector. In 2019, Russian Agricultural Bank and China Overseas Development Association (CODA), signed a Cooperation agreement for implementation of investment projects in Russian agribusiness. The Agreement is aimed at promoting long term cooperation between the parties in design, implementation and support of investment projects in various agribusiness sub-sectors. The purpose is to facilitate foodstuffs output and promote their exports to China.

Russian Agricultural Bank and UnionPay International Co. Ltd held an official ceremony to launch UnionPay card issuance. The parties also signed an Agreement on development of contactless POS terminal network. Pursuant to the agreement, the parties will issue UnionPay cards for a wide range of clients and expand the merchants' network, accepting UnionPay QuickPass cards.

Russian Agricultural Bank and China-based Longjiang Bank Corporation have signed a Memorandum of Understanding whereby the parties will facilitate the implementation of a cross-border financial platform. The Banks also signed an Agreement on General Terms for Purchase/Sale of Yuan Banknotes. Pursuant to the Memorandum, the parties will promote cross-border trade finance, develop interbank lending and borrowing, syndicated loans, grow national currencies settlements. The document also envisages the establishing of a customer resource sharing and information exchange mechanism. In particular, it is planned to hold events enabling the exchange of expertise and information in various spheres related to financial operations.

For further details, please refer to section 3.4 Financial Institutions and International Operations, page 45.

## ANTI-CORRUPTION POLICIES

Being guided by the principle of zero tolerance to corruption and abiding by the anticorruption laws, the Bank continuously pursues respective policies and takes steps towards higher efficiency of preventing corruption. The work done to this effect comprises:

- informing staff on restrictions, bans and requirements, existing in this field;
- monitoring how staff comply with the restrictions, bans and requirements;
- creates negative attitude towards corruption among employees.

## PURCHASING ACTIVITIES

The Bank works towards making its purchasing processes transparent, efficient and non-discriminatory, prevents unreasonable restraints on competition and promotes compliance with the Russian Federal Procurement Law. The Bank publishes information on its procurement activities online at www.zakupki.gov.ru. To encourage fair competition, as well as cost optimization, the Bank conducts electronic procurement procedures via auctions/ requests for proposals and other methods. As a result, the Bank saved approximately **RUB 762 million**.

With a view to implementing the government approved road map "Enhancing the access of small- and medium-sized business to purchases of infrastructure monopolies and state-owned companies", the Bank placed **53%** of its procurement orders with SMEs, whereas the minimum required threshold is **18%**.

According to the National Purchases Transparency Rating 2019, the Bank took a place of honor in corporate client with "High Transparency" mark. Also on the results of 2019, the Bank became the winner in the category "Equally accessible open purchases" awarded by ETPRF.RU.

These achievements testify to the Bank's high purchasing procedures efficiency. Promoting fair competition and predominant share of competitive purchases over sole provider purchases underpinned the positive results.

## INTERNAL SOCIAL POLICIES

Internal social policies implemented at Russian Agricultural Bank are designed to recognize employees' merits and fairly assess their contribution to achieving tasks set by the shareholder. The Bank's non-financial motivation includes: commendations, letters of appreciation and other incentives awarded to its most effective employees. The Bank adheres to its principles of creating a favorable working environment, supportive of healthy lifestyle practices and skill development for its employees. In its internal social policy, the Bank promotes personnel protection based on principles of responsibility, non-discrimination and mutual respect. The Bank's employees are eligible for voluntary medical insurance, occupational accident insurance and corporate retirement benefits.



## REDUCING ENVIRONMENTAL IMPACT

Russian Agricultural Bank has adopted and implemented voluntary environmental responsibility principles to preserve and restore natural resources, and to reduce the environmental footprint from the Bank's activities, as well as to raise social responsibility awareness. When implementing voluntary ecological responsibility mechanisms, the Bank complies with the local and international ecological standards and norms, makes provisions for the expenses related to ecological aspects of the Bank's activity, including for environmental protection, rationalizes and controls performance related to the input(s) (raw materials, energy, and water) and output(s) (waste) for tangible resources per one employee (per one unit of usable space), and optimizes the use of the Bank resources, including by reducing electricity and heating usage, and water via the application of resource-efficient technologies, and automates the control of resource use and conservation ('smart office' policies).

**Data on the Bank's resource consumption**

| Resource type | 2018 | | 2019 | |
|---|---|---|---|---|
| | Natural equivalent | Monetary equivalent, RUB mln | Natural equivalent | Monetary equivalent, RUB mln |
| **Electricity, thousand kWh** | 50,725,802.1 | 404.3 | 48,166,400.2 | 305.0 |
| **Thermal energy, Gcal** | 66,738.1 | 122.4 | 61,264.7 | 126.2 |
| **Water, cubic metres** | 239,438.6 | 12.4 | 238,363.7 | 11.7 |
| **Natural gas, cubic metres** | 1,690,470.0 | 11.2 | 1,581,920.0 | 10.8 |
| **Firewood, cubic metres** | 448.0 | 0.5 | 130.3 | 0.2 |
| **Coal, tonnes** | 71.4 | 0.6 | 114.0 | 0.7 |
| **Petrol, tonnes** | 61.4 | 2.5 | 66.91 | 2.8 |
| **Diesel fuel, tonnes** | 779.8 | 30.9 | 765.3 | 37.8 |

The Bank employees take part in regional, federal, all-Russia campaigns on environment protection in where they are joined by the industry-specific enterprises, including the Agricultural Ministry, forest and nature protection companies, Russian Geographical Society. Special focus is placed on cleaning and planting trees/ greenery on the territories adjacent to the Bank's premises.

The Bank's Moscow branch team planted high quality Serbian spruce trees in the territory adjacent to one of Moscow schools. In 2019, "A million trees" campaign turned 10 years. Greenery expansion campaign is carried out on the initiative and under auspices of the Moscow Government.

Russian Agricultural Bank as the key lender to Russian agribusiness supports projects targeted at resource conservation, energy efficiency and support of nature conservation activities. Projects in plant breeding are aimed at increasing the efficient use of land, water and other natural resources. Projects in livestock breeding (structured as investments and project finance) comply with the latest environmental safety standards, comprise waste recycling and utilization stages while minimizing the negative impact on environment.

The Bank's operations are aligned with the goals and tasks of the national Project "Ecology" launched in late 2018 under the Direction of the Russian Ministry of Natural Resources and Ecology.

Russian Agricultural Bank teamed up with MasterCard in a program to engage its clients in a large scale ecological mission. On 1 December 2019, the Bank launched a campaign "Bet on forest protection through your card" for debit and credit card holders, designed to recover Siberia taiga. The outcome is planting **30,000** young trees in taiga.

## VOLUNTEERING

Volunteer projects evidence that the Bank's staff upholds and embraces the Bank's commitment to socially responsible practices. The Bank actively engages its staff in volunteer projects benefiting local communities. The key projects that have helped enhance the Bank's corporate values are the Donor's Day, Volunteer Descent and Financial Literacy. The Volunteer Descent project supports socially-oriented organizations such as orphanages, II WW veterans, elderly people, children without parental custody, Donor Days and ecology related initiatives.

On a regular basis the Bank's Head Office holds the Blood Donor Day with support of specialists from a Blood Transfusion Station of the Moscow Health Ministry. Circa **200** employees took part in this initiative in 2019.

In 2019, the Bank held "Open hearts" contest to choose the best volunteer project among **41** projects submitted by **30** regional branches and the Call-center. Socially important projects are an important contribution to cementing the Bank corporate values. Aiming the accomplishment of measures in the CSR sphere by the Bank's staff and with the top managers' support the Bank arranges volunteer campaigns.

## SPONSORSHIP AND CHARITY

As a corporate citizen committed to meeting societal needs and expectations, Russian Agricultural Bank extends tangible help to local communities via charitable activities, sponsorships and donations. The Bank promotes philanthropic activities with an emphasis on the key priorities of Russia's social and economic development and defined by the Bank shareholders. Thus, in 2019, Russian Agricultural Bank engaged in philanthropic activities in five key areas relating to community support, education, spiritual education, sports and physical education; protection of environment and biodiversity.

## PROTECTION OF ENVIRONMENT AND BIODIVERSITY

The Bank views protection of environment and engendered species as a civic duty for responsible corporations. In 2019, the Bank proceeded with carrying out the Amur Tiger Protection Project in cooperation with an autonomous non-commercial organization "Amur Tiger Center". Also the Bank sponsored a non-profit organization involved in maintaining the Far Eastern leopard population and a regional fund for arranging roundtables on aquaculture issues. Russian Agricultural Bank became the primary sponsor of the mass media campaign which effectively combined the resources of a commercial and non-profit entity to increase the number of Amur tigers in Russia and expand their habitat. The large-scale campaign was for the above purposes involved in such mass media channels as public transportation, print and electronic publications.

## COMMUNITY SUPPORT

As part of "Financial support of individuals", the Bank provided financial aid to a state-financed institution supervising elderly people and a health care institution, two religious establishments, two non-profit funds and a veterans' organization, children's rehabilitation center, agricultural professional union. As part of "Sports and physical culture", the Bank provided financial aid to a regional non-governmental fund, non-profit fund of a sports society, seven non-profit sports organizations and two charity funds to promote popular sports in Russia. In 2019, the Bank incorporated its proprietary scholarship program into its corporate charity and sponsorship initiatives. Moreover, the Bank allocated sponsorship support to higher educational establishments, a non-governmental foundation, education academy and a graduate students association.

As part of "Spiritual education", the Bank sponsored three religious organization, three charity funds and other non-profit entities.

Russian Agricultural Bank's initiatives facilitate the education of highly qualified professionals in the key rural specializations and the retention of young specialists in rural areas, since these are key prerequisites for Russian agribusiness development.

## FINANCIAL LITERACY

The Corporate University adds to the positive social impact of the Bank's core operations and its CSR activities by arranging financial literacy seminars for schoolchildren, students and general public. More than **1,100** schoolchildren and students took part in such initiatives in 2019.

The Corporate University adds to the positive social impact of the Bank's core operations and its CSR activities by arranging financial literacy seminars for the Bank's clients, business community and local authorities, people employed in agribusiness, household plot owners, schoolchildren, students and general public. More than **33,800** people took part in such initiatives in 2019.

## SUPPORT OF INDUSTRY-SPECIFIC MASS MEDIA AND PROFESSIONAL FORUMS

As part of the initiative, Russian Agricultural Bank has sponsored TV shows that raise awareness of agricultural issues. In 2019, the Bank became a partner for numerous large specialized events, including: the 23rd St Petersburg Economic Forum, the 21st Golden Autumn Exhibition, the 10th Convention of Soyuzmoloko (Dairy producers' union), Oil-and-Fat Conference "Industry strategy in the export race – marathon or sprint", the 'Agrorus' International Agricultural Exhibition and Trade Fair, Extended Meeting of the Council of the Association of Farms and Agricultural Cooperatives of Russia, the 2nd International Investment Forum "Russian Orchards: Investments, Technology and Innovation", the International Bread Forum of Consumer Cooperatives 'Bread Means Peace', All-Russia 'SVOE' food festival, All-Russian Field Day, the 17th Russian Bond Congress. The Bank became the primary sponsor of the 5th Eastern Economic Forum, the 28th International financial congress, International Agro-Industrial Forum, International agribusiness Festival Agro.pro, the 12th International Forum 'Russian Precious Metals Market', the 2nd International banking forum 'Treasury 2019', etc.

Putting priority on digital transformation, the Bank supported IT-related events, including the 4th 'Industrial Russia Digital sector' conference, FINOPOLIS-2019, Open Door FX Workshop – 2019, International Digital Agro-industrial Forum 2019.

The Bank allocated approximately **RUB 476.9 million** for sponsorship activities in 2019.

In 2019, the Bank sponsored TV shows dedicated to 'SVOE' food festival (Domestic) broadcast via various media sources, 'Russian agribusiness pride' project on the initiative of the 'Rural life' newspaper, Agribusiness companies ranking published by the 'Expert' magazine, an Economics and Infographic series on Russia24 TV channel.

Also the Bank held four stages of All-Russia 'SVOE' food festival in various regions. More than **400** farmers exhibited their products at the festival locations with more than **200,000** guests attending the event.

Such projects in line with the Bank's core specialization have a positive impact on building the Bank's image among wider society and business and government elites.

Year after year Russian Agricultural Bank confirms its unwavering commitment to the CSR policies and performing its pivotal role of supporting prioritized economic sectors and various customer segments in urban and rural territories, thereby facilitating the resolution of broader social tasks leading to Russia's economic prosperity.

10

# CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

INDEPENDENT AUDITOR'S REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS OF
**JOINT STOCK COMPANY RUSSIAN AGRICULTURAL BANK**
**AND ITS SUBSIDIARIES**
FOR 2019

MARCH 2019





## INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF JOINT STOCK COMPANY RUSSIAN AGRICULTURAL BANK AND ITS SUBSIDIARIES

Building a better working world

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# INDEPENDENT AUDITOR'S REPORT

To the shareholder and Supervisory Board of Joint stock company Russian Agricultural Bank

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

***Opinion***

We have audited the consolidated financial statements of Joint stock company Russian Agricultural Bank (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

***Basis for opinion***

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the **Auditor's responsibilities for the audit of the consolidated financial statements** section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the **Auditor's responsibilities for the audit of the consolidated 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 consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Allowance for expected credit losses on loans and advances to customers** | |
| The appropriateness of allowance for expected credit losses on loans and advances to customers in accordance with IFRS 9 Financial instruments ("IFRS 9") is a key area of judgment for the Group's management.<br><br>The identification of significant increase in credit risk, determination of probability of default and loss given default, determination of the recoverable amount and forecast of macroeconomic variables require a high level of subjectivity.<br><br>Assessment of expected credit losses (ECL) involves estimation techniques that use significant unobservable inputs including internal credit ratings for calculation probability of default and statistical modelling for determination of loss given default. Assessment of ECL involves forecasting of macroeconomic variables. Signs of significant increase in credit risk are also judgmental and are based on the extent of downgrade in internal credit ratings, days overdue and other factors.<br><br>ECL for individually impaired loans are based on analysis of financial and non-financial information including current and projected financial performance of a borrower, collateral value and timeframe for its realization and estimation of probabilities of possible outcomes.<br><br>The selection of different models and assumptions may significantly affect the estimates of allowance for expected credit losses on loans to customers. Due to the significance of the loans issued, which account for 67% of total assets, and to the significant judgement involved, the estimation of the impairment allowance is a key audit matter.<br><br>Information on the allowance for expected credit losses on loans and advances to customers is included in Note 9 Loans and advances to customers, Note 22 Credit loss expense to the consolidated financial statements. | We focused on identifying signs of impairment, which may be different for the different types of borrowers. We analyzed the methodology for calculating the allowance for expected credit losses both for corporate and retail loans, due to the significant amounts and potential effect of changes in assumptions. We also focused on significant individually impaired loans, as well as on loans with the highest risk of individual impairment.<br><br>We assessed credit risk factors used by the Group for determining a significant increase in credit risk.<br><br>For collectively assessed loans, we analyzed rating models, key inputs and assumptions used for calculation of ECL.<br><br>Our audit procedures included testing controls over the estimation of allowances for both individuals and legal entities, testing of input data used in determining internal credit rating and probability of default, assessing loss statistics for prior periods together with testing of collateral used for assessing loss given default for collectively assessed loans, analyzing assumptions used by the Group for collective assessments of impairment, and assessing the allowances for individually impaired loans issued.<br><br>In the course of our audit procedures we analyzed management's judgement used to assess economic factors and statistical information on losses incurred and amounts recovered, judgments used in determining of expected credit losses. For individually impaired loans we analyzed the expected future cash including those from current operations of the borrowers, as well as those from the foreclosure of collateral based on our professional judgment and information available.<br><br>We performed procedures regarding the respective disclosures in the consolidated financial statements. |





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*Other information included in the Russian Agricultural Bank Annual Report 2019*

Other information consists of the information included in the Russian Agricultural Bank Annual Report 2019 other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Russian Agricultural Bank Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

*Responsibilities of management and the Audit Committee for the consolidated financial statements*

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

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

The Audit Committee are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee 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 the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated 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 banking group, where the Bank is the parent credit institution (hereinafter, the "Banking group") 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 Banking group with the requirements set forth by the Bank of Russia in respect of such systems.







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 Group's consolidated financial statements for the year ended 31 December 2019, we determined:

**1)** Whether the Banking group complied as at 1 January 2020 with the obligatory ratios established by the Bank of Russia;

**2)** Whether internal control and organization of the risk management systems of the Banking group 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 Supervisory Board 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 Banking group with the obligatory ratios established by the Bank of Russia**

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

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

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

— We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2019, the Bank's internal audit division was subordinated and accountable to the Supervisory Board, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.

— We found that the Bank's internal documents effective as at 31 December 2019 that establish the methodologies for detecting and managing credit, market, operational and liquidity and concentration risks that are significant to the Banking group 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 2019, the Bank had a reporting system pertaining to credit, market, operational and liquidity and concentration risks that were significant to the Banking group and pertaining to its capital.

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— We found that the frequency and consistency of the reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2019 with regard to the management of credit, market, operational and liquidity and concentration risks of the Banking group 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 2019, the authority of the Supervisory Board and executive management bodies of the Bank included control over compliance of the Banking group 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 Banking group during the year ended 31 December 2019, the Supervisory Board 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 Banking group, 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 G.A. Shinin.

G.A. Shinin
Partner
Ernst & Young LLC

18 March 2020

**Details of the audited entity**
Name: Joint stock company Russian Agricultural Bank
Record made in the State Register of Legal Entities on 22 October 2002, State Registration Number 1027700342890.
Address: Russia 119034, Moscow, Gagarinsky pereulok, 3.

**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-regulatory organization of auditors Association "Sodruzhestvo". Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.







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# RUSSIAN AGRICULTURAL BANK GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

| In millions of Russian Roubles | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | 403 564 | 390 585 |
| Mandatory cash balances with the Bank of Russia | | 22 334 | 20 651 |
| Trading securities | 7 | 21 974 | 19 226 |
| Due from other banks | 8 | 50 543 | 38 717 |
| Derivative financial instruments | 33 | 18 265 | 17 767 |
| Loans and advances to customers | 9 | 2 164 906 | 1 957 767 |
| Investment securities | 10 | 432 303 | 532 185 |
| Investment securities pledged under repurchase agreements | 10 | - | 40 264 |
| Current income tax assets | | 597 | 573 |
| Deferred income tax asset | 26 | 16 298 | 16 298 |
| Intangible assets | 11 | 7 423 | 6 113 |
| Premises, equipment and right-of-use assets | 11 | 51 470 | 50 186 |
| Other assets | 12 | 24 938 | 23 810 |
| Assets classified as held for sale | 36 | 1 134 | 640 |
| **Total assets** | | **3 215 749** | **3 114 782** |
| **Liabilities** | | | |
| Derivative financial instruments | 33 | 4 782 | 9 213 |
| Due to other banks | 13 | 109 519 | 171 530 |
| Customer accounts | 14 | 2 486 108 | 2 421 051 |

The notes set out on pages 119 to 250 form an integral part of these consolidated financial statements.

| In millions of Russian Roubles | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Liabilities** | | | |
| Promissory notes issued | 15 | 47 358 | 42 341 |
| Bonds issued | 16 | 174 954 | 142 609 |
| Current income tax liability | | 469 | 89 |
| Deferred income tax liability | 26 | 2 221 | 1 658 |
| Other liabilities | 17 | 56 999 | 27 291 |
| **Total liabilities before subordinated debts** | | **2 882 410** | **2 815 782** |
| Subordinated debts | 18 | 134 089 | 147 279 |
| **Total liabilities** | | **3 016 499** | **2 963 061** |
| **Equity** | | | |
| Share capital | 20 | 440 233 | 410 598 |
| Perpetual bonds | 19 | 48 398 | 38 376 |
| Revaluation reserve for premises | | 2 829 | 2 890 |
| Revaluation reserve for investment securities at fair value through other comprehensive income | | 6 733 | (3 769) |
| Accumulated loss | | (298 842) | (298 074) |
| **Equity attributable to the Bank's shareholder** | | **199 351** | **150 021** |
| **Non-controlling interest** | | **(101)** | **1 700** |
| **Total equity** | | **199 250** | **151 721** |
| **Total liabilities and equity** | | **3 215 749** | **3 114 782** |

Approved for issue and signed on behalf of the Management Board on 18 March 2020.

B.P. Listov
Chairman of the Management Board

E.A. Romankova
Deputy Chairman of the Management Board, Chief Accountant







# RUSSIAN AGRICULTURAL BANK GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

| In millions of Russian Roubles | Note | 2019 | 2018 |
|---|---|---|---|
| Interest income at effective interest rate | 21 | 243 561 | 228 701 |
| Other interest income | 21 | 4 968 | 3 316 |
| Interest expense | 21 | (171 281) | (164 617) |
| **Net interest income** | | **77 248** | **67 400** |
| Credit loss expense | 22 | (39 554) | (58 600) |
| **Net interest income after credit loss expense** | | **37 694** | **8 800** |
| Fee and commission income | 23 | 23 450 | 24 586 |
| Fee and commission expense | 23 | (2 780) | (3 069) |
| Gains less losses/(losses net of gains) from trading securities | | 284 | (613) |
| Gains less losses from financial instruments and loans to customers at fair value through profit or loss | | 2 054 | 196 |
| Gains less losses from investment securities at fair value through other comprehensive income | | 1 495 | 1 646 |
| Foreign exchange translation losses net of gains | | (10 352) | (9 419) |
| Gains less losses from derivative financial instruments | | 16 120 | 18 685 |
| Gains less losses from dealing in foreign currencies | | 4 108 | 2 053 |
| Gains from non-banking activities | | 17 426 | 13 782 |
| Losses from non-banking activities | | (16 352) | (12 375) |
| Gains from initial recognition of financial instruments at fair value | | - | 23 119 |
| Other operating income/(expense) | | 823 | (1 215) |
| Administrative and other operating expenses | 25 | (65 529) | (58 676) |

| In millions of Russian Roubles | Note | 2019 | 2018 |
|---|---|---|---|
| **Profit before tax** | | **8 441** | **7 500** |
| Income tax expense | 26 | (4 424) | (5 975) |
| **Profit for the year** | | **4 017** | **1 525** |
| **Loss is attributable to:** | | | |
| Shareholder of the Bank | | 4 015 | 1 558 |
| Non-controlling interest | | 2 | (33) |
| **Profit for the year** | | **4 017** | **1 525** |
| **Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:** | | | |
| Debt securities at fair value through other comprehensive income: | | | |
| - Net gains/(losses) on debt securities at fair value through other comprehensive income | | 15 160 | (8 841) |
| - Realised revaluation reserve (at disposal) | | (1 495) | (1 646) |
| - Changes in allowance for expected credit losses of debt securities at fair value through other comprehensive income | | (532) | 696 |
| Income tax | 26 | (2 631) | 2 097 |
| **Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods, net of tax** | | **10 502** | **(7 694)** |
| **Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:** | | | |
| - Revaluation of premises | | 7 | 2 348 |
| - Net gains on equity securities at fair value through other comprehensive income | | 24 | - |
| - Income tax | | (1) | (470) |
| **Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax** | | **30** | **1 878** |
| **Total other comprehensive income/(loss)** | | **10 532** | **(5 816)** |
| **Total comprehensive income/(loss) for the year** | | **14 549** | **(4 291)** |
| **Total comprehensive income/(loss) is attributable to:** | | | |
| Shareholder of the Bank | | 14 547 | (4 258) |
| Non-controlling interest | | 2 | (33) |
| **Total comprehensive income/(loss) for the year** | | **14 549** | **(4 291)** |



The notes set out on pages 119 to 250 form an integral part of these consolidated financial statements.



# RUSSIAN AGRICULTURAL BANK GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

| | | Attributable to the Shareholder of the Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| In millions of Russian Roubles | Note | Share capital | Perpetual bonds | Revaluation reserve for premises | Revaluation reserve for investment securities | Accumulated loss | Total | Non-controlling interest | Total equity |
| **Balance at 31 December 2017** | | **385 598** | **15 000** | **1 052** | **3 001** | **(214 214)** | **190 437** | **(21)** | **190 416** |
| Impact of adopting IFRS 9 | | - | - | - | 924 | (84 138) | **(83 214)** | - | **(83 214)** |
| **Restated opening balance under IFRS 9** | | **385 598** | **15 000** | **1 052** | **3 925** | **(298 352)** | **107 223** | **(21)** | **107 202** |
| Profit for the year, net of tax | | - | - | - | - | 1 558 | **1 558** | (33) | **1 525** |
| Other comprehensive income/(loss) for the year, net of tax | | - | - | 1 878 | (7 694) | - | **(5 816)** | - | **(5 816)** |
| **Total comprehensive income/(loss) for the year, net of tax** | | **-** | **-** | **1 878** | **(7 694)** | **1 558** | **(4 258)** | **(33)** | **(4 291)** |
| Share issue | 20 | 25 000 | - | - | - | - | **25 000** | - | **25 000** |
| Acquisition of subsidiaries | 36 | - | - | - | - | - | **-** | 1 754 | **1 754** |
| Depreciation of revaluation reserve for premises | | - | - | (40) | - | 40 | **-** | - | **-** |



The notes set out on pages 119 to 250 form an integral part of these consolidated financial statements.

| In millions of Russian Roubles | Note | Attributable to the Shareholder of the Bank: Share capital | Perpetual bonds | Revaluation reserve for premises | Revaluation reserve for investment securities | Accumulated loss | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Dividends paid | 27 | - | - | - | - | (884) | **(884)** | - | **(884)** |
| Initial recognition of financial instruments for transactions under common control | | - | - | - | - | 2 155 | **2 155** | - | **2 155** |
| Perpetual bonds issue | | - | 23 332 | - | - | - | **23 332** | - | **23 332** |
| Perpetual bonds buy back | | - | (98) | - | - | - | **(98)** | - | **(98)** |
| Foreign exchange translation of perpetual bonds | | - | 142 | - | - | (142) | **-** | - | **-** |
| Coupon paid and due under perpetual bonds | | - | - | - | - | (2 830) | **(2 830)** | - | **(2 830)** |
| Transaction costs on perpetual bonds issue | | - | - | - | - | (231) | **(231)** | - | **(231)** |
| Tax effect recognized on perpetual bonds | | - | - | - | - | 612 | **612** | - | **612** |
| **Balance at 31 December 2018** | | **410 598** | **38 376** | **2 890** | **(3 769)** | **(298 074)** | **150 021** | **1 700** | **151 721** |
| Profit for the year, net of tax | | - | - | - | - | 4 015 | **4 015** | 2 | **4 017** |
| Other comprehensive income for the year, net of tax | | - | - | 6 | 10 526 | - | **10 532** | - | **10 532** |
| **Total comprehensive income for the year, net of tax** | | **-** | **-** | **6** | **10 526** | **4 015** | **14 547** | **2** | **14 549** |
| Share issue | 20 | 29 635 | - | - | - | - | **29 635** | - | **29 635** |
| Disposal of subsidiaries | 36 | - | - | - | - | - | **-** | (1 803) | **(1 803)** |
| Realised revaluation reserve for equity securities at fair value through other comprehensive income | | - | - | - | (24) | 24 | - | - | - |
| Depreciation of revaluation reserve for premises | | - | - | (67) | - | 67 | - | - | - |
| Dividends paid | 27 | - | - | - | - | (1 126) | **(1 126)** | - | **(1 126)** |
| Perpetual bonds issue | | - | 10 563 | - | - | - | **10 563** | - | **10 563** |
| Foreign exchange translation of perpetual bonds | | - | (541) | - | - | 541 | **-** | - | **-** |
| Coupon paid and due under perpetual bonds | | - | - | - | - | (4 289) | **(4 289)** | - | **(4 289)** |
| **Balance at 31 December 2019** | | **440 233** | **48 398** | **2 829** | **6 733** | **(298 842)** | **199 351** | **(101)** | **199 250** |



The notes set out on pages 119 to 250 form an integral part of these consolidated financial statements.

The notes set out on pages 119 to 250 form an integral part of these consolidated financial statements.

# RUSSIAN AGRICULTURAL BANK GROUP CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

| In millions of Russian Roubles | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 266 010 | 239 139 |
| Interest paid | | (161 107) | (166 172) |
| (Expenses incurred)/income received from trading in securities and financial instruments at fair value through profit or loss | | (6) | 1 187 |
| Income received from derivative financial instruments | | 12 840 | 56 882 |
| Income received from dealing in foreign currencies | | 4 073 | 2 136 |
| Fees and commissions received | | 23 481 | 24 555 |
| Fees and commissions paid | | (2 780) | (3 069) |
| Other operating income received | | 289 | 2 002 |
| Net income received from insurance operations | | 10 787 | 6 780 |
| Income received from non-banking activities | | 5 770 | 6 017 |
| Expenses incurred from non-banking activities | | (7 369) | (6 157) |
| Administrative and other operating expenses paid | | (55 390) | (48 581) |
| Income tax paid | | (4 918) | (4 472) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **91 680** | **110 247** |
| **Changes in operating assets and liabilities** | | | |
| **Net (increase)/decrease in operating assets** | | | |
| Mandatory cash balances with the Bank of Russia | | (1 683) | (1 539) |
| Trading securities | | (2 835) | (2 214) |
| Due from other banks | | (14 881) | (9 055) |



The notes set out on pages 119 to 250 form an integral part of these consolidated financial statements.



| In millions of Russian Roubles | Note | 2019 | 2018 |
|---|---|---|---|
| **Changes in operating assets and liabilities** | | | |
| **Net (increase)/decrease in operating assets** | | | |
| Loans and advances to customers | | (291 360) | (293 889) |
| Other assets | | 526 | 1 827 |
| **Net increase/(decrease) in operating liabilities** | | | |
| Due to other banks | | (58 637) | 134 313 |
| Customer accounts | | 89 223 | 149 856 |
| Promissory notes issued | | 5 921 | 2 414 |
| Other liabilities | | 8 054 | (3 147) |
| **Net cash (used in)/from operating activities** | | **(173 992)** | **88 813** |
| **Cash flows from investing activities** | | | |
| Acquisition of premises and equipment | 11 | (2 964) | (7 492) |
| Proceeds from disposal of premises and equipment | | 164 | 662 |
| Acquisition of intangible assets | 11 | (3 071) | (2 819) |
| Proceeds from sale of investment securities at FVTPL | | 2 165 | (197) |
| Acquisition of investment securities at FVTPL (mandatory) | | (18 846) | (3 648) |
| Acquisition of investment securities at FVOCI | | (391 035) | (762 331) |
| Proceeds from redemption and sales of investment securities at FVOCI | | 552 141 | 530 153 |
| Acquisition of investment securities at amortised cost | | (14 515) | (2 649) |
| Proceeds from redemption of investment securities at amortised cost | | 11 589 | 12 336 |
| Dividends received | | 37 | 12 |
| **Net cash from/(used in) investing activities** | | **135 665** | **(235 973)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | 27 | (1 126) | (884) |
| Issue of ordinary shares | 20 | 29 635 | 25 000 |
| Perpetual bonds issue less transaction costs | | 10 490 | 23 101 |
| Amounts paid on perpetual bonds | | (4 286) | (2 826) |
| Buy back of perpetual bonds issued | | - | (98) |
| Buy back of subordinated debts | | (1 269) | (5 886) |
| Proceeds from sale of previously bought back subordinated debt | | 820 | 219 |
| Proceeds from bonds issue | 16 | 30 000 | 57 900 |
| Buy back of bonds issued at or prior to put option date | | (8 834) | (40 898) |

The notes set out on pages 119 to 250 form an integral part of these consolidated financial statements.

| In millions of Russian Roubles | Note | 2019 | 2018 |
|---|---|---|---|
| Buy back of Eurobonds issued | | - | (11 332) |
| **Cash flows from financing activities** | | | |
| Proceeds from sale of previously bought back bonds issued on domestic market | | 15 803 | 52 |
| Proceeds from sale of previously bought back Eurobonds issued | | - | 37 026 |
| Repayment of bonds and Eurobonds issued | | (4 575) | (151 788) |
| Payments in respect of lease obligations (IFRS 16) | | (1 501) | - |
| Proceeds from sale of non-controlling interests in consolidated mutual funds | | 67 | 28 |
| Payments on disposal of non-controlling interests in consolidated mutual funds | | (29) | (25) |
| **Net cash from / (used in) financing activities** | | **65 195** | **(70 411)** |
| Effect of exchange rate changes on cash and cash equivalents | | (13 892) | 21 724 |
| Effect of ECL on cash and cash equivalents | | 3 | (5) |
| **Net increase/(decrease) in cash and cash equivalents** | | **12 979** | **(195 852)** |
| Cash and cash equivalents at the beginning of the period | 6 | 390 585 | 586 437 |
| **Cash and cash equivalents at the end of the period** | **6** | **403 564** | **390 585** |





# RUSSIAN AGRICULTURAL BANK GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019

## 1. Introduction

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB") for the year ended 31 December 2019 for Joint stock company Russian Agricultural Bank (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with the Russian regulations.

The Bank's only shareholder is the Russian Federation acting through the Federal Agency for Managing State Property which holds the Bank's issued and outstanding ordinary shares (78.66% from total share capital (31 December 2018: 77.11% from total share capital)), the Ministry of Finance of the Russian Federation which holds the Bank's issued and outstanding preference shares (5.69% from total share capital (31 December 2018: 6.1% from total share capital)) and the State Corporation "Deposit Insurance Agency" which holds the Bank's issued and outstanding preference shares (15.65% from total share capital (31 December 2018: 16.79% from total share capital)).

The Group's structure comprises of the Bank and its subsidiaries. Principal subsidiaries of the Bank are Joint-stock company "RSHB-Insurance" (ownership interest of the Bank is 100%), RSHB Capital S.A. (Luxembourg) (structured entity incorporated for Eurobonds issue for the Bank), "RSHB Asset Management" Limited Liability Company (ownership interest of the Bank is 100%) and 36 companies operating in agricultural and other industries and mutual funds.

***Principal activity.*** The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with an emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- To participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- To develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- To maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Bank of Russia since 13 June 2000.

### 1. Introduction (continued)

The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law # 177-FZ Deposits of Individuals Insurance in the Russian Federation dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual and/or individual entrepreneur current accounts and deposits up to RR 1 400 thousand per individual or individual entrepreneur in case of the withdrawal of a licence of a bank or the Bank of Russia imposed moratorium on payments. Starting 2019, the same guaranties extend to deposits of legal entities referred to "small entities" as it stated in legislation of the Russian Federation.

The Bank has 66 (31 December 2018: 66) branches within the Russian Federation. The Bank's registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank's principal place of business is 123112 Russia, Moscow, Presnenskaya naberezhnaya, 10, bld. 2.

The number of the Group's employees as at 31 December 2019 was 31 147 (31 December 2018: 29 862).

***Presentation currency.*** These consolidated financial statements are presented in Russian Roubles ("RR"). All amounts are expressed in RR millions unless otherwise stated.

### 2. Operating Environment of the Group

***The Russian Federation***. Continuing international sanctions against some Russian companies, including Joint stock company Russian Agricultural Bank, and citizens still have a negative impact on the Russian economy. The stability of oil prices, low unemployment and wage growth contributed to moderate economic growth in the reporting period. Such an economic environment has a significant impact on the Bank's operations and financial position. Management takes all necessary measures to ensure the sustainability of the Bank's operations. However, the future consequences of the current economic situation are difficult to predict, and current expectations and management estimates may differ from the actual results.

During 2019, the following were the key changes in selected macro-economic indicators:
- The Bank of Russia exchange rate appreciated from RR 69.4706 to RR 61.9057 per US Dollar;
- The Bank of Russia key rate decreased from 7.75% p.a. to 6.25% p.a.;
- The RTS stock exchange index increased from 1 068.7 to 1 548.9.

### 3. Summary of Significant Accounting Policies

***Basis of preparation.*** These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, investment securities at fair value through other comprehensive income, financial instruments categorised as at fair value through profit or loss and derivatives. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to changes in accounting policies.



### 3. Summary of Significant Accounting Policies (continued)

***Changes in accounting policies. IFRS 16 Leases.*** IFRS 16 was issued in January 2016 and it replaced IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

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

The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives.

The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The adoption of IFRS 16 led to recognition of right-of-use assets in the amount of RR 5.5 billion reflected in the Consolidated Statement of Financial Position in line "Premises, equipment and right-of-use assets" and respective lease liability in the equal amount reflected in line "Other liabilities" starting 1 January 2019.

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

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

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

3. Summary of Significant Accounting Policies (continued)

The Group also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

A reconciliation of the operating lease commitments to the liability under IFRS 16 is as follows.

| In millions of Russian Roubles | 1 January 2019 |
|---|---|
| **Lease payments under operating lease** | **8 664** |
| **Adjustments to amount of lease payable** | |
| Recognition exemption: short-term leases | (261) |
| Recognition exemption: the underlying asset is of low value | (314) |
| Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised | 1 874 |
| **Future lease payments under IFRS 16** | **9 963** |
| Effect of discounting | (4 443) |
| **Lease liability under IFRS 16** | **5 520** |

Weighted average incremental borrowing rate as at 1 January 2019 amounted to 8.91%.

*(b) Summary of new accounting policies*

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

*i. Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets*

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



3. Summary of Significant Accounting Policies (continued)

***Lease liabilities***

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

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

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

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

***Significant judgement in determining the lease term of contracts with renewal options***

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

***Amounts recognised in the consolidated statement of financial position, consolidated income statement and consolidated statement of cash flows***

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

| In millions of Russian Roubles | Right-of-use assets | | | Lease liabilities |
|---|---|---|---|---|
| | Buildings | Office equipment | Total | |
| **As at 1 January 2019** | **5 385** | **135** | **5 520** | **5 520** |
| Additions | 2 437 | 8 | **2 445** | 2 382 |
| Option to extend | 4 076 | 59 | **4 135** | 3 843 |
| Depreciation expense | (1 796) | (60) | **(1 856)** | - |
| Interest expense | - | - | **-** | 750 |
| Payments | - | - | **-** | (2 251) |
| **As at 31 December 2019** | **10 102** | **142** | **10 244** | **10 244** |

### 3. Summary of Significant Accounting Policies (continued)

Under certain lease agreements, the Group has an option to extend the lease of assets The Group uses judgment to determine whether it has a sufficient assurance that it will exercise the extension option. At the same time, the Group takes into account all relevant factors that give a rise to an economic incentive to exercise the option to extend the lease. As at 31 December 2019, the Group reassessed the lease term based on the application of the Bank's business strategy, which affected the ability to exercise the option to extend the lease of assets, as a result of which the Group recognized the option in the amount of RR 4 135 million.

The Group recognised rent expense from short-term leases and leases of low-value assets of RR 459 million for the year ended 31 December 2019.

The Group had total cash outflows for leases of RR 2 251 million in 2019.

***ii. Operating – Group as a lessor***
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in the revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

***iii. Finance – Group as a lessor***
The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

***IFRIC 23 Uncertainty over Income Tax Treatment.*** The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.



### 3. Summary of Significant Accounting Policies (continued)

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and the subsidiaries' tax filings include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

***Amendments to IFRS 9 Prepayment Features with Negative Compensation***. Under IFRS 9, a debt instrument can be measured at an amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

***Amendments to IAS 19 Plan Amendment, Curtailment or Settlement.*** The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group.

***Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures***. The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form the part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

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

**3. Summary of Significant Accounting Policies (continued)**

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements as the Group does not have long term interests in its associate and joint venture.

***Annual improvements 2015-2017 cycle (issued in December 2017)***
***IFRS 3 Business Combinations.*** The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.
An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

***IFRS 11 Joint Arrangements.*** A party that participates in, but does not have a joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with an early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

***IAS 12 Income Taxes.*** The amendments clarify that the income tax consequences of dividends are linked more directly to the past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for the annual reporting periods beginning on or after 1 January 2019, with early application is permitted. Prior to the application of the amendments described above the Group presented current income tax incurred in regard of coupon paid on its perpetual subordinated bonds classified as equity in accordance with IAS 32 within equity. Starting 1 January 2019, the Group presents the current income tax incurred in respect of the coupon paid on its perpetual subordinated bonds in the consolidated statement of profit or loss and other comprehensive income.

***IAS 23 Borrowing Costs.*** The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, these amendments had no impact on the consolidated financial statements of the Group.



**3. Summary of Significant Accounting Policies (continued)**

***Consolidated financial statements.*** Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non controlling interest that does not present ownership interest is measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

## 3. Summary of Significant Accounting Policies (continued)

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest form a separate component of the Group's equity except for the non-controlling interests in mutual funds under the Group's control, which are accounted for within Group's liabilities.

***Structured entities***. Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are presented that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion.

Refer to Note 4 for the information about the Group's exposure to structured entities.

***Purchases and sales of non-controlling interest***. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

***Disposals of subsidiaries, associates or joint ventures***. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

***Financial instruments – key measurement terms***. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.



3. Summary of Significant Accounting Policies (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. Fair value is the current bid price for financial assets, current ask price for financial liabilities and the average of current bid and ask prices when the Group is both in short and long position for the financial instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques are used to fair value certain financial instruments for which external market pricing information is not available. Such valuation techniques include discounted cash flows models, generally accepted option pricing models, models based on recent arm's length transactions or consideration of financial data of the investees. Valuation techniques may require assumptions not supported by observable market data.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 34.

## 3. Summary of Significant Accounting Policies (continued)

***Transaction costs*** are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

***Amortised cost*** is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

***The effective interest method*** is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (see the accounting policy for income and expenses recognition).

### Financial assets and liabilities

***Initial recognition***
***(a) Classification and measurement***
IFRS 9 includes three principal classification categories for financial assets: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (FVOCI) and financial assets measured at fair value through profit or loss (FVTPL).

***Business model assessment***
Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition at fair value through profit or loss (FVTPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVTPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect contractual cash flows" basis are measured at amortised cost;



## 3. Summary of Significant Accounting Policies (continued)

- Instruments that are managed on a "hold to collect contractual cash flows and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, are measured at FVTPL.

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because it's the best way to reflect how the business is managed and information is provided to management. The information considered includes:

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

All financial assets not classified as measured at amortised cost or at FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

***Assessment whether contractual cash flows are solely payments of principal and interest***
As a part of its classification process, the Group assesses the contractual terms of financial assets to identify whether they meet SPPI test.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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

- Contingent events that would change the amount and timing of cash flows;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets, e.g. non-recourse asset arrangements; and
- Features that modify consideration for the time value of money, e.g. periodic reset of interest rates.

3. Summary of Significant Accounting Policies (continued)

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Equity financial assets are classified at initial recognition as FVTPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

Derivatives are measured at FVTPL. Embedded derivatives are no separated from a host financial asset.

***(b) Impairment***

The Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12-month ECL). The 12-month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both lifetime ECL and 12 month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. Financial assets grouped on a collective basis according to the segments defined by the Group, industry sector, revenue size and other criteria.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

**Stage 1:** When loans do not have factors that indicate a significant increase in credit risk and are not in default at the reporting date, Group recognises an allowance based on ECL over one year.

**Stage 2:** When loans have factors that indicate a significant increase in credit risk, but are not in default at the reporting date, Group records an allowance for the lifetime ECL.

**Stage 3:** When loans are considered credit-impaired (defaulted) at the reporting date, Group recognises an allowance based on ECL resulting from all possible cash flows arising from different recovery scenarios given default already happened.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery.



3. Summary of Significant Accounting Policies (continued)

***Measurement of ECLs***

ECLs are a probability-weighted estimate of credit losses and measured as follows:

— Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls — i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive, where ECL from including undrawn loan commitments are estimated using credit conversion factor (CCF);

— Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

— Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

***Definition of default***

Under IFRS 9, the Group considers a financial asset to be in default when there is available information that:

— The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

— The borrower is more than 90 days past due on the respective material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:

— Qualitative;

— Quantitative: e.g. overdue status; and

— Based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

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

***Credit ratings and risk grades***

The Group allocates each exposure to a credit rating or a risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit ratings and client's score are primary inputs into the determination of the probability of default (PD) estimation and development under IFRS 9 framework.

The Group also employs statistical models to analyze internal and external data to generate estimates lifetime PD-s and how these are expected to change as a result of the passage of time.

This analysis includes – where reasonable and supportable information is available – the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as the analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include variables such as GDP growth, benchmark interest rates and unemployment.

***Determining whether credit risk has increased significantly***

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since an initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue costs or efforts, including both quantitative and qualitative information and analysis consisting – based on availability and complexity – of the Group's historical experience, expert credit assessment and forward-looking information.

The criteria may vary by portfolio and will include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- Credit rating as at the reporting date; with
- Credit rating that was estimated on initial recognition of the exposure.

The Group also may, using its expert credit judgement and, where possible, relevant historical experience, determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so.

The Group monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines.

***Modified assets and liabilities***

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

For the accounting purposes, the Group defines significant and non-significant modification of financial assets. In case of a significant modification, the changing of contractual conditions (changing of currency of the financial instrument (besides conversion of the loan to rubles due to bankruptcy procedure/court decision), changing of interest rate from fix to float or float to fix and including/excluding conditions in the loan agreement which affect the SPPI test result) leads to derecognition of financial instrument.

In case of non-significant modification of financial assets or financial liabilities, the Group recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset using the original effective rate.





The contractual terms of financial liabilities may be significantly modified in case of changes contractual conditions of present values of the estimated future cash flows, including commission payments after commission income received discounted on liabilities' original effective rate more than **10%** of the discounted present value of the rest cash flows on the original financial liability.

Under IFRS 9, when the terms of a financial asset are modified due to borrowers' financial difficulties and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly should reflect comparison of:

- The PD at the reporting date based on the modified terms; with
- The PD estimated based on data on initial recognition and terms of the original contract.

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

***Inputs into measurement of ECLs***

The key input variables into the measurement of ECLs are the following:

- Probability of default (PD) including lifetime PD-s;
- Loss given default (LGD);
- Credit conversion factor (CCF); and
- Exposure-at-default (EAD).

These parameters derived – alone or together – from the internally developed statistical models based on own historical data or derived from the available market data.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

***Forward-looking information***
Under IFRS 9, the Group incorporates forward-looking information as part of measurement of ECLs. External information used may include economic data and forecasts published by the governmental bodies and monetary authorities in Russia.

The Group based on data availability and credibility of sources – using an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers include variables such as interest rates, unemployment rates, GDP forecasts and other.

***Measurement categories of financial assets and liabilities***
The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
— Amortised cost;
— Fair value through other comprehensive income (FVOCI);
— Fair value through profit or loss (FVTPL).

The Group classifies and measures its derivative and trading portfolio at FVTPL. The Group may designate financial instruments at FVTPL, if so doing so eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading, are derivative instruments or the fair value designation is applied.

***Amounts due from other banks, loans and advances to customers, investments securities at amortised cost***
The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:
— The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
— The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

***Debt instruments at FVOCI***
In accordance with IFRS 9, the Group measures debt instruments at FVOCI when both of the following conditions are met:
— The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
— The contractual terms of the financial asset meet the SPPI test.







FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Expected credit losses (ECLs) for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the asset.

***Equity instruments at FVOCI***
Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

***Purchased or originated credit impaired assets***. Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

***Reclassification of financial assets and liabilities.*** The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

***Derecognition of financial assets***. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise are expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

### 3. Summary of Significant Accounting Policies (continued)

***Cash and cash equivalents***. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits, reverse sale and repurchase agreements with other banks, and other cash equivalents with original maturity of less than one month. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

***Precious metals***. Gold and other precious metals are recorded at the Bank of Russia bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the Bank of Russia bid prices are recorded as translation differences from precious metals.

***Mandatory cash balances with the Bank of Russia***. Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

***Trading securities***. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the contractual interest method is presented in the consolidated statement of profit or loss and other comprehensive income as interest income. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

***Sale and repurchase agreements and lending of securities***. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as Investment securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as an interest income and accrued over the life of repo agreements using the effective interest method.

***Investment securities at fair value through other comprehensive income***. This classification includes investment securities which the Group 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. The Group classifies investments as at fair value through other comprehensive income at the time of purchase.



3. Summary of Significant Accounting Policies (continued)

***Investment securities at fair value through profit or loss at initial recognition on management decision***. Investment securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category by the Group, if such classification eliminates or significantly reduces inconsistency of measurement or recognition approaches (an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them.

***Due from other banks***. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

***Repossessed collateral***. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

***Promissory notes purchased***. Promissory notes purchased are included in trading securities or investment securities at amortised cost or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

***Goodwill***. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

***Premises and equipment***. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to a regular subsequent revaluation. The frequency of the revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognised by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises.

**3. Summary of Significant Accounting Policies (continued)**

These changes in values are shown separately in the reconciliation of movements in premises in Note 11. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at historical cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalized, and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

At the end of each reporting period, management assesses whether there is any indication of impairment of premises and equipment. If such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

***Depreciation***. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

| Useful lives in years | Used in banking activities | Used in non-banking activities |
|---|---|---|
| Premises | 40-100 | 20-40 |
| Equipment | 5-20 | 5-20 |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.



**3. Summary of Significant Accounting Policies (continued)**

***Intangible assets***. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives.

***Inventory***. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

***Non-current assets classified as held for sale***. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'Assets classified as held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit, to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

**3. Summary of Significant Accounting Policies (continued)**

***Financial guarantees, letters of credit and undrawn loan commitments***. The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and – under IFRS 9 – an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Group occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

***Performance guarantees***. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

***Due to other banks***. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks and banking groups. The non-derivative liability is carried at amortised cost.

***Customer accounts.*** Customer accounts are represented by current/settlement accounts and term deposits and are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

***Promissory notes issued***. Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

***Bonds issued***. Bonds issued represent amounts attracted from Eurobonds issue and bonds issued on domestic market. Issued Eurobonds and bonds issued on domestic market carry a coupon and are redeemable on a specific date. Bonds issued are carried at amortised cost. If the Group repurchases its bonds issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

***Subordinated debts***. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.



**3. Summary of Significant Accounting Policies (continued)**

***Derivative financial instruments***. Derivative financial instruments (including forwards and swaps on currency, securities, precious metals and interest rates; options; futures on commodities, currency and indexes) are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:
**a)** The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
**b)** A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
**c)** The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

Financial assets are classified based on the business model and SPPI assessments.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

***Regular way transactions***. Regular way transactions are purchases or sales of financials assets that require delivery of assets within the period generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognised or derecognised on the contractual settlement date which is the date when the asset is to be delivered to or by the Group. Regular way transactions are not recognised as derivatives because of the short duration of the commitment to deliver financial assets between the trade and settlement date.

Any changes in the fair value of the financial assets at fair value through profit and loss to be received during the period between the trade date and the settlement date is recognised in the income statement and for financial assets at fair value through other comprehensive income is recognised in other comprehensive income for financial assets purchased.

***Income taxes***. Income taxes have been provided for in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

3. Summary of Significant Accounting Policies (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

***Insurance operations***. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of the insurance event, the date of occurrence of the insurance event and the claim value in respect of it.

***Gross insurance premiums written***. Gross insurance premiums written, which the Group is contractually entitled to receive from the insured in relation to insurance contracts, are recognised when due from a policyholder. Specifically, the Group recognises premiums for the policies issued during the year and includes an estimate of premiums due but not yet received by the reporting date, less an allowance for cancellations. Premiums are shown before the deduction of commission. Gross insurance premiums written are recognised as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 24.

***Provision for unearned premiums***. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in-force as at the reporting date, calculated on a time apportionment basis. Provisions for unearned premiums are recognised as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 24.

***Claims paid***. Claims and claims handling expenses are charged to the consolidated statement of profit or loss and other comprehensive income as incurred based on the evaluated liability for compensation payable to policy-holders or third parties.

***Loss provision***. The loss provision represents the accumulation of estimates for ultimate insurance losses and includes the outstanding claims reserve ("OCR") and provision for losses incurred but not yet reported ("IBNR"). Estimates of the claims handling expenses are included in both the OCR and the IBNR.



3. Summary of Significant Accounting Policies (continued)

The OCR is provided in respect of claims reported but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases as at and after the reporting date. IBNR is actuarially determined by the Group.

***Deferred acquisition costs***. Deferred acquisition costs ("DAC") are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include commission to agents for concluding agreements with corporate clients and individuals, commission and brokerage fee for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortised over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

***Liability adequacy test***. At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, the current best estimates of the future contractual cash flows and claims handling and maintenance expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income, initially by writing off DAC and by subsequently establishing a provision for losses arising from the liability adequacy tests (the unexpired risk provision). When performing the liability adequacy test, the Group uses a combination of its own as well as externally available statistics and also includes a security margin. Insurance receivables are included as part of this test.

***Uncertain tax positions***. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

***Provisions for liabilities and charges***. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

***Trade and other payables***. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

***Perpetual Bonds***. Due to undefined maturity and an option for a non-cumulative cancellation of coupon payments (without occurrence of rights of investors for accumulation of unpaid coupons), the Group accounts for perpetual bonds as an equity instrument and as a Tier I eligible instrument for the purpose of Basel Capital Adequacy Ratio calculation. The Bank of Russia approved the inclusion of these subordinated bonds in the regulatory capital calculation of the Bank.

3. Summary of Significant Accounting Policies (continued)

The Group accounts for the Perpetual Bonds denominated in the foreign currency in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in Retained earnings.

Coupon payments may be cancelled or deferred in accordance with the terms of the notes. Transaction costs are recorded in retained earnings. At the moment the coupon under perpetual bonds becomes mandatory, it is recorded as a dividend declaration described below.

***Share capital***. Ordinary and preference shares, that are not redeemable and dividend payments are at the discretion of the management, are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

***Dividends***. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

***Income and expense recognition***. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

***Revenue recognition – sale of goods***. Revenue is recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct are separately recognised, and any discounts or rebates on the contract price are generally allocated to the separate elements. When the consideration varies for any reason, minimum amounts are recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

***Interest and similar revenue and expense***. The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted





3. Summary of Significant Accounting Policies (continued)

EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVTPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit or loss.

***Fee and commission income***. Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example, loan fees, credit rating, loan servicing.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

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

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

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

***Customer loyalty programs***. The Group offers a number of customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. Cashbacks on plastic card transactions reduce fee and commission income.

***Foreign currency translation***. The functional currency of each consolidated entity of the Group is the currency of the primary economic environment in which each entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

**3. Summary of Significant Accounting Policies (continued)**

Transactions in foreign currencies are initially recorded in the functional currency, translated into Russian Roubles at the rate of exchange at the date of the transaction.

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Bank of Russia at the end of the respective reporting period. Foreign exchange gains and losses, resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the Bank of Russia, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

As at 31 December 2019 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 61.9057 (31 December 2018: USD 1 = RR 69.4706), EUR 1 = RR 69.3406 (31 December 2018: EUR 1 = RR 79.4605).

***Fiduciary assets***. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

***Offsetting***. Financial assets and liabilities are offset, and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy of the entity or one of its counterparties. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

***Staff costs and related contributions***. Wages, salaries, contributions to the Russian Federation state and non-state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. These payments are included in staff expenses in consolidated profit or loss.

***Segment reporting***. IFRS 8 Operating Segments requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.



**3. Summary of Significant Accounting Policies (continued)**

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas.

***Government grants and government assistance***. Government grants are recognized where there is reasonable assurance that the grant will be received and all the related conditions will be complied with. Where the grant relates to an expense item, it is recognized as income in the same periods as the respective expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Government loans provided at below market interest rates are recognized in accordance with IFRS 9. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the consolidated statement of financial position. This benefit is accounted for in accordance with IAS 20.

A government grant that becomes receivable as a compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized in profit or loss of the period in which it becomes receivable.

***Amendments of the financial statements after issue.*** Any further changes to these consolidated financial statements require approval of the Group's Management who authorised these consolidated financial statements for issue.

**4. Critical Accounting Estimates and Judgements in Applying Accounting Policies**

In the process of applying accounting policies, the management of the Group, in addition to accounting estimates, makes judgments and assumptions that affect the amounts reflected in the consolidated financial statements. Judgments and assumptions are made based on management's experience and other factors, including expectations regarding future events that management believes are reasonable in the light of current circumstances.

In the process of applying the Group's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. Below are the most significant use of judgments and evaluations:

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

- The Group's internal credit grading model, which assigns PDs to the individual grades;

**4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)**

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs. Thus, the functional dependence of the level of defaults on macroeconomic factors is determined by evaluating the regression between the values of the default level and various transformations of this indicator taking into account macroeconomic factors such as GDP growth rate, growth rate of the agro-industrial complex, oil prices, inflation rate, etc.;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

More details are provided in Notes 9 and 29.

***Fair value of financial instruments***. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 34.

***Fair value of derivatives***. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect fair reported values. Refer to Note 33.

***Leases – estimating the incremental borrowing rate***. The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay'.

***Leases – estimating the lease term***. Some of the contracts are unlimited and are automatically prolonged if neither side sends a notice to the other party about the termination of the contract. Under certain lease agreements, the Group has an option to extend the lease of assets for an additional period of up to five years. The Group uses judgment to determine whether it has sufficient assurance that it will exercise the extension option. At the same time, the Group takes into account all relevant factors that give a rise to an economic incentive to exercise the option to extend the lease.

**4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)**

***Deferred income tax asset recognition***. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter.

The business plan is based on management expectations that are believed to be reasonable under the circumstances and approved by the management of the Bank. A key assumption in the business plan is to obtain profits in subsequent financial years through widening of product range and client base. Refer to Note 26.

***Structured entities***. The Group considers RSHB Capital S.A. incorporated for Eurobonds issue for the Bank as consolidated structured entity under IFRS 12 requirements. As at 31 December 2019, the Group guarantees all obligations of the consolidated structured entity represented by subordinated debts in the amount of RR 24 295 million (31 December 2018: subordinated debts in the amount of RR 27 765 million). During 2019 and 2018 the Group did not provide any other financial support to the consolidated structured entity. The Group has no current obligation or intention neither to provide financial or other support to the consolidated structured entity nor to assist it in obtaining financial support. Refer to Note 16.

**5. New Accounting Pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted.

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

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

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

IFRS 17 is effective for the reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. In 2020, the Group will continue to assess the potential effect of IFRS 17 on its consolidated financial statements.

## 5. New Accounting Pronouncements (continued)

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

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

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

The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.

***Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7***. Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

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





## 6. Cash and Cash Equivalents

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash on hand | 59 193 | 148 475 |
| Cash balances (other than mandatory) with the Bank of Russia | 74 594 | 86 289 |
| Correspondent accounts and deposits with other banks with original maturities less than one month | 263 800 | 144 993 |
| Settlement accounts with stock and currency exchanges | 1 561 | 5 115 |
| Settlement accounts with clearing and brokerage organisations | 2 832 | 5 682 |
| Deals with securities pledged under repurchase agreements with original maturities of less than one month | 1 586 | 36 |
| Less: allowance for impairment | (2) | (5) |
| **Total cash and cash equivalents** | **403 564** | **390 585** |

As at 31 December 2019, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included balances with two Russian banking groups with rating of the parent bank at Baa3 (Moody's) and two OECD banking groups with rating of the parent bank not lower than A3 (Moody's), individually above 10% of the Group's equity, in the amount of RR 241 319 million, or 60% of total cash and cash equivalents (31 December 2018: balances with two Russian banking groups with rating of the parent bank at Ba2 (Moody's), individually above 10% of the Group's equity, in the amount of RR 134 304 million, or 34% of total cash and cash equivalents).

Analysis by credit quality as at 31 December 2019 is as follows. Refer to Notes 3 and 29 for the description of credit risk grading system used by the Group and the approach to ECL measurement.

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Cash on hand | 59 192 | - | - | **59 192** |
| Cash balances (other than mandatory) with the Bank of Russia | 74 594 | - | - | **74 594** |
| Settlement accounts with clearing organisations | 2 832 | - | - | **2 832** |
| Settlement accounts with stock and currency exchanges | 1 561 | - | - | **1 561** |
| Low credit risk (internationally rated) | 255 436 | - | - | **255 436** |
| Moderate credit risk (internationally rated) | 4 409 | - | - | **4 409** |
| Increased credit risk (internationally rated) | 5 532 | - | - | **5 532** |
| High credit risk (internationally rated) | 7 | - | - | **7** |
| Default (internationally rated) | - | - | - | **-** |
| Not rated | 3 | - | - | **3** |
| **Total cash and cash equivalents (before impairment)** | **403 566** | **-** | **-** | **403 566** |
| Less: allowance for impairment | (2) | - | - | **(2)** |
| **Total cash and cash equivalents** | **403 564** | **-** | **-** | **403 564** |

**6. Cash and Cash Equivalents (continued)**

Analysis by credit quality of cash and cash equivalents as at 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Cash on hand | 148 475 | - | - | **148 475** |
| Cash balances (other than mandatory) with the Bank of Russia | 86 289 | - | - | **86 289** |
| Settlement accounts with clearing organisations | 5 682 | - | - | **5 682** |
| Settlement accounts with stock and currency exchanges | 5 115 | - | - | **5 115** |
| Low credit risk (internationally rated) | 2 153 | - | - | **2 153** |
| Moderate credit risk (internationally rated) | 134 437 | - | - | **134 437** |
| Increased credit risk (internationally rated) | 8 439 | - | - | **8 439** |
| High credit risk (internationally rated) | - | - | - | **-** |
| Default (internationally rated) | - | - | - | **-** |
| Not rated | - | - | - | **-** |
| **Total cash and cash equivalents (before impairment)** | **390 590** | **-** | **-** | **390 590** |
| Less: allowance for impairment | (5) | - | - | **(5)** |
| **Total cash and cash equivalents** | **390 585** | **-** | **-** | **390 585** |

As at 31 December 2019, cash and cash equivalents in the amount of RR 1 586 million were effectively collateralized by securities purchased under reverse repo agreements with a fair value of RR 1 591 million (31 December 2018: cash and cash equivalents in the amount of RR 36 million were effectively collateralized by securities purchased under reverse repo agreements with a fair value of RR 37 million). The Group had the right to sell or repledge securities.

Refer to Note 34 for the disclosure of fair value and fair value hierarchy for cash and cash equivalents. Geographical and liquidity analyses of cash and cash equivalents are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

**7. Trading Securities**

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Federal loan bonds (OFZ) | 16 839 | 15 532 |
| Corporate bonds | 4 949 | 3 683 |
| Corporate shares | 186 | - |
| Municipal and subfederal bonds | - | 11 |
| **Total trading securities** | **21 974** | **19 226** |

Trading securities are carried at fair value which also reflects any credit risk related write-downs.

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by the Ministry of Finance of the Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually. As at 31 December 2019, these bonds have maturity dates from January 2020 to March 2039 and coupon rates from 6.3% to 8.73% p.a. (31 December 2018: these bonds had maturity dates from May 2019 to March 2033 and coupon rates from 6.4% to 8.25% p.a.).

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually depending on the type of the bond issue and the issuer. As at 31 December 2019, these bonds have maturity dates from June 2020 to June 2048 and coupon rates from 6.7% to 12.6% p.a. (31 December 2018: these bonds have maturity dates from May 2019 to May 2033 and coupon rates from 4.5% to 10.8% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Corporate shares in the Group's portfolio are represented by investments in shares issued by large Russian companies.

Refer to Note 34 for the disclosure of fair value hierarchy for trading securities. Geographical and liquidity analyses of trading securities are disclosed in Note 29.

**8. Due from Other Banks**

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Current term placements with other banks | 42 999 | 31 925 |
| Promissory notes | 7 579 | 6 936 |
| Overdue placements with other banks | 181 | 181 |
| Less: provision for impairment | (216) | (325) |
| **Total due from other banks** | **50 543** | **38 717** |

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from other banks during the year ended 31 December 2019 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2019** | **38 861** | **-** | **181** | **39 042** |
| Transfers to Stage 1 | - | - | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Change in gross carrying value (new issue and repayments) | 12 384 | - | - | **12 384** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | (668) | - | - | **(668)** |
| **Gross carrying value as at 31 December 2019** | **50 577** | **-** | **181** | **50 758** |

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL as at 1 January 2019** | **144** | **-** | **181** | **325** |
| Transfers to Stage 1 | - | - | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments) | (108) | - | - | **(108)** |
| Unwind of discount (recognised in interest income) | - | - | - | **-** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | (2) | - | - | **(2)** |
| **ECL as at 31 December 2019** | **34** | **-** | **181** | **215** |



**8. Due from Other Banks (continued)**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from other banks during the year ended 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2018** | **25 860** | **-** | **280** | **26 140** |
| Transfers to Stage 1 | - | - | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Change in gross carrying value (new issue and repayments) | 10 146 | - | (99) | **10 047** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | 2 855 | - | - | **2 855** |
| **Gross carrying value as at 31 December 2018** | **38 861** | **-** | **181** | **39 042** |

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL as at 1 January 2018** | **162** | **-** | **277** | **439** |
| Transfers to Stage 1 | - | - | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments) | (25) | - | (96) | **(121)** |
| Unwind of discount (recognised in interest income) | - | - | - | **-** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | 7 | - | - | **7** |
| **ECL as at 31 December 2018** | **144** | **-** | **181** | **325** |

**8. Due from Other Banks (continued)**

Analysis by credit quality of amounts due from other banks as at 31 December 2019 is as follows. Refer to Notes 3 and 29 for the description of credit risk grading system used by the Group and the approach to ECL measurement.

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Low credit risk (internationally rated) | 26 023 | - | - | **26 023** |
| Moderate credit risk (internationally rated) | 4 702 | - | - | **4 702** |
| Increased credit risk (internationally rated) | 11 344 | - | - | **11 344** |
| High credit risk (internationally rated) | 8 508 | - | - | **8 508** |
| Default (internationally rated) | - | - | - | **-** |
| Not rated | - | - | 181 | **181** |
| **Total due from other banks (before impairment)** | **50 577** | **-** | **181** | **50 758** |
| Less: allowance for impairment | (34) | - | (181) | **(215)** |
| **Total due from other banks** | **50 543** | **-** | **-** | **50 543** |

Analysis by credit quality of amounts due from other banks as at 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Low credit risk (internationally rated) | - | - | - | **-** |
| Moderate credit risk (internationally rated) | 9 491 | - | - | **9 491** |
| Increased credit risk (internationally rated) | 29 370 | - | - | **29 370** |
| High credit risk (internationally rated) | - | - | - | **-** |
| Default (internationally rated) | - | - | - | **-** |
| Not rated | - | - | 181 | **181** |
| **Total due from other banks (before impairment)** | **38 861** | **-** | **181** | **39 042** |
| Less: allowance for impairment | (144) | - | (181) | **(325)** |
| **Total due from other banks** | **38 717** | **-** | **-** | **38 717** |

Due from other banks are represented by unsecured due from other banks placements.

As at 31 December 2019, due from other banks included the balances with one Russian banking group with rating of the parent bank not lower than BBB- (S&P) individually above 10% of the Group's equity, in the amount of RR 24 714 million, or 49% of total due from other banks (31 December 2018: due from other banks included no balances with other banks individually above 10% of the Group's equity). As at 31 December 2018, due from other banks included the balances with two non-OECD banking groups with rating of the parent bank not lower than B (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 20 943 million, or 54% of total due from other banks.

Refer to Note 34 for the disclosure of fair value and fair value hierarchy for due from other banks. Geographical and liquidity analyses of due from other banks are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.



**9. Loans and Advances to Customers**

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Loans to legal entities** | **1 942 145** | **1 830 924** |
| - Loans to corporates | 1 923 038 | 1 801 780 |
| - Lending for food interventions | 19 107 | 29 144 |
| **Loans to individuals** | **473 008** | **434 233** |
| **Total loans and advances to customers at amortised cost (before impairment)** | **2 415 153** | **2 265 157** |
| Less: allowance for impairment | (306 038) | (332 411) |
| **Total loans and advances to customers at amortised cost** | **2 109 115** | **1 932 746** |
| Loans to customers at fair value through profit or loss | 55 791 | 25 021 |
| **Total loans and advances to customers** | **2 164 906** | **1 957 767** |

As at 31 December 2019, included in gross amount of loans are loans in the principal amount of RR 762 444 million (31 December 2018: RR 677 831 million), where borrowers are eligible for interest subsidies from federal and regional budgets.

Lending for food interventions is represented by loans to the company under the control of the Government of the Russian Federation.

As at 31 December 2019, the Group has loans before impairment to the ten largest borrowers (groups of borrowers) in the total amount of RR 636 343 million, or 26% of total loans and advances to customers before impairment (31 December 2018: the Group has loans before impairment to the ten largest borrowers (groups of borrowers) in the total amount of RR 570 967 million, or 25% of total loans and advances to customers before impairment).

Certain loans to customers did not meet the SPPI criterion. Therefore, Group classifies these loans as financial assets at FVTPL.

As at 31 December 2019, the total amount of loans to legal entities included loans in the gross carrying value of RR 34 014 million (31 December 2018: RR 10 092 million), for which an allowance is zero as a result of applying the adjustment for the amount of collateral in the individual credit risk assessment model.

### 9. Loans and Advances to Customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to legal entities during the year ended 31 December 2019 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Loans to legal entities** | | | | | |
| **Gross carrying value as at 1 January 2019** | **1 305 377** | **83 095** | **442 452** | **-** | **1 830 924** |
| Transfers to Stage 1 | 19 585 | (18 243) | (1 342) | - | **-** |
| Transfers to Stage 2 | (165 194) | 213 353 | (48 159) | - | **-** |
| Transfers to Stage 3 | (5 770) | (13 228) | 18 998 | - | **-** |
| Change in gross carrying value (new issue and repayments) | 218 984 | (12 724) | (9 239) | 5 526 | **202 547** |
| Changes due to modifications not resulting in derecognition | - | - | - | - | **-** |
| Amounts written off | - | - | (5 165) | - | **(5 165)** |
| Foreign exchange adjustments | (10 173) | (1 303) | (220) | - | **(11 696)** |
| Loans sold during the period | (274) | (210) | (73 981) | - | **(74 465)** |
| Disposal of subsidiaries | - | - | - | - | **-** |
| **Gross carrying value as at 31 December 2019** | **1 362 535** | **250 740** | **323 344** | **5 526** | **1 942 145** |

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Loans to legal entities** | | | | | |
| **ECL as at 1 January 2019** | **34 330** | **4 083** | **262 187** | **-** | **300 600** |
| Transfers to Stage 1 | 1 389 | (851) | (538) | - | **-** |
| Transfers to Stage 2 | (7 805) | 15 248 | (7 443) | - | **-** |
| Transfers to Stage 3 | (91) | (1 090) | 1 181 | - | **-** |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments) | (14 324) | 4 396 | 43 722 | 1 409 | **35 203** |
| Unwind of discount (recognised in interest income) | - | - | 8 732 | - | **8 732** |
| Changes due to modifications not resulting in derecognition | - | - | - | - | **-** |
| Amounts written off | - | - | (5 165) | - | **(5 165)** |
| Foreign exchange adjustments | (179) | (59) | (112) | - | **(350)** |
| Allowance for loans sold during the period | - | (6) | (66 663) | - | **(66 669)** |
| Recovery of loans previously written off sold during the period | - | - | 113 | - | **113** |
| Recovery of loans previously written off | - | - | 358 | - | **358** |
| Disposal of subsidiaries | - | - | - | - | **-** |
| **ECL as at 31 December 2019** | **13 320** | **21 721** | **236 372** | **1 409** | **272 822** |





9. Loans and Advances to Customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals during the year ended 31 December 2019 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to individuals** | | | | |
| **Gross carrying value as at 1 January 2019** | **395 579** | **3 356** | **35 298** | **434 233** |
| Transfers to Stage 1 | 1 922 | (943) | (979) | **-** |
| Transfers to Stage 2 | (2 493) | 3 103 | (610) | **-** |
| Transfers to Stage 3 | (5 357) | (1 598) | 6 955 | **-** |
| Change in gross carrying value (new issue and repayments) | 45 085 | (368) | (2 157) | **42 560** |
| Amounts written off | - | - | (103) | **(103)** |
| Loans sold during the period | - | - | (3 682) | **(3 682)** |
| **Gross carrying value as at 31 December 2019** | **434 736** | **3 550** | **34 722** | **473 008** |

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to individuals** | | | | |
| **ECL as at 1 January 2019** | **1 389** | **758** | **29 664** | **31 811** |
| Transfers to Stage 1 | 764 | (133) | (631) | **-** |
| Transfers to Stage 2 | (39) | 435 | (396) | **-** |
| Transfers to Stage 3 | (109) | (464) | 573 | **-** |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments) | 672 | 284 | 3 128 | **4 084** |
| Unwind of discount (recognised in interest income) | - | - | 964 | **964** |
| Amounts written off | - | - | (103) | **(103)** |
| Provision for loans sold during the period | - | - | (3 540) | **(3 540)** |
| **ECL as at 31 December 2019** | **2 677** | **880** | **29 659** | **33 216** |

### 9. Loans and Advances to Customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to legal entities during the year ended 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to legal entities** | | | | |
| **Gross carrying value as at 1 January 2018** | **846 829** | **264 186** | **517 510** | **1 628 525** |
| Transfers to Stage 1 | 180 108 | (136 501) | (43 607) | - |
| Transfers to Stage 2 | (65 351) | 72 305 | (6 954) | - |
| Transfers to Stage 3 | (17 442) | (42 786) | 60 228 | - |
| Change in gross carrying value (new issue and repayments) | 335 835 | (31 198) | 6 443 | **311 080** |
| Changes due to modifications not resulting in derecognition | - | (2 465) | - | **(2 465)** |
| Amounts written off | - | - | (11 562) | **(11 562)** |
| Foreign exchange adjustments | 27 229 | 820 | 832 | **28 881** |
| Loans sold during the period | (1 831) | (41 266) | (67 465) | **(110 562)** |
| Disposal due to transfer to subsidiaries | - | - | (12 973) | **(12 973)** |
| **Gross carrying value as at 31 December 2018** | **1 305 377** | **83 095** | **442 452** | **1 830 924** |

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to legal entities** | | | | |
| **ECL as at 1 January 2018** | **14 100** | **14 236** | **284 963** | **313 299** |
| Transfers to Stage 1 | 10 146 | (4 828) | (5 318) | - |
| Transfers to Stage 2 | (2 174) | 4 634 | (2 460) | - |
| Transfers to Stage 3 | (423) | (5 426) | 5 849 | - |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments) | 12 561 | 7 219 | 36 439 | **56 219** |
| Unwind of discount (recognised in interest income) | - | - | 9 998 | **9 998** |
| Changes due to modifications not resulting in derecognition | - | (99) | - | **(99)** |
| Amounts written off | - | - | (11 562) | **(11 562)** |
| Foreign exchange adjustments | 202 | 148 | 232 | **582** |
| Allowance for loans sold during the period | (82) | (11 801) | (50 376) | **(62 259)** |
| Recovery of loans previously written off sold during the period | - | - | 147 | **147** |
| Recovery of loans previously written off | - | - | 1 988 | **1 988** |
| Disposal due to transfer to subsidiaries | - | - | (7 713) | **(7 713)** |
| **ECL as at 31 December 2018** | **34 330** | **4 083** | **262 187** | **300 600** |





### 9. Loans and Advances to Customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals during the year ended 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to individuals** | | | | |
| **Gross carrying value as at 1 January 2018** | **333 134** | **3 481** | **34 831** | **371 446** |
| Transfers to Stage 1 | 1 580 | (743) | (837) | - |
| Transfers to Stage 2 | (2 397) | 2 999 | (602) | - |
| Transfers to Stage 3 | (5 000) | (1 976) | 6 976 | - |
| Change in gross carrying value (new issue and repayments) | 68 262 | (405) | (898) | **66 959** |
| Amounts written off | - | - | (65) | **(65)** |
| Loans sold during the period | - | - | (4 107) | **(4 107)** |
| **Gross carrying value as at 31 December 2018** | **395 579** | **3 356** | **35 298** | **434 233** |

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to individuals** | | | | |
| **ECL as at 1 January 2018** | **2 806** | **994** | **28 850** | **32 650** |
| Transfers to Stage 1 | 750 | (160) | (590) | - |
| Transfers to Stage 2 | (60) | 489 | (429) | - |
| Transfers to Stage 3 | (172) | (632) | 804 | - |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments) | (1 935) | 67 | 2 483 | **615** |
| Unwind of discount (recognised in interest income) | - | - | 2 559 | **2 559** |
| Amounts written off | - | - | (65) | **(65)** |
| Provision for loans sold during the period | - | - | (3 948) | **(3 948)** |
| **ECL as at 31 December 2018** | **1 389** | **758** | **29 664** | **31 811** |

## 9. Loans and Advances to Customers (continued)

The economic sector structure of the credit portfolio is as follows:

| In millions of Russian Roubles | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Agriculture | 1 183 462 | 48 | 994 716 | 43 |
| Individuals | 473 008 | 19 | 434 233 | 19 |
| Oil and gas | 285 417 | 12 | 253 861 | 11 |
| Construction | 172 394 | 7 | 188 369 | 8 |
| Manufacturing | 86 412 | 3 | 197 777 | 9 |
| Trading | 67 959 | 3 | 43 519 | 2 |
| Other | 202 292 | 8 | 177 703 | 8 |
| **Total loans and advances to customers (before impairment)** | **2 470 944** | **100** | **2 290 178** | **100** |

The table below presents an analysis of the credit quality of loans and advances to customers as of 31 December 2019.

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Loans to legal entities at amortised cost** | | | | | |
| Low credit risk (internally rated) | 582 | - | - | - | **582** |
| Moderate credit risk (internally rated) | 922 351 | 882 | - | - | **923 233** |
| Increased credit risk (internally rated) | 439 602 | 155 119 | - | - | **594 721** |
| High credit risk (internally rated) | - | 94 739 | - | - | **94 739** |
| Default (internally rated) | - | - | 323 344 | 5 526 | **328 870** |
| Unrated | - | - | - | - | **-** |
| **Total loans to legal entities at amortised cost (before impairment)** | **1 362 535** | **250 740** | **323 344** | **5 526** | **1 942 145** |
| Less: allowance for impairment | (13 320) | (21 722) | (236 371) | (1 409) | **(272 822)** |
| **Total loans to legal entities at amortised cost** | **1 349 215** | **229 018** | **86 973** | **4 117** | **1 669 323** |

The classification of credit risk taking into account the credit quality scale of borrowers by levels and a description of the approach to estimating expected credit losses, including the determination of default and a significant increase in credit risk, is provided in Notes 3 and 29.





## 9. Loans and Advances to Customers (continued)

Analysis by credit quality in relation to loans to individuals as at 31 December 2019 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to individuals at amortised cost** | | | | |
| Non overdue | 428 407 | 1 056 | - | **429 463** |
| Up to 30 days overdue | 6 329 | 461 | 133 | **6 923** |
| 31 to 90 days overdue | - | 2 033 | 1 036 | **3 069** |
| 91 to 180 days overdue | - | - | 2 571 | **2 571** |
| 181 to 365 days overdue | - | - | 3 706 | **3 706** |
| Over 365 days overdue | - | - | 27 276 | **27 276** |
| **Total loans to individuals at amortised cost (before impairment)** | **434 736** | **3 550** | **34 722** | **473 008** |
| Less: allowance for impairment | (2 677) | (880) | (29 659) | **(33 216)** |
| **Total loans to individuals at amortised cost** | **432 059** | **2 670** | **5 063** | **439 792** |

For ECL calculation on loans to individuals, the assessment of the probability of default is based on the migration matrix of overdue debts, taking into account the depth of overdue, the probability of default for scoring models and forecast information.

Analysis by credit quality of loans to legal entities outstanding as at 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to legal entities at amortised cost** | | | | |
| Low credit risk (internally rated) | 23 | - | - | **23** |
| Moderate credit risk (internally rated) | 695 225 | 3 121 | - | **698 346** |
| Increased credit risk (internally rated) | 610 055 | 25 814 | - | **635 869** |
| High credit risk (internally rated) | 74 | 54 160 | - | **54 234** |
| Default (internally rated) | - | - | 442 452 | **442 452** |
| Unrated | - | - | - | **-** |
| **Total loans to legal entities at amortised cost (before impairment)** | **1 305 377** | **83 095** | **442 452** | **1 830 924** |
| Less: allowance for impairment | (34 330) | (4 082) | (262 188) | **(300 600)** |
| **Total loans to legal entities at amortised cost** | **1 271 047** | **79 013** | **180 264** | **1 530 324** |

## 9. Loans and Advances to Customers (continued)

Analysis by credit quality in relation to loans to individuals as at 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loans to individuals at amortised cost** | | | | |
| Non overdue | 391 413 | 1 036 | 54 | **392 503** |
| Up to 30 days overdue | 4 166 | 380 | 160 | **4 706** |
| 31 to 90 days overdue | - | 1 940 | 985 | **2 925** |
| 91 to 180 days overdue | - | - | 2 293 | **2 293** |
| 181 to 365 days overdue | - | - | 3 608 | **3 608** |
| Over 365 days overdue | - | - | 28 198 | **28 198** |
| **Total loans to individuals at amortised cost (before impairment)** | **395 579** | **3 356** | **35 298** | **434 233** |
| Less: allowance for impairment | (1 389) | (758) | (29 664) | **(31 811)** |
| **Total loans to individuals at amortised cost** | **394 190** | **2 598** | **5 634** | **402 422** |

***Loan collateral***

The Group accepts different types of collateral, such as: real estate, land plots, equipment, including agricultural machinery, motor vehicles, inventories (finished products, raw materials, goods in turnover), construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.
Where appropriate, the value of collateral was incorporated in the assessment of recoverable amount of loans and advances to customers.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group includes:
— Obtaining complete and objective information on the available collateral property and its structure;
— Development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
— Improving the effectiveness and timeliness of collateral foreclosure process.

The majority of collateral (over 86%) (31 December 2018: over 83%) relates to the following types: real estate – 60% (31 December 2018: 59%), equipment – 19% (31 December 2018: 16%) and vehicles – 7% (31 December 2018: 8%).

Refer to Note 34 for the disclosure of fair value of each class of loans and advances to customers and fair value hierarchy for loans and advances to customers. Geographical and liquidity analyses of loans and advances to customers are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.





## 9. Loans and Advances to Customers (continued)

***Modified and restructured loans***. The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been significantly renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes Stage 2 and 3 assets that were modified during the year, with the related modification loss suffered by the Group.

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Loans modified during the period** | | |
| Amortised cost before modification | - | 17 170 |
| Net modification loss | - | (2 465) |
| **Loans modified since initial recognition** | | |
| Gross carrying amount at 1 January of loans for which loss allowance has changed to 12 month measurement during the period | - | 2 098 |

## 10. Investment Securities

Investment securities including those pledged under repurchase agreements comprise:

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Investment securities at fair value through other comprehensive income | 346 709 | 507 270 |
| Investment securities at amortised cost | 58 966 | 56 891 |
| Investment securities at fair value through profit or loss | 582 | 2 846 |
| Investment securities at fair value through profit or loss (mandatory) | 26 046 | 5 442 |
| **Total investment securities** | **432 303** | **572 449** |

## 10. Investment Securities (continued)

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Investment securities at fair value through other comprehensive income** | | |
| Federal loan bonds (OFZ) | 207 662 | 183 673 |
| Corporate bonds | 98 274 | 117 418 |
| Corporate Eurobonds | 34 292 | 45 852 |
| Municipal and subfederal bonds | 3 079 | 12 857 |
| State Eurobonds | 1 778 | 638 |
| Bank of Russia bonds | 1 496 | 105 809 |
| **Total debt securities at fair value through other comprehensive income** | **346 581** | **466 247** |
| Corporate Eurobonds | – | 31 477 |
| Federal loan bonds (OFZ) | – | 8 787 |
| **Total debt securities at fair value through other comprehensive income pledged under repurchase agreements** | **–** | **40 264** |
| **Equity securities** | | |
| Corporate shares | 128 | 759 |
| **Total equity securities at fair value through other comprehensive income** | **128** | **759** |
| **Total investment securities at fair value through other comprehensive income** | **346 709** | **507 270** |

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Rouble. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2019, these bonds have maturity dates from July 2022 to December 2034 (31 December 2018: from January 2025 to June 2047) and coupon rates from 6.88% to 8.74% p.a. (31 December 2018: from 6.5% to 8.8% p.a.), depending on the type of the bond issue and the market conditions.

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles and US Dollars issued by major Russian companies and banks. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually depending on the type of the bond issue and the issuer. As at 31 December 2019, these bonds have maturity dates from March 2020 to September 2052 (31 December 2018: from January 2019 to June 2048) and coupon rates from 4.8% to 13.1% p.a. (31 December 2018: from 6.5% to 13.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Corporate Eurobonds are bonds denominated in Russian Roubles, US Dollars and Euros issued by major Russian companies and banks. As at 31 December 2019, these bonds have maturity dates from April 2020 to April 2030 (31 December 2018: from March 2019 to December 2050) and coupon rates from 3.15% to 9.25% p.a. (31 December 2018: from 2.95% to 9.84% p.a.), payable quarterly or semi-annually, depending on the type of the bond issue, the issuer and the market conditions.





## 10. Investment Securities (continued)

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually depending on the type of the bond issue and the issuer. As at 31 December 2019, these bonds have maturity dates from October 2020 to December 2026 (31 December 2018: from October 2019 to December 2026) and coupon rates from 7.05% to 11.74% p.a. (31 December 2018: from 7.45% to 14% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Bank of Russia bonds are denominated in Russian Roubles. As at 31 December 2019, these bonds had maturity dates at March 2020 (31 December 2018: from January 2019 to March 2019) and coupon rate 6.25% p.a. (31 December 2018: 7.5% p.a.), payable quarterly.

State Eurobonds are represented by the Russian Federation bonds denominated in US Dollars issued by the Ministry of Finance of the Russian Federation. As at 31 December 2019, these bonds had maturity dates at March 2030 (31 December 2018: at April 2042) and coupon rate 7.5% p.a. (31 December 2018: 5.63% p.a.), payable semi-annually.

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Investment securities at amortised cost** | | |
| Corporate bonds | 42 608 | 37 425 |
| Municipal and subfederal bonds | 10 811 | 15 868 |
| Federal loan bonds (OFZ) | 4 832 | 3 548 |
| Corporate Eurobonds | 897 | 208 |
| Less: allowance for impairment | (182) | (158) |
| **Total investment securities at amortised cost** | **58 966** | **56 891** |

Corporate bonds are represented by securities denominated in Russian Roubles, issued by a major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually, depending on the type of the bond issue and the issuer. As at 31 December 2019, these bonds have maturity dates from May 2020 to October 2052 (31 December 2018: from January 2019 to October 2052) and coupon rates from 6.9% to 10.3% p.a. (31 December 2018: from 7.2% to 12.05% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities denominated in Russian Roubles. These bonds are traded at a discount or premium to face value and carry coupon payable quarterly or semi-annually. As at 31 December 2019, these bonds have maturity dates from June 2020 to November 2024 (31 December 2018: April 2019 to November 2024) and coupon rates from 6.0% to 12.4% p.a. (31 December 2018: from 6.0% to 12.7% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

## 10. Investment Securities (continued)

Federal loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of the Russian Federation. As at 31 December 2019, these OFZ have maturity dates from May 2020 to February 2036 (31 December 2018: from November 2021 to February 2036) and coupon rates from 5.5% to 8.2% p.a. (31 December 2018: from 5.5% to 8.15% p.a.), payable quarterly or semi-annually, depending on the type of the bond issue and the market conditions.

Corporate Eurobonds are bonds denominated in US Dollars and Euros issued by major Russian companies and banks. As at 31 December 2019, these bonds have maturity dates from October 2022 to February 2026 (31 December 2018: from February 2023 to June 2023) and coupon rates from 3.4% to 9.2% p.a. (31 December 2018: from 3.94% to 5.37% p.a.), payable semi-annually, depending on the type of the bond issue, the issuer and the market conditions.

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Investment securities at fair value through profit or loss** | | |
| Credit linked notes | 582 | 574 |
| Corporate shares | - | 2 272 |
| **Total investment securities at fair value through profit or loss** | **582** | **2 846** |

Corporate shares are mainly represented by investments in shares of financial companies.

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Investment securities at fair value through profit or loss (mandatory)** | | |
| Corporate bonds | 23 175 | 3 386 |
| Credit linked notes | 2 045 | 1 646 |
| Investments in mutual funds | 78 | 207 |
| **Total debt securities at fair value through profit or loss (mandatory)** | **25 298** | **5 239** |
| **Equity securities** | | |
| Corporate shares | 748 | 203 |
| **Total investment securities at fair value through profit or loss (mandatory)** | **26 046** | **5 442** |

Corporate bonds are represented by securities denominated in Russian Roubles, issued by Russian company. Corporate bonds are traded at a discount to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue. As at 31 December 2019, these bonds have maturity dates from October 2025 to February 2032 (31 December 2018: October 2025) and coupon rates from 0.51% to 8.4% p.a. (31 December 2018: 9.5% p.a.).





## 10. Investment Securities (continued)

International credit ratings of issuers of the notes and of counterparty banks were not less than BB- (S&P) as at 31 December 2019 (31 December 2018: not less than A (S&P)).

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity date in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

An analysis of changes in the fair values and associated ECLs in relation to debt securities at fair value through other comprehensive income during 2019 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Debt securities at fair value through other comprehensive income** | | | | |
| **Fair value as at 1 January 2019** | **501 810** | **4 700** | **-** | **506 510** |
| Transfers to Stage 1 | - | - | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Change in gross carrying value (new issue and repayments) | (153 581) | (4 700) | - | **(158 281)** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | (1 648) | - | - | **(1 648)** |
| **Fair value as at 31 December 2019** | **346 581** | **-** | **-** | **346 581** |

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Debt securities at fair value through other comprehensive income** | | | | |
| **ECL as at 1 January 2019** | **1 581** | **39** | **-** | **1 620** |
| Transfers to Stage 1 | - | - | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used (including expense on new issue and income from repayments) | (486) | (39) | - | **(525)** |
| Unwind of discount (recognised in interest income) | - | - | - | **-** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | (7) | - | - | **(7)** |
| **ECL as at 31 December 2019** | **1 088** | **-** | **-** | **1 088** |

**10. Investment Securities (continued)**

An analysis of changes in the fair values and associated ECLs in relation to debt securities at fair value through other comprehensive income during 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Debt securities at fair value through other comprehensive income** | | | | |
| **Fair value as at 1 January 2018** | **276 292** | **2 854** | **203** | **279 349** |
| Transfers to Stage 1 | 417 | (417) | - | **-** |
| Transfers to Stage 2 | (1 420) | 1 420 | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Change in gross carrying value (new issue and repayments) | 217 040 | (1 027) | (203) | **215 810** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | 9 482 | 1 870 | - | **11 352** |
| **Fair value as at 31 December 2018** | **501 811** | **4 700** | **-** | **506 511** |

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Debt securities at fair value through other comprehensive income** | | | | |
| **ECL as at 1 January 2018** | **840** | **38** | **46** | **924** |
| Transfers to Stage 1 | 6 | (6) | - | **-** |
| Transfers to Stage 2 | (1) | 1 | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used (including expense on new issue and income from repayments) | 694 | (1) | (46) | **647** |
| Unwind of discount (recognised in interest income) | - | - | - | **-** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | 42 | 7 | - | **49** |
| **ECL as at 31 December 2018** | **1 581** | **39** | **-** | **1 620** |





**10. Investment Securities (continued)**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortised cost during 2019 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Debt securities at amortised cost** | | | | |
| **Gross carrying value as at 1 January 2019** | **57 049** | **-** | **-** | **57 049** |
| Transfers to Stage 1 | - | - | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Change in gross carrying value (new issue and repayments) | 2 148 | - | - | **2 148** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | (48) | - | - | **(48)** |
| **Gross carrying value as at 31 December 2019** | **59 149** | **-** | **-** | **59 149** |

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Debt securities at amortised cost** | | | | |
| **ECL as at 1 January 2019** | **158** | **-** | **-** | **158** |
| Transfers to Stage 1 | - | - | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used (including expense on new issue and income from repayments) | 24 | - | - | **24** |
| Unwind of discount (recognised in interest income) | - | - | - | **-** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | - | - | - | **-** |
| **ECL as at 31 December 2019** | **182** | **-** | **-** | **182** |

## 10. Investment Securities (continued)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortised cost during 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Debt securities at amortised cost** | | | | |
| **Gross carrying value as at 1 January 2018** | **64 405** | **3 463** | **-** | **67 868** |
| Transfers to Stage 1 | 3 463 | (3 463) | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Change in gross carrying value (new issue and repayments) | (10 819) | - | - | **(10 819)** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | - | - | - | **-** |
| **Gross carrying value as at 31 December 2018** | **57 049** | **-** | **-** | **57 049** |

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Debt securities at amortised cost** | | | | |
| **ECL as at 1 January 2018** | **96** | **20** | **-** | **116** |
| Transfers to Stage 1 | 20 | (20) | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used (including expense on new issue and income from repayments) | 42 | - | - | **42** |
| Unwind of discount (recognised in interest income) | - | - | - | **-** |
| Amounts written off | - | - | - | **-** |
| Foreign exchange adjustments | - | - | - | **-** |
| **ECL as at 31 December 2018** | **158** | **-** | **-** | **158** |

Analysis by credit quality in relation to investment debt securities at fair value through other comprehensive income as at 31 December 2019 is as follows. Refer to Notes 3 and 29 for the description of credit risk grading system used by the Group and the approach to ECL measurement.





## 10. Investment Securities (continued)

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Investment debt securities at fair value through other comprehensive income** | | | | |
| Low credit risk (internationally rated) | 253 138 | - | - | **253 138** |
| Low credit risk (nationally rated) | 4 221 | - | - | **4 221** |
| Low credit risk (internally rated) | 2 595 | - | - | **2 595** |
| Moderate credit risk (internationally rated) | 52 902 | - | - | **52 902** |
| Moderate credit risk (nationally rated) | 180 | - | - | **180** |
| Moderate credit risk (internally rated) | - | - | - | **-** |
| Increased credit risk (internationally rated) | 1 071 | - | - | **1 071** |
| Increased credit risk (nationally rated) | - | - | - | **-** |
| Increased credit risk (internally rated) | 32 474 | - | - | **32 474** |
| High credit risk (internationally rated) | - | - | - | **-** |
| High credit risk (nationally rated) | - | - | - | **-** |
| High credit risk (internally rated) | - | - | - | **-** |
| Default (internationally rated) | - | - | - | **-** |
| Default (nationally rated) | - | - | - | **-** |
| Default (internally rated) | - | - | - | **-** |
| Unrated | - | - | - | **-** |
| **Total investment debt securities at fair value through other comprehensive income** | **346 581** | **-** | **-** | **346 581** |

Analysis by credit quality in relation to investment debt securities at fair value through other comprehensive income as at 31 December 2018 is as follows.

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Investment debt securities at fair value through other comprehensive income** | | | | |
| Low credit risk (internationally rated) | 245 401 | 4 520 | - | **249 921** |
| Low credit risk (nationally rated) | 10 308 | - | - | **10 308** |
| Low credit risk (internally rated) | - | - | - | **-** |
| Moderate credit risk (internationally rated) | 90 097 | - | - | **90 097** |
| Moderate credit risk (nationally rated) | 464 | - | - | **464** |
| Moderate credit risk (internally rated) | 107 358 | - | - | **107 358** |
| Increased credit risk (internationally rated) | 12 626 | 180 | - | **12 806** |
| Increased credit risk (nationally rated) | - | - | - | **-** |
| Increased credit risk (internally rated) | 35 557 | - | - | **35 557** |

### 10. Investment Securities (continued)

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Investment debt securities at fair value through other comprehensive income** | | | | |
| High credit risk (internationally rated) | - | - | - | - |
| High credit risk (nationally rated) | - | - | - | - |
| High credit risk (internally rated) | - | - | - | - |
| Default (internationally rated) | - | - | - | - |
| Default (nationally rated) | - | - | - | - |
| Default (internally rated) | - | - | - | - |
| Unrated | - | - | - | - |
| **Total investment debt securities at fair value through other comprehensive income** | **501 811** | **4 700** | **-** | **506 511** |

Analysis by credit quality in relation to investment debt securities at amortised cost as at 31 December 2019 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Investment debt securities at amortised cost** | | | | |
| Low credit risk (internationally rated) | 38 647 | - | - | **38 647** |
| Low credit risk (nationally rated) | 1 043 | - | - | **1 043** |
| Moderate credit risk (internationally rated) | 10 970 | - | - | **10 970** |
| Moderate credit risk (nationally rated) | - | - | - | - |
| Moderate credit risk (internally rated) | - | - | - | - |
| Increased credit risk (internationally rated) | 5 080 | - | - | **5 080** |
| Increased credit risk (nationally rated) | - | - | - | - |
| Increased credit risk (internally rated) | 3 408 | - | - | **3 408** |
| High credit risk (internationally rated) | - | - | - | - |
| High credit risk (nationally rated) | - | - | - | - |
| Default (internationally rated) | - | - | - | - |
| Default (nationally rated) | - | - | - | - |
| Unrated | - | - | - | - |
| **Total investment debt securities at amortised cost (before impairment)** | **59 148** | **-** | **-** | **59 148** |
| Less: allowance for impairment | (182) | - | - | **(182)** |
| **Total investment debt securities at amortised cost** | **58 966** | **-** | **-** | **58 966** |



### 10. Investment Securities (continued)

Analysis by credit quality in relation to investment debt securities at amortised cost as at 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Investment debt securities at amortised cost** | | | | |
| Low credit risk (internationally rated) | 40 081 | - | - | **40 081** |
| Low credit risk (nationally rated) | 1 123 | - | - | **1 123** |
| Moderate credit risk (internationally rated) | 15 031 | - | - | **15 031** |
| Moderate credit risk (nationally rated) | - | - | - | - |
| Moderate credit risk (internally rated) | 814 | - | - | **814** |
| Increased credit risk (internationally rated) | - | - | - | - |
| Increased credit risk (nationally rated) | - | - | - | - |
| High credit risk (internationally rated) | - | - | - | - |
| High credit risk (nationally rated) | - | - | - | - |
| Default (internationally rated) | - | - | - | - |
| Default (nationally rated) | - | - | - | - |
| Unrated | - | - | - | - |
| **Total investment debt securities at amortised cost (before impairment)** | **57 049** | **-** | **-** | **57 049** |
| Less: allowance for impairment | (158) | - | - | **(158)** |
| **Total investment debt securities at amortised cost** | **56 891** | **-** | **-** | **56 891** |

## 11. Premises, Equipment, Right-of-use Assets and Intangible Assets

| In millions of Russian Roubles | Note | Used in banking activities | | | | Used in non-banking activities | | | Total premises and equipment | Intangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Office premises and con-struction in progress | Leasehold (premises) improve-ments | Office and computer equipment | Land | Production premises | Equipment | Land | | | |
| **Cost or valuation at 1 January 2018** | | 28 983 | 1 278 | 14 000 | 385 | 2 734 | 1 687 | 366 | 49 433 | 7 116 | 56 549 |
| Accumulated depreciation | | (1 965) | (755) | (7 641) | - | (1 169) | (465) | - | **(11 995)** | (3 255) | **(15 250)** |
| **Carrying amount at 1 January 2018** | | 27 018 | 523 | 6 359 | 385 | 1 565 | 1 222 | 366 | 37 438 | 3 861 | 41 299 |
| Additions | | 2 357 | 79 | 4 715 | 45 | 168 | 227 | 1 | **7 592** | 3 413 | **11 005** |
| Acquisition of subsidiaries | 36 | - | - | - | - | 7 919 | - | 353 | **8 272** | - | **8 272** |
| Changes in gross carrying value resulting from revaluation recognized in other comprehensive income | | 3 090 | - | - | - | - | - | - | **3 090** | - | **3 090** |
| Changes in gross carrying value resulting from revaluation recognized in profit and loss | | (3 029) | - | - | - | - | - | - | **(3 029)** | - | **(3 029)** |
| Disposals | | - | (66) | (564) | - | (98) | (90) | (25) | **(843)** | (668) | **(1 511)** |
| Depreciation charge: before revaluation | 25 | (476) | (28) | (1 432) | - | (42) | (191) | - | **(2 169)** | (993) | **(3 162)** |
| Changes in accumulated depreciation resulting from revaluation recognized in other comprehensive income | | (742) | - | - | - | - | - | - | **(742)** | - | **(742)** |
| Realised revaluation reserve | 25 | (47) | - | - | - | - | - | - | **(47)** | - | **(47)** |
| Depreciation release (disposals) | | - | - | 554 | - | 7 | 63 | - | **624** | 500 | **1 124** |
| Carrying amount at 31 December 2018 | | 28 171 | 508 | 9 632 | 430 | 9 519 | 1 231 | 695 | **50 186** | 6 113 | **56 299** |



## 11. Premises, Equipment, Right-of-use Assets and Intangible Assets (continued)

| In millions of Russian Roubles | Note | Used in banking activities | | | | Used in non-banking activities | | | Total premises and equipment | Intangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Office premises and con-struction in progress | Leasehold (premises) improve-ments | Office and computer equipment | Land | Production premises | Equipment | Land | | | |
| **Cost or valuation at 31 December 2018** | | 31 400 | 1 291 | 18 151 | 430 | 10 723 | 1 824 | 695 | 64 514 | 9 861 | 74 375 |
| Accumulated depreciation | | (3 229) | (783) | (8 519) | - | (1 204) | (593) | - | **(14 328)** | (3 748) | **(18 076)** |
| **Carrying amount at 31 December 2018** | | 28 171 | 508 | 9 632 | 430 | 9 519 | 1 231 | 695 | 50 186 | 6 113 | 56 299 |
| **Cost or valuation at 1 January 2019** | | 31 400 | 1 291 | 18 151 | 430 | 10 723 | 1 824 | 695 | 64 514 | 9 861 | 74 375 |
| Accumulated depreciation | | (3 229) | (783) | (8 519) | - | (1 204) | (593) | - | **(14 328)** | (3 748) | **(18 076)** |
| **Carrying amount at 1 January 2019** | | 28 171 | 508 | 9 632 | 430 | 9 519 | 1 231 | 695 | 50 186 | 6 113 | 56 299 |
| Additions | | 25 | 35 | 2 407 | - | 244 | 253 | - | **2 964** | 3 071 | **6 035** |
| Disposal of subsidiaries | 36 | - | - | - | - | (8 148) | - | (353) | **(8 501)** | - | **(8 501)** |
| Disposals | | (285) | (23) | (992) | - | (79) | (135) | (12) | **(1 526)** | (2 992) | **(4 518)** |
| Depreciation charge | 25 | (522) | (24) | (1 959) | - | (97) | (215) | - | **(2 817)** | (1 761) | **(4 578)** |
| Realised revaluation reserve | 25 | (40) | - | - | - | - | - | - | **(40)** | - | **(40)** |
| Depreciation release (disposals) | | - | - | 914 | - | 16 | 30 | - | **960** | 2 992 | **3 952** |
| **Carrying amount at 31 December 2019** | | 27 349 | 496 | 10 002 | 430 | 1 455 | 1 164 | 330 | 41 226 | 7 423 | 48 649 |
| **Cost or valuation at 31 December 2019** | | 31 140 | 1 304 | 19 566 | 430 | 2 740 | 1 942 | 330 | 57 452 | 9 940 | 67 392 |
| Accumulated depreciation | | (3 791) | (808) | (9 564) | - | (1 285) | (778) | - | **(16 226)** | (2 517) | **(18 743)** |
| **Carrying amount at 31 December 2019** | | 27 349 | 496 | 10 002 | 430 | 1 455 | 1 164 | 330 | 41 226 | 7 423 | 48 649 |

As at 31 December 2019, the Group has right-of-use assets in the total amount of RR 10 244 million and respective depreciation charge in the total amount of RR 1 856 million (31 December 2018: not applicable).

**11. Premises, Equipment, Right-of-use Assets and Intangible Assets (continued)**

Non-banking premises are mainly represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2019 was RR 1 055 million (31 December 2018: RR 1 476 million).

Carrying amount of office premises without revaluation at 31 December 2019 is RR 24 659 million, including cost in amount of RR 27 511 million and accumulated depreciation of RR 2 852 million (31 December 2018: carrying amount of office premises without revaluation was RR 29 531 million, including cost in amount of RR 31 857 million and accumulated depreciation of RR 2 326 million).

As at 31 December 2019, the Group believes that fair value of premises used in banking activities has not changed significantly during 2019, therefore as at 31 December 2019 the Group has not recognised revaluation of premises in the consolidated financial statement (31 December 2018: the Group recognised revaluation of premises in the consolidated financial statements).

Refer to Note 34 for the disclosure of the fair value hierarchy for office premises.

**12. Other Assets**

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Non-financial assets** | | |
| Repossessed collateral | 3 417 | 3 262 |
| Prepayment for services | 1 806 | 1 606 |
| Inventory | 1 769 | 1 564 |
| Precious metals | 1 145 | 1 719 |
| Prepayment for goods | 468 | 200 |
| Prepaid taxes | 239 | 129 |
| Settlements on social insurance and security | 105 | 115 |
| Other | 1 150 | 1 732 |
| **Total non-financial assets** | **10 099** | **10 327** |
| **Financial assets** | | |
| Settlements on banking cards | 5 722 | 1 826 |
| Trade receivables | 1 348 | 1 676 |
| Settlements on funds transfer operations | 966 | 324 |
| Credit support annex agreements for derivatives | 849 | 3 304 |
| State duty | 560 | 654 |



**12. Other Assets (continued)**

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Financial assets** | | |
| Due from State Corporation Deposit Insurance Agency | 327 | 826 |
| Provision for impairment of other financial assets | (4 599) | (3 854) |
| Other | 3 936 | 3 246 |
| **Total financial assets** | **9 109** | **8 002** |
| **Insurance assets** | **5 730** | **5 481** |
| **Total other assets** | **24 938** | **23 810** |

Repossessed collateral mainly represents the land and production premises. The Group is not going to use repossessed collateral in its own operations. The Group has a plan for disposal of repossessed collateral within a certain time horizon that is updated and monitored on a regular basis.

Due from the State Corporation Deposit Insurance Agency represents amounts due on settlements with individuals – former clients of banks with revoked licences.

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries.

The movements in repossessed collateral are as follows:

| In millions of Russian Rouble | 2019 | 2018 |
|---|---|---|
| **Repossessed collateral at 1 January** | **3 262** | **2 889** |
| Additions for the year | 1 782 | 1 921 |
| Disposal during the year | (1 163) | (1 385) |
| Reclassification to assets held for sale | (464) | (163) |
| **Repossessed collateral at 31 December** | **3 417** | **3 262** |

During 2019 and 2018, a significant part of the Bank's repossessed collateral was evaluated by an independent appraisers firm, which held a relevant professional qualification and which had experience in valuation of assets of similar location and category.

Refer to Note 34 for the disclosure of fair value and fair value hierarchy for other financial assets. Geographical analysis of other assets and maturity analysis of other financial assets are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

**12. Other Assets (continued)**

An analysis of corresponding ECL in relation to other financial assets during the year ended 31 December 2019 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL as at 1 January 2019** | **13** | **-** | **3 841** | **3 854** |
| Transfers to Stage 1 | - | - | - | **-** |
| Transfers to Stage 2 | (1) | 1 | - | **-** |
| Transfers to Stage 3 | (4) | - | 4 | **-** |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments) | 2 | 2 | 1 359 | **1 363** |
| Unwind of discount (recognised in interest income) | - | - | - | **-** |
| Amounts written off | - | - | (618) | **(618)** |
| **ECL as at 31 December 2019** | **10** | **3** | **4 586** | **4 599** |

An analysis of corresponding ECL in relation to other financial assets during the year ended 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECL as at 1 January 2018** | **-** | **-** | **3 098** | **3 098** |
| Transfers to Stage 1 | 7 | - | (7) | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments) | 6 | - | 1 048 | **1 054** |
| Unwind of discount (recognised in interest income) | - | - | - | **-** |
| Amounts written off | - | - | (298) | **(298)** |
| **ECL as at 31 December 2018** | **13** | **-** | **3 841** | **3 854** |

**13. Due to Other Banks**

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Correspondent accounts and overnight placements of other banks | 12 262 | 40 101 |
| Borrowings from other banks with term to maturity: | | |
| - repo deals less than 30 days | - | 35 700 |
| - less than 30 days | 35 141 | 26 393 |
| - from 31 to 180 days | 25 | 132 |
| - from 181 days to 1 year | 36 | 63 |
| - from 1 year to 3 years | 317 | 1 051 |
| - more than 3 years | 16 458 | 20 037 |
| Borrowings from the Bank of Russia with term to maturity: | | |
| - less than 30 days | 27 | 44 |
| - from 31 to 180 days | 409 | 2 442 |
| - from 181 days to 1 year | 353 | 4 255 |
| - from 1 year to 3 years | 44 491 | 41 312 |
| **Total due to other banks** | **109 519** | **171 530** |

As at 31 December 2019, due to other banks included balances with the Bank of Russia above 10% of the Group's equity in the amount of RR 45 280 million, or 41% of total due to other banks (31 December 2018: due to other banks included balances with the Bank of Russia above 10% of the Group's equity in the amount of RR 48 054 million, or 28% of total due to other banks).

As at 31 December 2019, due to other banks included no balances with other banks individually above 10% of the Group's equity (31 December 2018: due to other banks included no balances with other banks individually above 10% of the Group's equity). As at 31 December 2019, due to other banks included the balances with one OECD banking group with rating of the parent bank at A (S&P) and one Russian banking group with rating of the parent bank at BB+ (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 25 860 million, or 24% of total due to other banks (31 December 2018: due to other banks included the balances with one OECD banking group with rating of the parent bank at A (S&P) and one Russian banking group with rating of the parent bank at BBB- (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 25 132 million, or 15% of total due to other banks).

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for due to other banks. Geographical and liquidity analyses of due to other banks are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

### 14. Customer Accounts

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| State and public organisations | | |
| - Current/settlement accounts | 28 256 | 23 683 |
| - Term deposits | 354 879 | 569 886 |
| Other legal entities | | |
| - Current/settlement accounts | 206 259 | 173 689 |
| - Term deposits | 705 279 | 618 974 |
| Individuals | | |
| - Current/demand accounts | 107 475 | 85 378 |
| - Term deposits | 1 083 960 | 949 441 |
| **Total customer accounts** | **2 486 108** | **2 421 051** |

State and public organisations exclude state-controlled joint-stock companies.

Economic sector concentrations within customer accounts are as follows:

| In millions of Russian Roubles | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Individuals | 1 191 435 | 48 | 1 034 819 | 43 |
| State and public organisations | 383 135 | 15 | 593 569 | 25 |
| Manufacturing | 215 968 | 9 | 149 151 | 6 |
| Construction | 125 279 | 5 | 110 290 | 5 |
| Financial services and pension funds | 113 214 | 5 | 89 653 | 4 |
| Agriculture | 99 805 | 4 | 92 830 | 4 |
| Trading | 77 977 | 3 | 95 303 | 3 |
| Insurance | 53 345 | 2 | 52 477 | 2 |
| Real estate | 52 529 | 2 | 40 704 | 2 |
| Transport | 13 038 | 1 | 21 899 | 1 |
| Communication | 1 076 | - | 15 252 | - |
| Leasing | 565 | - | 2 710 | - |
| Other | 158 742 | 6 | 122 394 | 5 |
| **Total customer accounts** | **2 486 108** | **100** | **2 421 051** | **100** |



### 14. Customer Accounts (continued)

As at 31 December 2019, customer accounts included balances with eight customers each above 10% of the Group's equity (31 December 2018: balances with nine customers each individually above 10% of the Group's equity). The aggregate balance of these customers was RR 566 833 million, or 23% of total customer accounts (31 December 2018: RR 671 174 million, or 28% of total customer accounts).

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for customer accounts. Geographical and liquidity analyses of customer accounts are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

### 15. Promissory Notes Issued

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Promissory notes issued | 47 358 | 42 341 |
| **Total promissory notes issued** | **47 358** | **42 341** |

As at 31 December 2019, promissory notes issued are represented by interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles and US Dollars with effective interest or discount rates from zero p.a. (for promissory notes on demand) up to 8% p.a. and maturity dates from January 2020 to December 2034 (31 December 2018: interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles and US Dollars with effective interest or discount rates from zero p.a. (for promissory notes on demand) up to 8% p.a. and maturity dates from January 2019 to December 2021).

As at 31 December 2019, promissory notes issued included promissory notes, which were initially purchased by one counterparty, in aggregate above 10% of the Group's equity in the amount of RR 24 666 million, or 52% of total promissory notes issued. As at 31 December 2018, promissory notes issued included promissory notes, which were initially purchased by one counterparty, in aggregate above 10% of the Group's equity in the amount of RR 22 623 million, or 53% of total promissory notes issued.

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for promissory notes issued. Geographical and liquidity analyses of promissory notes issued are disclosed in Note 29.

### 16. Bonds Issued

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Bonds issued on domestic market | 174 954 | 142 609 |
| **Total bonds issued** | **174 954** | **142 609** |

## 16. Bonds Issued (continued)

As at 31 December 2019, bonds issued consist of Russian Roubles denominated bonds issued on domestic market.

| Currency of denomination | Nominal value, in million of currency, in circulation | Issue date | Maturity date | Put option date | Coupon rate | Coupon payment |
|---|---|---|---|---|---|---|
| **Bonds issued on domestic market** | | | | | | |
| Russian Roubles | 572 | 10 February 2010 | 29 January 2020 | - | 8.30% | 6 months |
| Russian Roubles | 581 | 11 February 2010 | 30 January 2020 | - | 8.30% | 6 months |
| Russian Roubles | 3 218 | 12 July 2011 | 29 June 2021 | - | 8.15% | 6 months |
| Russian Roubles | 1 058 | 14 July 2011 | 1 July 2021 | - | 8.15% | 6 months |
| Russian Roubles | 1 309 | 15 July 2011 | 2 July 2021 | - | 8.15% | 6 months |
| Russian Roubles | 4 117 | 8 November 2011 | 26 October 2021 | 30 April 2020 | 8.00% | 6 months |
| Russian Roubles | 305 | 16 April 2012 | 4 April 2022 | 8 April 2020 | 8.30% | 6 months |
| Russian Roubles | 43 | 23 October 2012 | 11 October 2022 | 15 October 2020 | 8.20% | 6 months |
| Russian Roubles | 523 | 25 October 2012 | 13 October 2022 | 19 April 2021 | 8.20% | 6 months |
| Russian Roubles | 10 000 | 23 April 2013 | 11 April 2023 | 14 April 2022 | 8.30% | 6 months |
| Russian Roubles | 1 484 | 30 July 2013 | 18 July 2023 | 21 January 2021 | 7.40% | 6 months |
| Russian Roubles | 21 | 30 September 2013 | 18 September 2023 | 25 March 2020 | 8.30% | 6 months |
| Russian Roubles | 4 978 | 22 November 2013 | 10 November 2023 | 16 November 2021 | 8.85% | 6 months |
| Russian Roubles | 5 000 | 10 October 2014 | 27 September 2024 | 4 October 2022 | 7.40% | 3 months |
| Russian Roubles | 5 000 | 13 October 2014 | 30 September 2024 | 5 October 2022 | 7.40% | 3 months |
| Russian Roubles | 661 | 26 December 2014 | 13 December 2024 | 22 December 2020 | 8.60% | 3 months |
| Russian Roubles | 10 000 | 11 February 2015 | 29 January 2025 | 7 February 2020 | 15.00% | 3 months |
| Russian Roubles | 783 | 26 February 2015 | 13 February 2025 | 24 August 2020 | 7.40% | 3 months |
| Russian Roubles | 2 820 | 30 October 2015 | 17 October 2025 | 28 April 2020 | 7.95% | 3 months |
| Russian Roubles | 10 000 | 31 March 2017 | 25 September 2020 | - | 9.50% | 6 months |
| Russian Roubles | 10 000 | 26 June 2017 | 21 June 2021 | - | 8.65% | 6 months |
| Russian Roubles | 7 000 | 3 October 2017 | 28 September 2021 | - | 8.40% | 6 months |
| Russian Roubles | 5 000 | 5 December 2017 | 9 December 2020 | - | 8.10% | 6 months |
| Russian Roubles | 25 000 | 14 March 2018 | 9 March 2022 | - | 7.40% | 6 months |
| Russian Roubles | 13 000 | 19 October 2018 | 14 October 2022 | - | 9.00% | 6 months |
| Russian Roubles | 19 900 | 29 November 2018 | 22 November 2038 | - | 10.50% | 6 months |
| Russian Roubles | 10 000 | 4 April 2019 | 2 April 2020 | - | 8.35% | 6 months |
| Russian Roubles | 10 000 | 25 June 2019 | 22 June 2021 | - | 8.15% | 6 months |
| Russian Roubles | 5 000 | 15 November 2019 | 10 November 2023 | - | 7.00% | 6 months |
| Russian Roubles | 5 000 | 13 November 2019 | 2 November 2022 | - | 6.75% | 1 month |





## 16. Bonds Issued (continued)

As at 31 December 2018, bonds issued consist of Russian Roubles denominated bonds issued on domestic market.

| Currency of denomination | Nominal value, in million of currency, in circulation | Issue date | Maturity date | Put option date | Coupon rate | Coupon payment |
|---|---|---|---|---|---|---|
| **Bonds issued on domestic market** | | | | | | |
| Russian Roubles | 2 173 | 26 November 2009 | 14 November 2019 | - | 7.00% | 6 months |
| Russian Roubles | 2 402 | 26 November 2009 | 14 November 2019 | - | 7.00% | 6 months |
| Russian Roubles | 572 | 10 February 2010 | 29 January 2020 | - | 8.30% | 6 months |
| Russian Roubles | 581 | 11 February 2010 | 30 January 2020 | - | 8.30% | 6 months |
| Russian Roubles | 3 482 | 12 July 2011 | 29 June 2021 | 4 July 2019 | 7.80% | 6 months |
| Russian Roubles | 1 058 | 14 July 2011 | 1 July 2021 | 8 July 2019 | 7.80% | 6 months |
| Russian Roubles | 1 459 | 15 July 2011 | 2 July 2021 | 9 July 2019 | 7.80% | 6 months |
| Russian Roubles | 4 117 | 8 November 2011 | 26 October 2021 | 30 April 2020 | 8.00% | 6 months |
| Russian Roubles | 481 | 16 April 2012 | 4 April 2022 | 10 April 2019 | 6.60% | 6 months |
| Russian Roubles | 74 | 23 October 2012 | 11 October 2022 | 15 October 2020 | 8.20% | 6 months |
| Russian Roubles | 5 000 | 25 October 2012 | 13 October 2022 | 22 April 2019 | 9.35% | 6 months |
| Russian Roubles | 562 | 23 April 2013 | 11 April 2023 | 18 April 2019 | 6.60% | 6 months |
| Russian Roubles | 1 484 | 30 July 2013 | 18 July 2023 | 21 January 2021 | 7.40% | 6 months |
| Russian Roubles | 26 | 30 September 2013 | 18 September 2023 | 27 March 2019 | 6.60% | 6 months |
| Russian Roubles | 2 770 | 22 November 2013 | 10 November 2023 | 16 November 2021 | 8.85% | 6 months |
| Russian Roubles | 5 000 | 10 October 2014 | 27 September 2024 | 8 October 2019 | 11.10% | 3 months |
| Russian Roubles | 4 985 | 13 October 2014 | 30 September 2024 | 9 October 2019 | 11.10% | 3 months |
| Russian Roubles | 661 | 26 December 2014 | 13 December 2024 | 22 December 2020 | 8.60% | 3 months |
| Russian Roubles | 10 000 | 11 February 2015 | 29 January 2025 | 7 February 2020 | 15.00% | 3 months |
| Russian Roubles | 902 | 26 February 2015 | 13 February 2025 | 26 August 2019 | 8.30% | 3 months |
| Russian Roubles | 2 820 | 30 October 2015 | 17 October 2025 | 28 April 2020 | 7.95% | 3 months |
| Russian Roubles | 10 000 | 31 March 2017 | 25 September 2020 | - | 9.50% | 6 months |
| Russian Roubles | 10 000 | 26 June 2017 | 21 June 2021 | - | 8.65% | 6 months |
| Russian Roubles | 7 000 | 3 October 2017 | 28 September 2021 | - | 8.40% | 6 months |
| Russian Roubles | 5 000 | 5 December 2017 | 9 December 2020 | - | 8.10% | 6 months |
| Russian Roubles | 25 000 | 14 March 2018 | 9 March 2022 | - | 7.40% | 6 months |
| Russian Roubles | 13 000 | 19 October 2018 | 14 October 2022 | - | 9.00% | 6 months |
| Russian Roubles | 19 900 | 29 November 2018 | 22 November 2038 | - | 10.50% | 6 months |

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for bonds issued. Geographical and liquidity analyses of bonds issued are disclosed in Note 29. Refer to Note 38 for information on redemptions after the end of the reporting period.

### 17. Other Liabilities

| In millions of Russian Roubles | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Non-financial liabilities** | | | |
| Accrued staff costs | | 5 534 | 4 638 |
| Due to State Corporation Deposit Insurance Agency | | 2 020 | 1 525 |
| Taxes payable other than on income | | 1 417 | 1 523 |
| Provision for ECL for credit related commitments | 32 | 508 | 656 |
| Other provisions | | 68 | 633 |
| Litigations provision | | 16 | 14 |
| Other | | 2 656 | 1 472 |
| **Total non-financial liabilities** | | **12 219** | **10 461** |
| **Financial liabilities** | | | |
| Lease liabilities | | 10 244 | - |
| Settlements on conversion operations | | 4 789 | 4 |
| Settlements on banking cards | | 4 357 | 487 |
| Trade payables | | 2 217 | 1 504 |
| Amounts due under credit support annex agreements | | 1 006 | 799 |
| Amounts due under perpetual bonds | | 677 | 673 |
| Non-controlling interests in consolidated mutual funds | | 110 | 68 |
| Carrying value of guarantees issued | | 36 | 34 |
| Other | | - | 104 |
| **Total financial liabilities** | | **23 436** | **3 673** |
| **Insurance liabilities** | | | |
| Provision for unearned premiums | | 5 282 | 4 910 |
| Loss provision | | 13 324 | 6 634 |
| Insurance payables | | 2 738 | 1 613 |
| **Total insurance liabilities** | | **21 344** | **13 157** |
| **Total other liabilities** | | **56 999** | **27 291** |



### 17. Other Liabilities (continued)

Trade payables are related to the business activities of subsidiaries.

Movements in the provision for unearned premiums are as follows:

| In millions of Russian Roubles | Note | 2019 | 2018 |
|---|---|---|---|
| **Provision for unearned premiums as at 1 January** | | **4 910** | **3 971** |
| Premium earned | 24 | (15 128) | (9 307) |
| Premium written | | 15 500 | 10 246 |
| **Provision for unearned premiums as at 31 December** | | **5 282** | **4 910** |

Movements in the loss provision are as follows:

| In millions of Russian Roubles | Note | 2019 | 2018 |
|---|---|---|---|
| **Loss provision as at 1 January** | | **6 634** | **2 154** |
| Claims incurred during the period | 24 | 9 490 | 6 941 |
| Insurance claims settled | | (2 800) | (2 461) |
| **Loss provision as at 31 December** | | **13 324** | **6 634** |

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for other financial liabilities. Geographical analysis of other liabilities and liquidity analysis of other financial liabilities are disclosed in Note 29.

### 18. Subordinated Debts

As at 31 December 2019, the Group's subordinated debts equal to RR 134 089 million (31 December 2018: RR 147 279 million).

Refer to Note 34 for the disclosure of the fair value and fair value hierarchy for subordinated debts. Geographical and liquidity analyses of subordinated debts are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

### 19. Perpetual Bonds

As at 31 December 2019, the Group's perpetual bonds in circulation equal to RR 48 398 million (as at 31 December 2018 the Group's perpetual bonds equal to RR 38 376 million).

As at 31 December 2019, perpetual bonds consist of Russian Roubles, US Dollars and Euros denominated bonds issued on domestic market.

| Currency of denomination | Nominal value, in million of currency, in circulation | Carrying amount, in millions of Russian Roubles | Issue date | Call option date | Coupon rate | Coupon payment |
|---|---|---|---|---|---|---|
| Russian Roubles | 10 000 | 10 000 | 25 April 2018 | 12 April 2028 | 9.00% | 6 months |
| Russian Roubles | 5 000 | 5 000 | 15 July 2016 | 3 July 2026 | 14.50% | 6 months |
| Russian Roubles | 5 000 | 5 000 | 18 July 2016 | 6 July 2026 | 14.50% | 6 months |
| Russian Roubles | 5 000 | 5 000 | 5 October 2016 | 23 September 2026 | 14.25% | 6 months |
| Russian Roubles | 4 902 | 4 902 | 26 April 2018 | 13 April 2028 | 9.00% | 6 months |
| Russian Roubles | 5 000 | 5 000 | 22 November 2018 | 9 November 2028 | 10.10% | 6 months |
| US Dollars | 50 | 3 095 | 17 December 2018 | 4 December 2028 | 9.00% | 6 months |
| Euros | 150 | 10 401 | 12 December 2019 | 5 June 2025 | 5.00% | 6 months |

### 20. Share Capital

Share capital issued and fully paid comprises:

| In millions of Russian Roubles (except for number of shares) | Number of outstanding shares | Nominal amount | Inflation adjusted amount |
|---|---|---|---|
| **At 1 January 2018** | **322 928** | **384 848** | **385 598** |
| New ordinary shares issued | 25 000 | 25 000 | 25 000 |
| **At 31 December 2018** | **347 928** | **409 848** | **410 598** |
| New ordinary shares issued | 29 635 | 29 635 | 29 635 |
| **At 31 December 2019** | **377 563** | **439 483** | **440 233** |





### 20. Share Capital (continued)

As at 31 December 2019, issued and fully paid share capital comprises 345 683 issued and registered ordinary shares and 31 880 preference shares (31 December 2018: 316 048 issued and registered ordinary shares and 31 880 preference shares). All ordinary and preference shares have a nominal value of RR 1 million per share, except for 6 880 type A preference shares issued in November 2015 with nominal value of RR 10 million per share, and rank equally within the same class. Each ordinary share carries one vote.

The terms of the preference shares do not include any fixed dividends and the decision on repayment of dividends is approved by the shareholder of the Bank.

In 2019, the Bank increased its share capital by issuing 29 635 ordinary shares (2018: 25 000 ordinary shares) with the total nominal amount of RR 29 635 million (2018: RR 25 000 million).

In 2019 and 2018, all ordinary shares were purchased by the Bank's only shareholder – the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

### 21. Interest Income and Expense

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| **Interest income on debt financial assets carried at amortised cost** | | |
| Loans and advances to legal entities | 146 064 | 132 230 |
| Loans and advances to individuals | 52 364 | 51 445 |
| Cash equivalents | 6 622 | 12 032 |
| Investment securities at amortised cost including pledged under repurchase agreements | 4 816 | 4 360 |
| Due from other banks | 4 304 | 1 744 |
| | **214 170** | **201 811** |
| **Interest income on debt financial assets carried at fair value through other comprehensive income** | | |
| Investment securities at FVOCI including pledged under repurchase agreements | 29 391 | 26 890 |
| | **29 391** | **26 890** |
| **Total interest income at effective interest rate** | **243 561** | **228 701** |
| Loans to customers at fair value through profit or loss | 1 763 | 1 834 |
| Investment securities at fair value through profit or loss | 1 709 | 134 |
| Trading securities | 1 496 | 1 348 |
| **Total other interest income** | **4 968** | **3 316** |
| **Interest expense at effective interest rate** | | |
| Term deposits of legal entities | (69 068) | (74 618) |
| Term deposits of individuals | (61 924) | (53 666) |
| Bonds issued | (14 442) | (16 400) |

**21. Interest Income and Expense (continued)**

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| **Interest expense at effective interest rate** | | |
| Subordinated debts | (8 539) | (10 088) |
| Current/settlement accounts | (7 845) | (3 695) |
| Term deposits of the Bank of Russia | (3 779) | (1 293) |
| Promissory notes issued | (2 797) | (2 266) |
| Term deposits of other banks | (2 137) | (2 591) |
| **Total interest expense at effective interest rate** | **(170 531)** | **(164 617)** |
| Lease liabilities | (750) | - |
| **Total other interest expense** | **(750)** | **-** |
| **Net interest income** | **77 248** | **67 400** |

The information on related party transactions is disclosed in Note 35.

**22. Credit Loss Expense**

The table below shows the ECL charges on financial instruments recorded in the income statement for the year ended 31 December 2019:

| In millions of Russian Roubles | Note | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | | (3) | - | - | - | **(3)** |
| Due from other banks | 8 | (110) | - | - | - | **(110)** |
| Loans to customers at amortised cost | 9 | (19 722) | 17 766 | 39 484 | 1 409 | **38 937** |
| Debt securities measured at amortised cost | 10 | 24 | - | - | - | **24** |
| Debt securities measured at FVOCI | 10 | (493) | (39) | - | - | **(532)** |
| Other financial assets | | - | - | 1 386 | - | **1 386** |
| Credit related commitments | 32 | (157) | 9 | - | - | **(148)** |
| **Total credit (gains)/loss expense** | | **(20 461)** | **17 736** | **40 870** | **1 409** | **39 554** |

**22. Credit Loss Expense (continued)**

An analysis of credit loss expense for the year ended 31 December 2018 is as follows:

| In millions of Russian Roubles | Note | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | | (17) | - | - | **(17)** |
| Due from other banks | | (17) | - | (95) | **(112)** |
| Loans to customers at amortised cost | 9 | 18 895 | 1 412 | 37 010 | **57 317** |
| Debt securities measured at amortised cost | 10 | 42 | - | - | **42** |
| Debt securities measured at FVOCI | 10 | 741 | 1 | (46) | **696** |
| Other financial assets | | - | - | 642 | **642** |
| Credit related commitments | 32 | 30 | 2 | - | **32** |
| **Total credit loss expense** | | **19 674** | **1 415** | **37 511** | **58 600** |

**23. Fee and Commission Income and Expense**

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| **Fee and commission income** | | |
| Commission on cash and settlements transactions | 10 198 | 10 178 |
| Fees for sale of insurance contracts | 5 866 | 6 353 |
| Commission on banking cards and acquiring | 4 039 | 4 185 |
| Commission on guarantees issued | 1 578 | 2 196 |
| Fees for currency control | 311 | 834 |
| Commission received from the Deposit Insurance Agency | 119 | 246 |
| Other | 1 339 | 594 |
| **Total fee and commission income** | **23 450** | **24 586** |
| **Fee and commission expense** | | |
| Commission on settlement transactions | (2 134) | (2 489) |
| Commission on cash collection | (400) | (387) |
| Other | (246) | (193) |
| **Total fee and commission expense** | **(2 780)** | **(3 069)** |
| **Net fee and commission income** | **20 670** | **21 517** |

### 24. Gains less Losses from Non-banking Activities

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| Sales of goods | 4 561 | 5 615 |
| Including: | | |
| - sugar | 1 652 | 2 605 |
| - meat and dairy products | 993 | 552 |
| - feed | 689 | 1 119 |
| - grain | 189 | 282 |
| - other goods and services | 1 038 | 1 057 |
| Cost of goods sold | (4 339) | (4 556) |
| Provision for trade receivables, prepayments and other financial assets | 202 | (411) |
| Net income from insurance operations | 3 195 | 2 344 |
| Other non-banking income | 770 | 1 098 |
| Other non-banking expenses | (3 315) | (2 683) |
| **Total gains less losses from non-banking activities** | **1 074** | **1 407** |

In 2019 the cost of goods sold includes depreciation of non-banking premises and equipment in the total amount of RR 312 million (2018: RR 233 million).

Net income from insurance operations is as follows:

| In millions of Russian Roubles | Note | 2019 | 2018 |
|---|---|---|---|
| **Insurance premiums** | | | |
| Premium earned | 17 | 15 128 | 9 307 |
| Reinsurers share in premiums earned | | (3 235) | (2 238) |
| **Net insurance premiums earned** | | **11 893** | **7 069** |
| **Insurance benefits and claims** | | | |
| Net claims incurred during the year | 17 | (9 490) | (6 941) |
| Acquisition costs | | (399) | (635) |
| Reinsurers share in claims incurred during the year | | 1 191 | 2 851 |
| **Net insurance benefits and claims** | | **(8 698)** | **(4 725)** |
| **Net income from insurance operations** | | **3 195** | **2 344** |

### 25. Administrative and Other Operating Expenses

| In millions of Russian Roubles | Note | 2019 | 2018 |
|---|---|---|---|
| Staff costs | | 31 919 | 27 105 |
| Deposit Insurance expenses | | 7 663 | 5 711 |
| Depreciation of premises, equipment and right-of-use assets | | 4 401 | 1 983 |
| Other costs of premises | | 2 927 | 1 742 |
| Communications and information services | | 2 396 | 1 958 |
| Maintenance of equipment, transportation costs | | 2 183 | 1 343 |
| Taxes other than on income | | 1 963 | 1 961 |
| Amortization of intangible assets | 11 | 1 761 | 993 |
| Advertising and marketing services | | 1 518 | 895 |
| Supplies and other materials | | 1 237 | 690 |
| Provision on impairment of contingencies | 32 | 1 214 | 2 694 |
| Security services | | 1 005 | 1 110 |
| Charity expenses | | 579 | 578 |
| Lease expenses | | 459 | 3 850 |
| Loss from revaluation of premises | 11 | - | 3 029 |
| Other | | 4 304 | 3 034 |
| **Total administrative and other operating expenses** | | **65 529** | **58 676** |

In 2019, staff costs include statutory social security and contributions to a state pension fund in the amount of RR 6 005 million (2018: RR 5 256 million). Also in 2019 staff costs include expenses for defined contribution pension plans in the amount of RR 804 million (2018: RR 39 million). The information on related party transactions is disclosed in Note 35.

### 26. Income Taxes

Income tax expense comprises the following:

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| Current tax | 5 274 | 4 388 |
| Deferred tax | (850) | 1 587 |
| **Income tax expense for the year** | **4 424** | **5 975** |

The income tax rate applicable to the majority of the Group's income is 20% (2018: 20%). Reconciliation between the theoretical and the actual taxation charge is provided below.

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| **IFRS profit before tax** | **8 441** | **7 500** |
| **Theoretical tax charge at statutory rate (2019: 20%; 2018: 20%)** | **1 688** | **1 500** |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Non-deductible staff costs | 60 | 32 |
| - Non-deductible charity costs | 97 | 101 |
| - Change of income tax on tax return in past periods | 123 | 972 |
| Income on government securities taxed at different rates | (1 305) | (1 456) |
| Permanent difference due to the refinement of the tax base of previous years | 148 | - |
| Unrecognised deferred tax asset | 3 315 | 5 183 |
| Other non-temporary differences | 298 | (357) |
| **Income tax expense for the year** | **4 424** | **5 975** |

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their value for tax purposes. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2018: 20%), except for income on particular category of securities that is taxed at 15% (2018: 15%).

Based on the Group's current structure and Russian tax legislation, tax losses and current tax assets of different companies of the Group may not be set off against current tax liabilities and taxable profits of other companies of the Group and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are set off against each other only when they relate to the same taxable entity (subject to certain conditions).





### 26. Income Taxes (continued)

| In millions of Russian Roubles | 31 December 2018 | Credited/ (charged) to profit or loss | Charged directly to other comprehen-sive income | Disposal of subsidiaries | 31 December 2019 |
|---|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | | | |
| Accruals on loans | 11 406 | (1 609) | - | - | 9 797 |
| Tax losses carried forward | 26 704 | 10 910 | - | - | 37 614 |
| Provision for impairment | 45 020 | (7 711) | - | - | 37 309 |
| Fair valuation of derivative financial instruments | (103) | 100 | - | - | (3) |
| Accrued staff costs | 912 | 156 | - | - | 1 068 |
| Accruals on due to other banks | (4 620) | 495 | - | - | (4 125) |
| Fair valuation of securities | (811) | 2 528 | (2 631) | - | (914) |
| Deferral of fees on guarantees issued | 7 | - | - | - | 7 |
| Premises, equipment and right-of-use assets | (2 263) | (789) | (1) | 1 219 | (1 834) |
| Accruals on bonds issued and subordinated debts | (301) | (347) | - | - | (648) |
| Intangible assets | (88) | 86 | - | - | (2) |
| Other | 2 344 | 346 | - | - | 2 690 |
| **Deferred tax asset** | **78 207** | **4 165** | **(2 632)** | **1 219** | **80 959** |
| Unrecognised deferred tax asset | (63 567) | (3 315) | - | - | (66 882) |
| **Net deferred income tax asset** | **14 640** | **850** | **(2 632)** | **1 219** | **14 077** |
| Recognised deferred income tax asset | 16 298 | - | - | - | 16 298 |
| Recognised deferred income tax liability | (1 658) | 850 | (2 632) | 1 219 | (2 221) |
| **Net deferred income tax asset** | **14 640** | **850** | **(2 632)** | **1 219** | **14 077** |

## 26. Income Taxes (continued)

| In millions of Russian Roubles | 31 December 2017 | Changes due to transition to IFRS 9 | Credited/ (charged) to profit or loss | Charged directly to other comprehen-sive income | Acquisition of subsidiaries | 31 December 2018 |
|---|---|---|---|---|---|---|
| **Tax effect of deductible/ (taxable) temporary differences** | | | | | | |
| Accruals on loans | 16 395 | - | (4 989) | - | - | 11 406 |
| Tax losses carried forward | 20 007 | - | 6 697 | - | - | 26 704 |
| Provision for impairment | 19 197 | 16 827 | 8 996 | - | - | 45 020 |
| Fair valuation of derivative financial instruments | 104 | - | (207) | - | - | (103) |
| Accrued staff costs | 1 139 | - | (227) | - | - | 912 |
| Accruals on due to other banks | 23 | - | (4 643) | - | - | (4 620) |
| Fair valuation of securities | 3 | - | (2 911) | 2 097 | - | (811) |
| Deferral of fees on guarantees issued | 22 | - | (15) | - | - | 7 |
| Promissory notes issued | 276 | - | (276) | - | - | - |
| Premises and equipment | (831) | - | 224 | (470) | (1 186) | (2 263) |
| Accruals on bonds issued and subordinated debts | (437) | - | 136 | - | - | (301) |
| Intangible assets | 36 | - | (124) | - | - | (88) |
| Other | 1 409 | - | 935 | - | - | 2 344 |
| **Deferred tax asset** | **57 343** | **16 827** | **3 596** | **1 627** | **(1 186)** | **78 207** |
| Unrecognised deferred tax asset | (41 557) | (16 827) | (5 183) | - | - | (63 567) |
| **Net deferred income tax asset** | **15 786** | **-** | **(1 587)** | **1 627** | **(1 186)** | **14 640** |
| Recognised deferred income tax asset | 16 298 | - | - | - | - | 16 298 |
| Recognised deferred income tax liability | (512) | - | (1 587) | 1 627 | (1 186) | (1 658) |
| **Net deferred income tax asset** | **15 786** | **-** | **(1 587)** | **1 627** | **(1 186)** | **14 640** |





## 26. Income Taxes (continued)

As of 31 December 2019, the taxable temporary difference between investments in subsidiaries in the statement of financial position of the parent company for tax purposes and the value of the net assets of subsidiaries in accordance with IFRS was 2 459 million (31 December 2018: 2 136 million). In accordance with IAS 12 Income Tax, the corresponding deferred tax liability in the amount of 492 million (31 December 2018: 427 million) was not recognized in the consolidated statement of financial position, since the Group has the ability to control the timing of the reversal of the temporary difference, and also does not expect that this temporary difference will be restored in the foreseeable future.

As at 31 December 2019, deferred tax assets included RR 37 614 million resulting from tax losses carried forward (31 December 2018: RR 26 704 million). The existing tax losses eligible for carry forward are expected to be fully utilized within limits envisaged by the Russian tax legislation.

## 27. Dividends

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| In millions of Russian Roubles | Ordinary shares | Preference shares | Type A preference shares | Ordinary shares | Preference shares | Type A preference shares |
| **Dividends payable at 1 January** | - | - | - | - | - | - |
| Dividends declared during the year | 883 | 65 | 178 | 668 | 58 | 158 |
| Dividends paid during the year | (883) | (65) | (178) | (668) | (58) | (158) |
| **Dividends payable at 31 December** | - | - | - | - | - | - |
| **Dividends per share declared during the year** | **0.003** | **0.003** | **0.026** | **0.002** | **0.002** | **0.023** |

## 28. Segment Analysis

***(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments***

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

## 28. Segment Analysis (continued)

As at 31 December 2019 and 31 December 2018, the Group defines the following reportable segments:
- Head office;
- Central federal district;
- Far Eastern federal district;
- Volga federal district;
- North-West federal district;
- North-Caucasian federal district;
- Siberian federal district;
- Ural federal district;
- Southern federal district.

For analysis of revenue by products refer to Notes 21, 23.

***(b) Measurement of operating segment profit or loss and assets***

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and is not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments. Intersegment income/(expense) represents mainly income from / (costs of) funding provided by Head Office to other reportable segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements.

***(c) Information about reportable segment profit or loss and assets***

Segment reporting of the Group's revenue and profit/(loss) for the reporting period ended 31 December 2019 and 31 December 2018 and segment reporting of the Group's assets as at 31 December 2019 and 31 December 2018 is as follows:

| In millions of Russian Roubles | Head office | Central federal district | Far Eastern federal district | Volga federal district | North-west federal district | North-Caucasian federal district | Siberian federal district | Ural federal district | Southern federal district | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2019** | | | | | | | | | | |
| **Revenue from external customers** | **74 809** | **64 682** | **8 872** | **33 031** | **18 131** | **8 948** | **14 277** | **6 886** | **33 322** | **262 958** |
| - Interest income from loans and advances to customers, due from other banks and other placed funds | 73 310 | 58 114 | 7 517 | 28 889 | 16 299 | 7 191 | 11 506 | 6 122 | 30 239 | **239 187** |
| - Net fee and commission income from credit related operations | 1 499 | 6 568 | 1 355 | 4 142 | 1 832 | 1 757 | 2 771 | 764 | 3 083 | **23 771** |





## 28. Segment Analysis (continued)

| In millions of Russian Roubles | Head office | Central federal district | Far Eastern federal district | Volga federal district | North-west federal district | North-Caucasian federal district | Siberian federal district | Ural federal district | Southern federal district | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2019** | | | | | | | | | | |
| Gains less losses / (losses net of gains) arising from securities, derivative financial instruments and foreign currency | 28 144 | (7 826) | (3 008) | 2 151 | 314 | 713 | 1 286 | 772 | (2 538) | **20 008** |
| Interest expenses from due to other banks, customer accounts and bonds issued | (80 459) | (35 086) | (5 205) | (19 333) | (11 979) | (3 189) | (9 645) | (5 805) | (6 385) | **(177 086)** |
| (Provision)/recovery of provision for impairment* | (2 081) | (9 654) | 317 | (4 827) | (5 309) | (4 425) | (949) | (1 385) | (1 113) | **(29 426)** |
| Administrative and maintenance expense | (40 236) | (2 524) | (717) | (2 160) | (880) | (871) | (1 481) | (490) | (960) | **(50 319)** |
| - Including depreciation charge | (2 094) | (288) | (69) | (244) | (102) | (126) | (205) | (51) | (108) | **(3 287)** |
| Other expenses less other income* | (13 145) | (705) | (343) | (678) | 28 | (892) | (1 253) | 233 | (1 072) | **(17 827)** |
| Income tax expense | (4 042) | - | - | - | - | - | - | - | - | **(4 042)** |
| **(Loss)/profit of reportable segments** | **(37 010)** | **8 887** | **(84)** | **8 184** | **305** | **284** | **2 235** | **211** | **21 254** | **4 266** |
| **Intersegment income/(expense)**** | **64 649** | **(18 266)** | **2 518** | **(12 163)** | **(1 584)** | **(7 813)** | **(5 463)** | **(704)** | **(21 174)** | **-** |
| **For the year ended 31 December 2018** | | | | | | | | | | |
| **Revenue from external customers** | **64 385** | **68 493** | **8 080** | **37 715** | **18 041** | **9 923** | **15 761** | **7 894** | **32 300** | **262 592** |
| - Interest income from loans and advances to customers, due from other banks and other placed funds | 62 771 | 61 299 | 6 853 | 33 176 | 16 256 | 8 218 | 12 992 | 7 117 | 29 601 | **238 283** |
| - Net fee and commission income from credit related operations | 1 614 | 7 194 | 1 227 | 4 539 | 1 785 | 1 705 | 2 769 | 777 | 2 699 | **24 309** |

## 28. Segment Analysis (continued)

| In millions of Russian Roubles | Head office | Central federal district | Far Eastern federal district | Volga federal district | North-west federal district | North-Caucasian federal district | Siberian federal district | Ural federal district | Southern federal district | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2018** | | | | | | | | | | |
| (Losses net of gains) / gains less losses arising from securities, derivative financial instruments and foreign currency | (5 081) | 16 992 | 2 106 | (1 973) | 455 | (221) | (2 492) | 1 818 | 6 034 | **17 638** |
| Interest expenses from due to other banks, customer accounts and bonds issued | (83 816) | (27 202) | (5 651) | (17 324) | (10 626) | (2 923) | (9 103) | (5 530) | (5 741) | **(167 916)** |
| Provision for impairment* | (20 761) | (161) | 951 | 3 673 | 1 248 | 1 764 | 5 974 | 468 | 7 824 | **980** |
| Administrative and maintenance expense | (35 778) | (2 335) | (662) | (1 920) | (787) | (773) | (1 332) | (450) | (849) | **(44 886)** |
| - Including depreciation charge | (1 405) | (252) | (63) | (215) | (91) | (116) | (177) | (43) | (94) | **(2 456)** |
| Other expenses less other income* | (13 118) | (19 624) | (673) | (7 222) | (2 470) | (6 291) | (3 406) | (978) | (8 681) | **(62 463)** |
| Income tax expense | (3 751) | - | - | - | - | - | - | - | - | **(3 751)** |
| **(Loss)/profit of reportable segments** | **(97 920)** | **36 163** | **4 151** | **12 949** | **5 861** | **1 479** | **5 402** | **3 222** | **30 887** | **2 194** |
| **Intersegment income/ (expense)**** | **110 526** | **(50 847)** | **(2 066)** | **(13 634)** | **(4 056)** | **(6 810)** | **(2 713)** | **(2 712)** | **(27 688)** | **-** |
| **Total assets** | | | | | | | | | | |
| 31 December 2019 | 2 636 408 | 1 322 088 | 165 916 | 579 168 | 326 669 | 185 111 | 260 877 | 126 275 | 446 421 | **6 048 933** |
| 31 December 2018 | 2 681 609 | 1 206 994 | 156 062 | 526 189 | 320 582 | 156 811 | 223 893 | 136 912 | 401 287 | **5 810 339** |
| **Total liabilities** | | | | | | | | | | |
| 31 December 2019 | 2 462 709 | 1 321 962 | 165 883 | 578 943 | 326 565 | 185 088 | 260 775 | 126 275 | 446 415 | **5 874 615** |
| 31 December 2018 | 2 369 171 | 1 206 869 | 156 029 | 525 963 | 320 478 | 156 788 | 223 793 | 136 912 | 401 281 | **5 497 284** |

* Other expenses less other income include losses from disposal of loans under cession agreements.
** Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.





## 28. Segment Analysis (continued)

Intersegment income and expenses include transfer income and expenses, staff costs, gains less losses / (losses net of gains) from dealing in foreign currency, income and expenses from operations with federal customers.

***(d) Reconciliation of reportable segment revenues, profit or loss, assets and provision for loan impairment***
The Group recognizes losses net of gains from cessions on loans and advances to customers as part of the provision for loan impairment.

Reconciliation of income/(loss) of the reportable segments for the reporting period ended 31 December 2019 and 31 December 2018 is as follows:

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| **Total income of reportable segments after tax** | **4 266** | **2 194** |
| Adjustments for impairment (ECL) | 4 592 | 9 714 |
| Results of non-reportable segments, including the effect of consolidation* | (7 853) | (11 222) |
| Accounting for financial instruments at fair value | 2 056 | (2 714) |
| Adjustments of deferred tax | 850 | (3 113) |
| Losses net of gains from revaluation of other financial instruments at fair value through profit and loss | 16 | (85) |
| Accrued staff costs | (261) | (220) |
| Adjustments of financial assets and liabilities carried at amortised cost | (3 433) | 4 493 |
| Revaluation of premises | - | (3 029) |
| Other | 3 784 | 5 507 |
| **The Group's profit/(loss) under IFRS after tax** | **4 017** | **1 525** |

* Non-reportable segments are represented by subsidiaries of the Group.

Reconciliation of assets of the reportable segments for the reporting period ended 31 December 2019 and 31 December 2018 is as follows:

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Assets of reportable segments** | **6 048 932** | **5 810 339** |
| Elimination of settlements between branches | (2 439 641) | (2 268 900) |
| Provision for loan impairment (ECL) | (306 254) | (332 736) |
| Assets of non-reportable segments, including the effect of consolidation* | (4 171) | (21 448) |
| Elimination of back-to-back deposits | (4 524) | (4 526) |
| Accounting for financial instruments at fair value | 3 704 | (8 822) |
| Adjustments of financial assets carried at amortised cost | (23 806) | 2 059 |

28. Segment Analysis (continued)

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Other | (58 491) | (61 184) |
| **The Group's assets under IFRS** | **3 215 749** | **3 114 782** |
| **Provision for loan impairment for loans and advances to customers of reportable segments** | **(234 827)** | **(130 831)** |
| Accounting for provision under IFRS | (94 297) | (211 941) |
| Provision related to non-reportable segments, including the effect of consolidation* | 23 086 | 10 361 |
| **The Group's provision for loan impairment for loans and advances to customers under IFRS** | **(306 038)** | **(332 411)** |

* Non-reportable segments are represented by subsidiaries of the Group.

Reconciliation of material items of income and expenses for the years ended 31 December 2019 and 31 December 2018 is as follows:

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| **Total revenue of reportable segments from external customers** | **262 958** | **262 592** |
| Reclassification of income not included in segment revenue | 2 137 | (2 090) |
| Interest income related to effective interest rate implication | 4 523 | 13 709 |
| Results of non-reportable segments, including the effect of consolidation* | 836 | (4 591) |
| Effect of disposal of loans (interest income) | (1 252) | (16 080) |
| Other | (3) | (6) |
| **The Group's revenue under IFRS**** | **269 199** | **253 534** |
| **Total interest expenses from due to other banks, customer accounts and bonds issued of reportable segments** | **(177 086)** | **(167 916)** |
| Reclassification of interest expense not included in segment interest expenses | 4 391 | 2 632 |
| Effective interest rate adjustments | 433 | (734) |
| Results of non-reportable segments, including the effect of consolidation* | 971 | 1 386 |
| Other | 10 | 15 |
| **The Group's interest expense under IFRS** | **(171 281)** | **(164 617)** |
| **Provision charge for impairment** | **(29 426)** | **980** |
| Accounting for provision under IFRS and effect of disposal of loans | (22 661) | (56 604) |
| Provision related to non-reportable segments, including the effect of consolidation* | 12 533 | (2 976) |
| **The Group's provision charge for impairment under IFRS** | **(39 554)** | **(58 600)** |



28. Segment Analysis (continued)

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| **Administrative and maintenance expenses of reportable segments** | **(50 319)** | **(44 886)** |
| Reclassification of payments to the Deposit Insurance Agency not included in segment administrative and maintenance expenses | (7 663) | (5 711) |
| Accrued staff costs | (290) | (1 201) |
| Results of non-reportable segments, including the effect of consolidation* | (2 979) | 687 |
| Other | (4 278) | (7 565) |
| **The Group's administrative and other operating expenses under IFRS** | **(65 529)** | **(58 676)** |

* Non-reportable segments are represented by subsidiaries of the Group.
** Group's revenue under IFRS comprises of interest income and net fee and commission income.

The CODM reviews financial information prepared based on the Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from the International Financial Reporting Standards:

— Adjustments for impairment arises mainly due to the different consolidation perimeter in the RAR and IFRS statements.
— Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR foreign exchange swaps are recognised as back-to-back deposits, whereas in IFRS financial statements such transactions are recognised at fair value. Refer to Note 33. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.
— Adjustments to fair value of financial assets including derivative financial assets (both at initial recognition and subsequent measurement) resulted from application of different valuation techniques and input data.
— Balances of intercompany settlements related to regional branches of the Bank are presented under RAR as assets and liabilities, while in IFRS such balances are shown on a net basis.
— Adjustments of deferred income tax expense and accrued staff costs arise from the timing difference in recognition of certain expenses (mainly related to bonuses paid after the end of the reporting period) under RAR compared to IFRS and regulatory requirements of tax-filing date.
— Adjustments of lease liabilities under IFRS 16.

All other adjustments also result from the differences between RAR (used as the basis for management reporting) and IFRS.

***(e) Major customers***

The Group does not have any customer, from which it earns revenue representing 10% or more of the total revenues.

## 29. Risk Management

The purpose of the Group's risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its approved strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimizing exposures that can lead to unforeseen losses. Group provides coordinated management of significant risks such as credit and market risk, liquidity risk and operational risk across all levels of activity.

The Group has a multi-level system of decision-making, monitoring and risk management.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special collegiate bodies of the Group, and also by separate structural divisions of the Group and executives on the basis of their competence.

The Risks Department provides independent analysis and evaluation of risks. The competence of the Risk Department also includes methodological support of risk management system, the implementation of the principles and methods of identification, assessment and monitoring of financial risks (credit, market, liquidity risk) and operational risk, including at the regional level.

Additionally, the function of certain risks management is performed by other departments of the Bank: Legal Department, Strategy Development Department, Public and Marketing Relations Department, Internal Treasury Department and Compliance Control Department.

The Bank's authorized bodies on a regular basis consider the Bank's performance, approve and revise measures to facilitate the early detection of changes in the external and internal factors, and to minimize the adverse consequences for the Bank.

According to the Risk management policy, the key objectives of the bank's risk management system are as follows:
— Maintaining the Bank's activity on the "going concern" basis;
— Providing the Bank's financial stability;
— Development of risk culture/risk-oriented model within the Bank.

In order to ensure stable operation, the Bank took the following steps.





## 29. Risk Management (continued)

In 2019, the Bank carried out and/or initiated the following measures related to the development of credit risk management.
— The Bank continues to develop a rating system by widening the amount of internal credit rating models for a more accurate credit risk assessment and increase of the amount of balance sheet assets and credit equivalents of credit related commitments subject to internal credit rating models.
— The further development and implementation of approaches to the use of internal credit ratings in the system of decision-making, as well as in determining the premium for credit risk, establishing and incorporation of risk-rules on credit products and determining the authority to take on credit risk is in progress.
— The Bank has implemented a multi-level system of authorities and limits for the acceptance of different types of risks.
— There is a vertical hierarchy to the Risks Department in regional branches operating through Risk Assessment and Control Units for independent on-site control over the level of risks taken by the branches and operating offices. Also, the role of risk managers in decision-making process was increased.
— The Bank has adopted a set of measures aimed at enhancing the work with problem debts, as well as the development of infrastructure for various methods of dealing with problem debts.

In order to develop market risk management system, in 2019 the Bank continued to implement measures for automation of the system for control over the level of risk taken by the Bank.

The decision-making process of lending to individuals is centralized at the level of Head Office of the Bank, process is standardized and automated by conveyor technology for all retail loan products. Due to automated process, credits are issued within a given quality. The decision-making process is held under constant improvement. For instance, in 2019 the decision-making methodology was updated in the following way:
— New approach to solvency assessment based on the data of the Pension Fund of Russia received by the Bank using the Unified Authentication and Identification System;
— New rules for routing loan applications based on scoring, updated risk rules and requested loan amount;
— New procedure for calculating the credit limit based on the client rating, an updated approach to accounting for dependents, living wages, as well as the category and region of residence of the client;
— New scoring cards that take into account information about the payment discipline of clients from the credit bureaus;
— New aggregate limits for the current debt of the Bank's customers on unsecured loan products;
— Changing the process of considering loan applications by implementing part of automatic checks based on a limited number of completed questionnaire fields.

In order to enhance financial stability of the Group in case of crisis events in the economy and financial markets, the Bank's Management Board approved the Plan of stabilizing activities developed in accordance with recommendations of the Bank of Russia # 193-T dated 29 December 2012 On Methodical Recommendations for the Development of Financial Sustainability Plans for Credit Institutions. This Plan provides activities for solving potential problems with capital, liquidity, financial results and quality of the Bank's assets in case of unfavorable for the Bank scenarios.

## 29. Risk Management (continued)

In order to avoid going concern issue and limiting loss in case unfavorable issues that can negatively affect the activity, the Bank has continued implementation of the Action Plan, which aims to ensure the on-going operations and (or) recovery of the Bank's operations in case of non-standard and emergency situations. The Bank tested the Action Plan according to internally established order including the regional level testing.

***Credit risk***. The Group is exposed to credit risk, which is the risk that counterparty and/or third party under the financial obligations contract will cause a financial loss for the other party by failing to discharge an obligation completely and timely in accordance with contract terms (including operations in financial markets). The credit risk assessment of derivative financial instruments and repo transactions also includes counterparty credit risk, which is the risk of the counterparty's default before transactions settlement.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 32.

Credit risk management aims to maintain the proper quality of the loan portfolio by optimizing the industry, regional and product structure of the loan portfolio, the implementation of a systematic approach to the management of credit risk, based on the principles of risk awareness, power-sharing assessment and risk-taking, monitoring and control.

The management of credit risk of the Bank comprises determination and evaluation risk before transactions, limitation of credit risk, with correspondent limits, structuring of the deals, subsequent monitoring and controlling of credit risk level.

Credit risk management is carried out by the Bank's Management Board, its Chairman, special committees, and also by structural departments of the Bank and executives within their scope of authorities.

The Bank's authorized management bodies approve internal regulations that contain formalized descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan. On the mandatory basis Bank assesses risk factors associated with borrower's financial position and its trends, borrower's property structure and reputation, credit history, state of the economic sector and region, all relationships between the Bank and related persons.

In selecting lending and investment programs, priority rests with the agricultural sector and related industries, which are support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

— Limiting one borrower's risk exposure;
— Lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
— Lending to borrowers with different specialisation in different regions;
— A combination of several types of production in one entity typical for agricultural producers; and
— Diversification of investments in effective and reliable projects of other economic sectors.



## 29. Risk Management (continued)

Within credit risk management process (including counterparty credit risk), the Bank uses risk mitigating instruments (including accepting liquid collateral, guarantees, entering into general agreements to regulate collateral provision terms) and price making that takes into account assumed credit risk.

The Bank assesses residual risks arising from the fact that the instruments used can provide not expected effect (for example, in result of accepted collateral sale legal or liquidity risk can be lost) while using instruments that reduce credit risk. Residual risk can be realized in inability to sell accepted collateral, refusal or deferral of guaranteed payments, as well as the usage of improperly drawn documents.

Control of credit risk concentration related to the accepted security on financial market (credit, market) is mainly carried out by setting limits on accepted securities in the form of collateral. The Bank also establishes transaction restrictions on counterparties with securities for individual issuers. These restrictions are designed to diversify portfolio of counterparties, as a result, they reduce risk concentration.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

The Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. The Bank's internal credit rating grades are as follows:

| Internal rating | Average PD | Min PD | Max PD | S&P/Fitch | Moody's | Credit risk level |
|---|---|---|---|---|---|---|
| From 1+ to 2- | From 0.03% to 0.35% | From 0.00% to 0.27% | From 0.04% to 0.40% | From AAA to BBB- | From Aaa to Baa3 | **Low**<br>High ability to fulfill financial obligations in full. Corresponds to the investment ratings of the international rating agencies. |
| From 3+ to 4- | From 0.46% to 1.83% | From 0.40% to 1.60% | From 0.53% to 2.10% | From BB+ to BB- | From Ba1 to Ba3 | **Moderate**<br>Adequate ability to meet financial obligations in the medium term.<br>Possible deterioration of the financial position in case of adverse economic conditions. |
| From 5+ to 6- | From 2.42% to 9.60% | From 2.10% to 8.36% | From 2.77% to 11.02% | From B+ to B- | From B1 to B3 | **Increased**<br>Adequate ability to meet financial obligations in the short term.<br>In case of unfavorable economic conditions, difficulties in servicing obligations in time and in full are likely to occur. |
| From 7+ to D+ | From 12.65% to 28.95% | From 11.02% to 25.22% | From 14.52% to 33.24% | From CCC+ to C | From Caa1 to C | **High**<br>Difficult fulfillment of obligations on time and in full.<br>Possible overdue liabilities.<br>Protective actions of creditors (lawsuits, sale of collateral).<br>Borrower in the recovery period after default. |
| D | 100.00% | 33.24% | 100.00% | D | D | **Default** |

## 29. Risk Management (continued)

***Market risk.*** The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest, (c) equity and (d) commodity instruments. The market risk of the subsidiaries is estimated to be non-material due to proportion and structure of their assets and liabilities.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes) and developing risk hedging mechanisms.

The responsibility of managing the Bank's market risk rests with the Management Board, Risk Management Committee and the Asset and Liabilities Management Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Department of Operations on Financial Markets, Internal Treasury Department, the Capital Markets Department and the Risks Department within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

Decision-making authority in the event of sudden market changes is on the Chairman of the Management Board, Risk Management Committee or the Asset and Liabilities Management Committee depending on specified limiting control procedure.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, for providing information for assigning credit ratings by international rating agencies and for regulators rests with the Risks Department.

The Risks Department's functional duties cover independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits and monitoring transactions with financial instruments.

The Bank's business units (the Capital Markets Department, Department of Operations on Financial Markets and the Internal Treasury Department) and the Operations Department are also in charge of current monitoring over exposed to market risks positions in the process of entering into and accounting for transactions.





29. Risk Management (continued)

The Risks Department jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits, which are set taking into account the risk-appetite and the Bank's strategy. When setting limits, the Bank considers several factors, such as market environment, financial position and business trends.

Limits are regularly reviewed and updated by the Bank's authorised bodies. The Risks Department monitors limits and reports information on compliance with the set limits to the Bank's management. The Risks Department also considers and agrees all limits proposed by business units for carrying out new types of transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The Risks Department is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- The maximum volume of investments in certain types of assets or liabilities;
- The maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- Authorities of the Bank's staff to adopt independent decisions concerning certain types of transactions (personal limits);
- The maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- Various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency and the amount of all foreign currency positions to comply with the Bank of Russia requirements.

***Interest rate risk***. The Group takes on exposure of deterioration in its financial position due to a decrease in the size of capital, income levels, and value of assets as a result of changes in market interest rates.
The sources of interest rate risk are:

- Gap risk – the risk arising from the mismatch of the timing of changes in interest rates of assets, liabilities, off-balance sheet claims and obligations of the Bank.
- Baseline risk – a risk that arises when interest rates on financial instruments of the same maturity change depending on different financial indices.
- Yield curve risk – the risk of a change in the slope and/or shape of the interest rate curve.
- Option risk – a risk that manifests itself in the exercise of options (both directly concluded by the Bank and embedded in banking products), changing the value of the interest rate or the timing for meeting the requirements/obligations of the transaction.

The main methods of interest rate risk measurement are:

- Assessment of gaps between the assets and liabilities of the Group, sensitive to changes in the level of interest rates (method for estimating gaps by maturity);
- Assessment of the sensitivity of net interest income.

## 29. Risk Management (continued)

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on RAR with the assumption of stability of the structure of the Bank's assets and liabilities.

The table below summarises the Group's exposure to interest rate risk as at 31 December 2019 by the main settlement currencies of the Group (Russian rubles and US dollars) by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

Operations in Russian rubles:

| In millions of Russian Roubles | Demand and less than 30 days | Due between 31 and 90 days | Due between 91 and 180 days | Due between 181 days and 1 year | Due between 1 and 3 years | More than 3 years | Total |
|---|---|---|---|---|---|---|---|
| Total interest bearing financial assets* | 386 366 | 776 957 | 163 192 | 222 019 | 391 053 | 583 470 | **2 523 057** |
| Total interest bearing financial liabilities* | 512 448 | 266 063 | 290 343 | 449 825 | 694 013 | 172 411 | **2 385 103** |
| **Sensitivity gap** | **(126 082)** | **510 894** | **(127 151)** | **(227 806)** | **(302 960)** | **411 059** | **137 954** |
| **Cummulative sensitivity gap** | **(126 082)** | **384 812** | **257 661** | **29 855** | **(273 105)** | **137 954** | - |

Operations in US dollars:

| In millions of Russian Roubles | Demand and less than 30 days | Due between 31 and 90 days | Due between 91 and 180 days | Due between 181 days and 1 year | Due between 1 and 3 years | More than 3 years | Total |
|---|---|---|---|---|---|---|---|
| Total interest bearing financial assets* | 76 377 | 22 013 | 21 832 | 102 056 | 30 483 | 88 712 | **341 473** |
| Total interest bearing financial liabilities* | 44 494 | 33 812 | 32 884 | 70 258 | 59 489 | 109 725 | **350 662** |
| **Sensitivity gap** | **31 883** | **(11 799)** | **(11 052)** | **31 798** | **(29 006)** | **(21 013)** | **(9 189)** |
| **Cummulative sensitivity gap** | **31 883** | **20 084** | **9 032** | **40 830** | **11 824** | **(9 189)** | - |





## 29. Risk Management (continued)

The table below summarises the Group's exposure to interest rate risk as at 31 December 2018 by the main settlement currencies of the Group (Russian rubles and US dollars) by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

Operations in Russian rubles:

| In millions of Russian Roubles | Demand and less than 30 days | Due between 31 and 90 days | Due between 91 and 180 days | Due between 181 days and 1 year | Due between 1 and 3 years | More than 3 years | Total |
|---|---|---|---|---|---|---|---|
| Total interest bearing financial assets* | 712 056 | 406 339 | 157 450 | 194 558 | 391 076 | 549 914 | **2 411 393** |
| Total interest bearing financial liabilities* | 619 283 | 474 358 | 378 825 | 348 058 | 389 719 | 156 561 | **2 366 804** |
| **Sensitivity gap** | **92 773** | **(68 019)** | **(221 375)** | **(153 500)** | **1 357** | **393 353** | **44 589** |
| **Cummulative sensitivity gap** | **92 773** | **24 754** | **(196 621)** | **(350 121)** | **(348 764)** | **44 589** | - |

Operations in US dollars:

| In millions of Russian Roubles | Demand and less than 30 days | Due between 31 and 90 days | Due between 91 and 180 days | Due between 181 days and 1 year | Due between 1 and 3 years | More than 3 years | Total |
|---|---|---|---|---|---|---|---|
| Total interest bearing financial assets* | 47 511 | 13 998 | 18 438 | 12 799 | 123 739 | 101 876 | **318 361** |
| Total interest bearing financial liabilities* | 110 748 | 43 068 | 38 128 | 45 943 | 38 753 | 119 020 | **395 660** |
| **Sensitivity gap** | **(63 237)** | **(29 070)** | **(19 690)** | **(33 144)** | **84 986** | **(17 144)** | **(77 299)** |
| **Cummulative sensitivity gap** | **(63 237)** | **(92 307)** | **(111 997)** | **(145 141)** | **(60 155)** | **(77 299)** | - |

Securities included in the table above are presented by maturity (repricing) dates.

For the year ended 31 December 2019, if interest rates at that date had been 100 basis points lower/higher with all other variables held constant, net interest income for the year would have been RR 1 838 million lower/higher for operations in Russian rubles and RR 59 million higher/lower for operations in US dollars (31 December 2018: if interest rates at that date had been 100 basis points lower/higher with all other variables held constant, net interest income for the year would have been RR 1 449 million higher/lower for operations in Russian rubles and RR 1 063 million higher/lower for operations in US dollars).

For the year ended 31 December 2019, other components of equity (pre-tax) would have been RR 3 658 million higher/lower (31 December 2018: RR 8 641 million higher/lower) as a result of a decrease in the fair value of debt investment classified as at fair value through other comprehensive income and at fair value through profit or loss by 100 basis points.

29. Risk Management (continued)

***Currency and equity risk management.*** Currency risk, market risk for commodity instruments and equity risk are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a financial instrument/portfolio of different financial instruments with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Market Risk Evaluation and provided by the Risks Department to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VAR on the basis of a 99% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation horizon is one day. Therefore, VAR shows the maximum loss that can be received from the open position during one trading day with a 99% probability; however, in 1% of cases losses may exceed this level. VAR is calculated by historical method.

VAR calculation is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VAR shows the maximum possible loss as per RR 1 of investments, and absolute VAR – losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

The procedure of back-testing of methods used is conducted quarterly.

Although VAR is a most common tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:
— The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
— A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
— The use of 99% confidence level does not take into account losses that may occur beyond this level. There is a 1% probability that the loss could exceed the VAR; and
— VAR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

***Currency risk***. The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates of foreign currencies, evaluated on the basis of VAR and ES methods with 99% confidence level.





29. Risk Management (continued)

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| (Short)/long position | 2 137 | (1 784) |
| VAR | 26 | 33 |
| Expected Shortfall | 48 | 41 |

***Geographical risk concentration***. The geographical concentration of the Group's assets and liabilities as at 31 December 2019 is set out below:

| In millions of Russian Roubles | Russia | OECD* | Other countries | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 321 766 | 81 009 | 789 | **403 564** |
| Mandatory cash balances with the Bank of Russia | 22 334 | - | - | **22 334** |
| Trading securites | 21 974 | - | - | **21 974** |
| Due from other banks | 30 722 | - | 19 821 | **50 543** |
| Derivative financial instruments | 9 993 | 8 272 | - | **18 265** |
| Loans and advances to customers | 2 164 906 | - | - | **2 164 906** |
| Investment securities | 393 745 | 37 259 | 1 299 | **432 303** |
| Current income tax assets | 597 | - | - | **597** |
| Deferred income tax asset | 16 298 | - | - | **16 298** |
| Intangible assets | 7 423 | - | - | **7 423** |
| Premises and equipment | 51 470 | - | - | **51 470** |
| Other assets | 24 923 | 13 | 2 | **24 938** |
| Assets classified as held for sale | 1 134 | - | - | **1 134** |
| **Total assets** | **3 067 285** | **126 553** | **21 911** | **3 215 749** |
| **Liabilities** | | | | |
| Derivative financial instruments | 3 351 | 1 431 | - | **4 782** |
| Due to other banks | 95 139 | 13 620 | 760 | **109 519** |
| Customer accounts | 2 485 144 | 31 | 933 | **2 486 108** |
| Promissory notes issued | 47 358 | - | - | **47 358** |
| Bonds issued | 174 954 | - | - | **174 954** |
| Current income tax liability | 469 | - | - | **469** |

**29. Risk Management (continued)**

| In millions of Russian Roubles | Russia | OECD* | Other countries | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Deferred income tax liability | 2 221 | - | - | **2 221** |
| Other liabilities | 56 979 | 20 | - | **56 999** |
| **Total liabilities before subordinated debts** | **2 865 615** | **15 102** | **1 693** | **2 882 410** |
| Subordinated debts | 109 794 | 24 295 | - | **134 089** |
| **Total liabilities** | **2 975 409** | **39 397** | **1 693** | **3 016 499** |
| **Net position in on-balance sheet instruments** | **91 876** | **87 156** | **20 218** | **199 250** |

* OECD – Organisation for Economic Cooperation and Development.

Assets and liabilities have been classified according to the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption "Russia". Cash on hand and premises and equipment have been classified according to the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities as at 31 December 2018 is set out below:

| In millions of Russian Roubles | Russia | OECD* | Other countries | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 386 750 | 2 581 | 1 254 | **390 585** |
| Mandatory cash balances with the Bank of Russia | 20 651 | - | - | **20 651** |
| Trading securites | 19 226 | - | - | **19 226** |
| Due from other banks | 9 461 | - | 29 256 | **38 717** |
| Derivative financial instruments | 10 693 | 7 074 | - | **17 767** |
| Loans and advances to customers | 1 957 767 | - | - | **1 957 767** |
| Investment securities | 529 832 | 2 326 | 27 | **532 185** |
| Investment securities pledged under repurchase agreements | 40 264 | - | - | **40 264** |
| Current income tax assets | 573 | - | - | **573** |
| Deferred income tax asset | 16 298 | - | - | **16 298** |
| Intangible assets | 6 113 | - | - | **6 113** |
| Premises and equipment | 50 186 | - | - | **50 186** |
| Other assets | 23 794 | 15 | 1 | **23 810** |



**29. Risk Management (continued)**

| In millions of Russian Roubles | Russia | OECD* | Other countries | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Assets of the disposal groups held for sale and assets held for sale | 640 | - | - | **640** |
| **Total assets** | **3 072 248** | **11 996** | **30 538** | **3 114 782** |
| **Liabilities** | | | | |
| Derivative financial instruments | 5 298 | 3 915 | - | **9 213** |
| Due to other banks | 155 425 | 16 008 | 97 | **171 530** |
| Customer accounts | 2 420 708 | 91 | 252 | **2 421 051** |
| Promissory notes issued | 42 341 | - | - | **42 341** |
| Bonds issued | 142 609 | - | - | **142 609** |
| Current income tax liability | 89 | - | - | **89** |
| Deferred income tax liability | 1 658 | - | - | **1 658** |
| Other liabilities | 27 271 | 20 | - | **27 291** |
| **Total liabilities before subordinated debts** | **2 795 399** | **20 034** | **349** | **2 815 782** |
| Subordinated debts | 119 514 | 27 765 | - | **147 279** |
| **Total liabilities** | **2 914 913** | **47 799** | **349** | **2 963 061** |
| **Net position in on-balance sheet instruments** | **157 335** | **(35 803)** | **30 189** | **151 721** |

* OECD – Organisation for Economic Cooperation and Development.

***Liquidity risk***. Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:
- Segregation of duties between the Groups's management bodies, its collegial working bodies, structural units and executives;
- Setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- Priority of maintaining liquidity over profit maximisation;
- Excluding conflicts of interest in organising the liquidity management system; and
- Optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

## 29. Risk Management (continued)

The responsibility for liquidity management rests with the Bank's Management Board, Risk Management Committee, Assets and Liabilities Management Committee and the Internal Treasury Department within their competence. Ensuring the solvency of the Bank within one business day and controlling the liquidity within 30 days is carried by the Department of Operations on Financial Markets within the established limits on attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Assets and Liabilities Management Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risks Department at each end of reporting period.

The Group manages liquidity risk using the following basic methods:
— Evaluating the daily payment position on the basis of cash flow analysis;
— Reviewing the actual values and changes in mandatory liquidity ratios;
— Evaluating structure and quality of assets and liabilities;
— Limiting active operations;
— Analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies; and
— Analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Internal Treasury Department is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in Russian roubles and other currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and instantly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board, Risk Management Committee and Assets and Liabilities Management Committee.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a regular basis for the Group and for the Bank in general with consideration of the branch network.

For the purpose of additional management of the Group's term liquidity in general, the Group uses liquidity limits which is supervised by the Risks Department as part of ongoing monitoring.





## 29. Risk Management (continued)

The table below shows distribution of financial liabilities as at 31 December 2019 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related committments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of undiscounted financial liabilities as at 31 December 2019 is as follows:

| In millions of Russian Roubles | Demand and less than 30 days | Due between 31 and 180 days | Due between 181 days and 1 year | From 1 to 3 years | More than 3 years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Gross settled derivative financial instruments | | | | | | |
| - inflow | (79 478) | (28 280) | (114 935) | (47 139) | (97 692) | **(367 524)** |
| - outflow | 79 429 | 28 199 | 115 426 | 47 753 | 82 864 | **353 671** |
| Net settled derivative financial instruments (liabilities) | 14 | (194) | (55) | 141 | - | **(94)** |
| Due to other banks | 47 475 | 1 334 | 1 386 | 48 599 | 17 060 | **115 854** |
| Customer accounts | 807 784 | 596 061 | 505 797 | 660 600 | 36 569 | **2 606 811** |
| Promissory notes issued | 26 093 | 3 552 | 1 577 | 10 629 | 5 507 | **47 358** |
| Bonds issued | 2 586 | 18 295 | 21 895 | 100 092 | 104 696 | **247 564** |
| Lease liabilities (IFRS 16) | 190 | 1 115 | 1 338 | 4 875 | 4 453 | **11 971** |
| Other financial liabilities | 12 766 | 103 | 227 | 6 | 110 | **13 212** |
| Subordinated debts | 1 355 | 5 190 | 5 034 | 28 652 | 140 135 | **180 366** |
| **Off-balance sheet financial liabilities** | | | | | | |
| Letters of credit | 2 529 | - | - | - | - | **2 529** |
| Other credit related commitments* | 174 145 | - | - | - | - | **174 145** |
| **Total potential future payments for financial obligations** | **1 074 888** | **625 375** | **537 690** | **854 208** | **293 702** | **3 385 863** |

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

**29. Risk Management (continued)**

The maturity analysis of undiscounted financial liabilities as at 31 December 2018 is as follows:

| In millions of Russian Roubles | Demand and less than 30 days | Due between 31 and 180 days | Due between 181 days and 1 year | From 1 to 3 years | More than 3 years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Gross settled derivative financial instruments | | | | | | |
| - inflow | (5 559) | (2 901) | (4 540) | (31 294) | (38 154) | **(82 448)** |
| - outflow | 5 860 | 3 053 | 4 773 | 32 784 | 30 831 | **77 301** |
| Net settled derivative financial instruments (liabilities) | 3 518 | 2 684 | 29 | 5 | - | **6 236** |
| Due to other banks | 102 410 | 3 371 | 5 589 | 69 138 | 21 541 | **202 049** |
| Customer accounts | 910 398 | 935 023 | 366 819 | 343 835 | 11 496 | **2 567 571** |
| Promissory notes issued | 11 596 | 4 001 | 1 343 | 27 790 | - | **44 730** |
| Bonds issued | 668 | 11 821 | 27 652 | 70 171 | 95 534 | **205 846** |
| Other financial liabilities | 2 502 | 795 | 52 | 252 | 68 | **3 669** |
| Subordinated debts | 681 | 4 641 | 5 479 | 31 907 | 165 421 | **208 129** |
| **Off-balance sheet financial liabilities** | | | | | | |
| Letters of credit | 3 928 | - | - | - | - | **3 928** |
| Other credit related commitments* | 165 502 | - | - | - | - | **165 502** |
| **Total potential future payments for financial obligations** | **1 201 504** | **962 488** | **407 196** | **544 588** | **286 737** | **3 402 513** |

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right for accrued interest. Refer to Note 14.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.



**29. Risk Management (continued)**

The table below summarizes contractual maturity analysis as at 31 December 2019:

| In millions of Russian Roubles | Less than 1 year | More than 1 year | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 403 564 | - | **403 564** |
| Mandatory cash balances with the Bank of Russia | 22 334 | - | **22 334** |
| Trading securities | 18 419 | 3 555 | **21 974** |
| Due from other banks | 43 656 | 6 887 | **50 543** |
| Derivative financial instruments | 2 014 | 16 251 | **18 265** |
| Loans and advances to customers | 705 843 | 1 459 063 | **2 164 906** |
| Investment securities | 18 436 | 413 867 | **432 303** |
| Other financial assets | 9 014 | 95 | **9 109** |
| **Total financial assets** | **1 223 280** | **1 899 718** | **3 122 998** |
| **Financial liabilities** | | | |
| Derivative financial instruments | (2 441) | (2 341) | **(4 782)** |
| Due to other banks | (48 253) | (61 266) | **(109 519)** |
| Customer accounts | (1 873 518) | (612 590) | **(2 486 108)** |
| Promissory notes issued | (31 222) | (16 136) | **(47 358)** |
| Bonds issued | (28 838) | (146 116) | **(174 954)** |
| Other financial liabilities | (13 076) | (10 360) | **(23 436)** |
| **Total financial liabilities before subordinated debts** | **(1 997 348)** | **(848 809)** | **(2 846 157)** |
| Subordinated debts | (1 565) | (132 524) | **(134 089)** |
| **Total financial liabilities** | **(1 998 913)** | **(981 333)** | **(2 980 246)** |
| **Net liquidity gap** | **(775 633)** | **918 385** | **142 752** |
| **Cumulative liquidity gap** | **(775 633)** | **142 752** | **-** |

29. Risk Management (continued)

The table below summarizes contractual maturity analysis as at 31 December 2018:

| In millions of Russian Roubles | Less than 1 year | More than 1 year | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 390 585 | - | **390 585** |
| Mandatory cash balances with the Bank of Russia | 20 651 | - | **20 651** |
| Trading securities | 17 160 | 2 066 | **19 226** |
| Due from other banks | 30 144 | 8 573 | **38 717** |
| Derivative financial instruments | 3 083 | 14 684 | **17 767** |
| Loans and advances to customers | 668 066 | 1 289 701 | **1 957 767** |
| Investment securities | 126 358 | 405 827 | **532 185** |
| Investment securities pledged under repurchase agreements | 40 264 | - | **40 264** |
| Other financial assets | 7 978 | 24 | **8 002** |
| **Total financial assets** | **1 304 289** | **1 720 875** | **3 025 164** |
| **Financial liabilities** | | | |
| Derivative financial instruments | (6 918) | (2 295) | **(9 213)** |
| Due to other banks | (109 157) | (62 373) | **(171 530)** |
| Customer accounts | (2 121 554) | (299 497) | **(2 421 051)** |
| Promissory notes issued | (16 817) | (25 524) | **(42 341)** |
| Bonds issued | (7 081) | (135 528) | **(142 609)** |
| Other financial liabilities | (3 349) | (320) | **(3 669)** |
| **Total financial liabilities before subordinated debts** | **(2 264 876)** | **(525 537)** | **(2 790 413)** |
| Subordinated debts | (1 721) | (145 558) | **(147 279)** |
| **Total financial liabilities** | **(2 266 597)** | **(671 095)** | **(2 937 692)** |
| **Net liquidity gap** | **(962 308)** | **1 049 780** | **87 472** |
| **Cumulative liquidity gap** | **(962 308)** | **87 472** | **-** |

The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the liquidity risks of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.





29. Risk Management (continued)

Management believes that in spite of a substantial portion of customers' accounts being on demand diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

***Operational risk***. Operational risk is the risk of losses in a result of mismatch of character and range of Bank's activity, internal rules and procedures of making bank operations and other deals, staff or other person infraction (as a result of unintentional or intended activity or inactivity), mismatch (insufficiency) functional abilities using information technical and other system and (or) there multifunction (disrupting operation) and also as a result of influence of external events.

Main principles of Operational risk management are incorporated in Bank's internal documents.

The main goal of Bank's operational risk management is maintain acceptable operation risk level, undertake by Bank for secure Bank reliability during its usual operation activity and achievement strategic aims and objectives.

The Bank's Management Board, Risk Management Committee of the Bank and other collegial bodies of the Bank perform operational risk management in the Bank within their authorities.

Responsibility for completeness, quality and timeliness of reporting on operational risks, inherent in the activities of the independent structural bodies of the Bank, and losses in case of its realization, as well as responsibility for compliance with principles and procedures of operational risk management in the process of operational activity lies with the heads of divisions of the Bank and regional branches.

The Group manages operational risk using the following methods:
— Creating internal culture of operational risk management on all levels of Groups organizational structure, including levels of regional branches;
— Methodological support of operational risk management process. Developing and enhancing Groups internal documents regulating the process of operational risk management;
— Identification and assessment of operational risk on all material business lines, business processes, products and information systems of the Group, as well as developing and providing measures necessary for maintaining operational risk at the acceptable for the Bank level;
— Selection and analyse of any data relating to operational risks, supporting the Data warehouse of operational risk trigger events and losses in case of its realization;
— Developing and implementing the actual plan for minimization of operational risk and probable subsequent losses in case of its realization;
— Developing actual plans for providing regularity or/and recover ability of the Group's activity in case of unobservable and unexpected circumstances, and for limiting Groups losses in case of adverse circumstances arisen;
— Monitoring and preparing the report of operational risk level on a regular basis;
— Maintaining effective internal control environment within the framework of operational risk management.

29. Risk Management (continued)

The internal culture of operational risk management is the combination of individual and corporate values, settings, competences and behavioural models which determine Bank's attitude to operational risk management and assume knowledge by the Bank's employees of the main operational risk management principles and methods and their active participation in the process of operational risk management.

***Insurance risk***. In the process of carrying out insurance activities, the Group assumes the risk of losses from individuals and organizations that are directly exposed to risk. These risks may include the risk of damage to property, the risk of civil liability to third parties, the risk of an accident or illness, the risk of the insured person living to a certain age or period, or other events in the life of the insured person, the risk of death of the insured person, and other risks associated with the occurrence of an insured event. In assuming risks, the Group is subject to uncertainty as to the time of payment of the insurance indemnity and the severity of the damage. Insurance cases are random in nature, and their actual number and magnitude may differ from estimates made using statistical methods.

Insurance risk (actuarial tariff risk, actuarial reserve risk, underwriting risk, reinsurance operations risk, catastrophic event risk) – the risk of losses of insurance activities due to:
— Insufficient reserves formed to cover the Group's obligations to policyholders;
— Non-compliance of the tariff with the probability of occurrence of an insurance event and the predicted trends in the development of the risk accepted for insurance;
— Occurrence of catastrophic events (changes in weather and climate conditions, epidemics, etc.) or an economic downturn;
— Exceeding your own retention limit and/or underestimating the degree of risk accumulation.

When organizing risk management processes, the Group strives to follow generally accepted international standards in this area.

The risk management process in the Group is a sequence of technologically related operations carried out within the framework of risk management activities and includes the following main stages:
— Risk identification-identification and classification of risks that could potentially affect the Group's current activities or planned operations.
— Regulation of the process of conducting operations subject to insurance risk (all operations subject to insurance risks are carried out within the limits:
  — Limits of self-retention;
  — Limits of authority of Agents/employees of selling divisions;
  — Limits the powers of the Underwriters;
  — Reinsurance of risks/part of risks taken by the Group in order to ensure the financial stability of the Group.
— Risk assessment-identification of key risk indicators and methods of quantitative and qualitative risk assessment for individual Group operations and the total risk accepted by the Group (including assessment of the level of insurance risk for operations/transactions/portfolios, calculation of tariff rates/deductibles).
— Risk management-development of tools for reducing the level of accepted risks, including setting limits and restrictions on the amount of risks accepted by the Group, taking into account the assessment of its performance.



29. Risk Management (continued)

— Risk monitoring and control – conducting regular checks of compliance with established limits and restrictions, forming risk reports on the level and acceptability of accepted risks, monitoring compliance with risk management procedures and their compliance with established requirements.

The Group manages insurance risk through the use of established statistical methods, reinsurance of risk concentration, setting limits on underwriting, establishing transaction approval procedures, developing rules for setting insurance rates, and monitoring complex issues that arise.

The degree of uncertainty in the loss settlement process for each type of insurance varies depending on the specific nature of the risk and the length of the period required to claim losses and settle them.

The main assumption used in assessing liabilities is that the group's insurance losses will develop in the future in the same way as losses in the past, with a number of possible assumptions. When assessing the extent to which previous trends may not repeat in the future, additional qualitative judgments must be applied. The judgment is used to assess the extent to which external factors such as economic downturns, changes in weather and climate conditions, outbreaks of epidemics, and others affect estimates.

Obligations under insurance contracts are sensitive to the basic assumptions listed above.

The insurance risk under the insurance contract is the possibility of an insured event and the uncertainty of the corresponding amount of loss. The nature of the insurance contract is such that this risk is accidental and, accordingly, unpredictable. The group provides life insurance services and insurance other than life insurance: property insurance, agricultural insurance and individual accident insurance.

For a portfolio of insurance contracts that used probability theory in relation to pricing and reservation, the main risk associated with insurance contracts is that actual losses and insurance payments exceed the book value of insurance liabilities. This may be due to the fact that the frequency or significance of losses and payments will exceed the estimated level. Insurance events are random, and the actual amount and amounts of losses and payments for each year will differ from the amounts determined using actuarial methods. Factors that exacerbate insurance risk include a lack of diversification by type and level of risk, geographical location, and type of insurance policy holder.

**30. Offsetting Financial Assets and Financial Liabilities**

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements (ISDA, RISDA and other) and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2019 and 31 December 2018:

| In millions of Russian Roubles | Gross amounts before offsetting in the statement of financial position | Gross amounts set off in the statement of financial position | Net amount after offsetting in the statement of financial position | Amounts subject to master netting and similar arrangements not set off in the statement of financial position | | Net amount of exposure |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Cash collateral received | |
| **Assets subject to offsetting, master netting and similar arrangement** | | | | | | |
| Derivative financial instruments | 11 930 | - | 11 930 | (639) | (1 004) | 10 287 |
| Cash and cash equivalents (reverse repurchase agreements) | 1 586 | - | 1 586 | (1 586) | - | - |
| **Liabilities subject to offsetting, master netting and similar arrangement** | | | | | | |
| Derivative financial instruments | 4 770 | - | 4 770 | (639) | (847) | 3 284 |
| **Assets subject to offsetting, master netting and similar arrangement** | | | | | | |
| Derivative financial instruments | 10 977 | - | 10 977 | (1 671) | (793) | 8 513 |
| Cash and cash equivalents (reverse repurchase agreements) | 36 | - | 36 | (36) | - | - |
| **Liabilities subject to offsetting, master netting and similar arrangement** | | | | | | |
| Derivative financial instruments | 9 213 | - | 9 213 | (1 671) | (46) | 7 496 |
| Due to other banks (direct repurchase agreements) | 35 700 | - | 35 700 | (35 700) | - | - |

The Group has master netting arrangements with stock exchange and counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. Information on such balances is subject to disclosure as they were set off in the statement of financial position.



**31. Management of Capital**

The Group's objectives when managing capital are:
i. To comply with the capital requirements set by the Bank of Russia;
ii. To ensure the Group's ability to continue as a going concern.

Compliance with the capital adequacy ratio set by the Bank of Russia is monitored by the Group's management on a monthly basis.

Under the capital requirements set by the Bank of Russia effective at 31 December 2019 and 2018, banks had to maintain a ratio of capital and assets weighted to risk ("Capital Adequacy Ratio") above a prescribed minimum level of 8% (N1.0), while a prescribed minimum level for Common Equity Tier 1 Ratio (CET1 ratio) (N1.1) is set at 4.5% and for Tier 1 Ratio (N1.2) is set at 6%.

During 2019 and 2018, the Bank's capital adequacy ratio in accordance with the Bank of Russia requirements exceeded the minimum level and as at 31 December 2019 and 31 December 2018 was as follows:

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Capital of the Bank | 506 244 | 483 879 |
| CET1 Ratio (N1.1) | 9.9% | 9.5% |
| Tier1 Ratio (N1.2) | 11.3% | 10.7% |
| Capital Adequacy Ratio (N1.0) | 15.1% | 15.2% |

Capital of the Bank and capital adequacy is calculated as required by the Bank of Russia Regulation # 646-P Methodology for Capital Adequacy Calculation by Credit Organizations (Basel III) and the Bank of Russia Instruction # 180I Methodology for Mandatory Prudential Ratios Calculation by Banks.

As at 31 December 2019 and 2018, the Group is subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated on the IFRS figures in accordance with Basel II Capital Accord equals 8%. As at 31 December 2019, the Group was in compliance with covenants for maintaining capital adequacy ratio under Basel II.

## 32. Contingencies and Commitments

***Legal proceedings***. From time to time in the normal course of business, claims against the Group are received. As at 31 December 2019, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of the claims in excess of the amounts already provided for in these consolidated financial statements (31 December 2018: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in the consolidated financial statements).

***Tax contingencies***. Certain provisions of Russian tax, currency and customs legislation as currently in effect are vaguely drafted which may often result in their different interpretation (which, inter alia, may apply retrospectively), inconsistent and selective application and frequent and unpredictable changes. Interpretation of this legislation by the Group in relation to the operations and activities of the Group may be challenged by the respective state authorities. The tax authorities may be taking a more assertive position in their interpretation of the Russian tax legislation in carrying out tax audits and in making tax assessments. Consequently, the tax authorities may challenge transactions and tax accounting methods that have not been challenged in the past.

Fiscal periods remain open and subject to review by the tax authorities in course of the on-site tax audits for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

Russian transfer pricing legislation allows the Russian tax authority under certain circumstances to apply transfer pricing adjustments and impose additional profits tax and VAT liabilities in respect of all controlled transactions if the transaction price differs from the market level of prices determined for tax purposes and such deviation resulted in the underpayment of the tax to the revenue. The list of controlled transactions includes transactions performed with interdependent parties (with certain exceptions) and certain types of cross-border transactions and transactions between Russian interdependent parties. Special transfer pricing rules apply to transactions with securities, derivatives and interest.

During the year ended 31 December 2019, the Group determined its tax liabilities arising from the controlled transactions using actual transaction prices.

Due to the absence of the stable practice of the application of the Russian transfer pricing legislation, the Russian tax authorities may challenge the level of prices applied by the Russian companies of the Group for tax purposes under the controlled transactions and accrue additional tax liabilities in relation to such transactions, unless the Group is able to demonstrate that the respective transactions are arms' length for tax purposes.



## 32. Contingencies and Commitments (continued)

As at 31 December 2019, the Management of the Group believes that its interpretation of the applicable legislation is reasonable and will be sustained.

***Capital expenditure commitments.*** As at 31 December 2019, the Group has contractual capital expenditure commitments of RR 1 950 million (31 December 2018: RR 1 342 million).

***Compliance with covenants***. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

***Credit related commitments***. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

***Performance guarantees***. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs.

## 32. Contingencies and Commitments (continued)

Outstanding credit related commitments and performance guarantees are as follows:

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Undrawn credit lines | 97 741 | 95 344 |
| Letters of credit | 2 529 | 3 928 |
| Less: provisions for ECL | (508) | (656) |
| **Total credit related commitments** | **99 762** | **98 616** |
| Performance guarantees | 101 820 | 162 834 |
| Less: provision | - | (633) |
| **Total credit related commitments and performance guarantees** | **201 582** | **260 817** |

An analysis of changes in the ECLs of credit related commitments during the year ended 31 December 2019 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECLs as at 1 January 2019** | **654** | **2** | **-** | **656** |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | (57) | 57 | - | - |
| Transfers to Stage 3 | (39) | - | 39 | - |
| Impact on period end ECL of exposures transferred between stages during the period (including expense on new issue and income from repayments) | (61) | (48) | (39) | (148) |
| **ECLs as at 31 December 2019** | **497** | **11** | **-** | **508** |

An analysis of changes in the ECLs of credit related commitments during the year ended 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **ECLs as at 1 January 2018** | **624** | **-** | **-** | **624** |
| Transfers to Stage 1 | - | - | - | **-** |
| Transfers to Stage 2 | - | - | - | **-** |
| Transfers to Stage 3 | - | - | - | **-** |
| Impact on period end ECL of exposures transferred between stages during the period (including expense on new issue and income from repayments) | 30 | 2 | - | **32** |
| **ECLs as at 31 December 2018** | **654** | **2** | **-** | **656** |





## 32. Contingencies and Commitments (continued)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

An analysis of changes in the provision for performance guarantees is as follows:

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| **Provision as at 1 January** | **633** | **-** |
| Provision | 1 214 | 2 694 |
| Amount written off | (1 847) | (2 061) |
| **Provision as at 31 December** | **-** | **633** |

Credit related commitments are denominated in currencies as follows:

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Russian Roubles | 189 500 | 250 612 |
| Euros | 5 411 | 3 898 |
| US Dollars | 6 671 | 6 307 |
| **Total credit related commitments and performance guarantees** | **201 582** | **260 817** |

Analysis by credit quality in relation to credit related commitments as at 31 December 2019 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Low credit risk | 9 489 | - | - | **9 489** |
| Moderate credit risk | 70 822 | 311 | - | **71 133** |
| Increased credit risk | 15 908 | 2 077 | - | **17 985** |
| High credit risk | - | 1 663 | - | **1 663** |
| Default | - | - | - | **-** |
| Unrated | - | - | - | **-** |
| **Total credit related commitments (before impairment)** | **96 219** | **4 051** | **-** | **100 270** |
| Less: allowance for impairment | (497) | (11) | - | **(508)** |
| **Total credit related commitments** | **95 722** | **4 040** | **-** | **99 762** |

### 32. Contingencies and Commitments (continued)

Analysis by credit quality in relation to credit related commitments as at 31 December 2018 is as follows:

| In millions of Russian Roubles | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Low credit risk | - | - | - | **-** |
| Moderate credit risk | 49 003 | 1 497 | - | **50 500** |
| Increased credit risk | 41 779 | 1 061 | - | **42 840** |
| High credit risk | - | 1 697 | 161 | **1 858** |
| Default | - | - | - | **-** |
| Unrated | 4 074 | - | - | **4 074** |
| **Total credit related commitments (before impairment)** | **94 856** | **4 255** | **161** | **99 272** |
| Less: allowance for impairment | (655) | (1) | - | **(656)** |
| **Total credit related commitments** | **94 201** | **4 254** | **161** | **98 616** |

***Assets pledged and restricted***. The Group has the following assets pledged and restricted:

| In millions of Russian Roubles | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Assets pledged under loan agreements with banks (including the Bank of Russia) | | 13 084 | 18 556 |
| Repurchase agreements | | - | 40 264 |

As at 31 December 2019, mandatory cash balances with the Bank of Russia in the amount of RR 22 334 million (31 December 2018: RR 20 651 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2019 and 31 December 2018, assets pledged under loan agreements with banks (including the Bank of Russia) mainly include loans and advances to customers pledged to the Bank of Russia under loan agreements in accordance with the Bank of Russia Act # 4801-U On the Forms and Conditions of Refinancing of Credit Institutions Secured by Assets dated 22 May 2018.

***Financial assets transferred without derecognition***

Transferred financial assets that are not derecognized in their entirety are represented by securities transferred without derecognition and pledged under repurchase agreements.

The following table provides a summary of financial assets transferred without derecognition:

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| **In millions of Russian Roubles** | **Carrying amount assets** | **Carrying amount associated liabilities** | **Carrying amount assets** | **Carrying amount associated liabilities** |
| **Repurchase agreements** | | | | |
| Corporate Eurobonds | - | - | 31 477 | 27 360 |
| Federal loan bonds (OFZ) | - | - | - | - |
| State Eurobonds | - | - | 8 787 | 8 340 |
| **Total** | **-** | **-** | **40 264** | **35 700** |



### 33. Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties. As a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms, derivative financial instruments are recognised as assets (in case of positive fair value) or liabilities (in case of negative fair value).

As at 31 December 2019, in the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days prevails swaps structured as loans issued by the Group in Japanese yens (31 December 2018: in Japanese yens) to one large OECD bank with maturities from March 2023 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities ("back-to-back loans").

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2019 and covers the contracts with settlement dates after the respective end of the reporting period:

| In millions of Russian Roubles | Principal or agreed amount at fair value of assets receivable | Principal or agreed amount at fair value of assets payable | Positive fair value | Negative fair value |
|---|---|---|---|---|
| **Forwards and swaps** | | | | |
| - Currency | 205 718 | (199 746) | 6 949 | (977) |
| - Securities | 134 271 | (127 728) | 8 974 | (2 337) |
| - Precious metals | 1 097 | (1 097) | - | - |
| - Interest rate | 5 277 | (5 180) | 942 | (845) |
| - Currency-interest rate | 26 335 | (25 558) | 1 400 | (623) |
| **Total derivative financial instruments** | **372 698** | **(359 309)** | **18 265** | **(4 782)** |

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2018 and covers the contracts with settlement dates after the respective end of the reporting period:

| In millions of Russian Roubles | Principal or agreed amount at fair value of assets receivable | Principal or agreed amount at fair value of assets payable | Positive fair value | Negative fair value |
|---|---|---|---|---|
| **Forwards and swaps** | | | | |
| - Currency | 216 849 | (213 176) | 9 490 | (5 817) |
| - Securities | 146 384 | (141 502) | 7 859 | (2 978) |
| - Precious metals | 1 515 | (1 526) | 6 | (17) |
| - Interest rate | 1 797 | (1 795) | 238 | (236) |
| **Options** | 3 580 | (3 581) | 171 | (165) |
| **Futures** | | | | |
| - Index | 90 | (88) | 3 | - |
| **Total derivative financial instruments** | **370 215** | **(361 668)** | **17 767** | **(9 213)** |

### 33. Derivative Financial Instruments (continued)

As at 31 December 2019 and 2018, the Group had no foreign exchange swaps with fair value individually above 10% of the Group's equity.

Refer to Note 34 for the disclosure of fair value hierarchy for derivative financial instruments. Geographical and liquidity analyses of derivative financial instruments are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

### 34. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

***Financial instruments carried at fair value.*** Trading securities, investment securities at fair value through other comprehensive income, and related trading and investment securities pledged under repurchase agreements are carried on the consolidated statement of financial position at their fair value based on quoted market prices and valuation techniques where all of material inputs are observable.

Financial instruments at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable on the market. Derivative financial instruments are measured at fair value as assets when fair value is positive and as liabilities when fair value is negative. The Group uses cash flow discounting technique using observable market data about yield curves changes, as well as market statistical data, reflecting the distribution of the probability of default of financial instruments over time.

Certain loans to customers did not meet the SPPI criterion. Therefore, these loans are classified by the Group as financial assets at FVTPL.

The Group determines the fair value in relation to securities that are not traded in an active market as a price of a security, which can be determined taking into account the specific conditions of the transaction, the circulation characteristics of the security and other indicators, information about which may serve as a basis for such a calculation, including the involvement of an independent appraiser to assess the fair value.

***Cash and cash equivalents*** are carried at amortised cost which approximates its current fair value.





### 34. Derivative Financial Instruments (continued)

***Loans and receivables***. The fair value of floating rate instruments is normally equals their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Loans at fair value through profit or loss are valued using a combination of approaches. Where appropriate, loans are valued with reference to observable prices of debt securities issued by the borrower or by comparable entities. In other cases, valuation is performed using internal models based on present value techniques or, in some circumstances (for example, in respect of cash flow from assets held as collateral), external valuation reports. The non-observable inputs to the models include adjustments for credit, market and liquidity risks associated with the expected cash flows from the borrower's operations or in respect of collateral valuation.

***Investment securities carried at amortised cost***. The fair value for investment securities carried at amortised cost is based on quoted market prices and valuation techniques with all material inputs observable.

***Liabilities carried at amortised cost***. The fair value of bonds issued is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

***(a) Fair value of financial instruments carried at amortised cost and at fair value***

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| **In millions of Russian Roubles** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| **Financial assets carried at amortised cost** | | | | |
| Cash and cash equivalents | 403 564 | 403 564 | 390 585 | 390 585 |
| Mandatory cash balances with the Bank of Russia | 22 334 | 22 334 | 20 651 | 20 651 |
| Due from other banks | 50 543 | 47 079 | 38 717 | 41 015 |
| Loans and advances to customers | | | | |
| - Loans to corporates | 1 650 485 | 1 656 182 | 1 503 878 | 1 515 051 |
| - Lending for food interventions | 18 838 | 18 838 | 26 446 | 26 446 |
| - Loans to individuals | 439 792 | 432 753 | 402 422 | 407 937 |
| Investment securities | | | | |
| - Corporate bonds | 42 454 | 42 991 | 37 308 | 37 245 |
| - Municipal and subfederal bonds | 10 793 | 11 349 | 15 838 | 15 931 |
| - Federal Loan bonds (OFZ) | 4 824 | 4 905 | 3 537 | 3 350 |
| - Corporate Eurobonds | 895 | 895 | 208 | 208 |
| Other financial assets | 9 109 | 9 109 | 8 002 | 8 002 |
| **Total financial assets carried at amortised cost** | **2 653 631** | **2 649 999** | **2 447 592** | **2 466 421** |
| Financial assets carried at fair value | 469 367 | 469 367 | 577 572 | 577 572 |
| **Total financial assets** | **3 122 998** | **3 119 366** | **3 025 164** | **3 043 993** |

### 34. Fair Value of Financial Instruments (continued)

| In millions of Russian Roubles | 31 December 2019 Carrying amount | 31 December 2019 Fair value | 31 December 2018 Carrying amount | 31 December 2018 Fair value |
|---|---|---|---|---|
| **Financial liabilities carried at amortised cost** | | | | |
| Due to other banks: | | | | |
| - Term borrowings from other banks | 51 977 | 53 920 | 83 375 | 84 787 |
| - Term borrowings from the Bank of Russia | 45 280 | 44 956 | 48 054 | 47 147 |
| - Correspondent accounts and overnight placements of other banks | 12 262 | 12 262 | 40 101 | 40 101 |
| Customer accounts: | | | | |
| - State and public organisations | 383 135 | 383 448 | 593 569 | 594 114 |
| - Other legal entities | 911 538 | 913 744 | 792 663 | 792 743 |
| - Individuals | 1 191 435 | 1 202 026 | 1 034 819 | 1 031 971 |
| Promissory notes issued | 47 358 | 47 358 | 42 341 | 42 341 |
| Bonds issued: | | | | |
| - Bonds issued on domestic market | 174 954 | 186 861 | 142 609 | 145 806 |
| Other financial liabilities | 23 436 | 23 436 | 3 669 | 3 669 |
| **Total financial liabilities carried at amortised cost before subordinated debts** | **2 841 375** | **2 868 011** | **2 781 200** | **2 782 679** |
| Subordinated debts | 134 089 | 143 171 | 147 279 | 153 774 |
| **Total financial liabilities carried at amortised cost** | **2 975 464** | **3 011 182** | **2 928 479** | **2 936 453** |
| Financial liabilities carried at fair value | 4 782 | 4 782 | 9 213 | 9 213 |
| **Total financial liabilities** | **2 980 246** | **3 015 964** | **2 937 692** | **2 945 666** |

***(b) Analysis by fair value hierarchy of financial instruments***

Fair value measurements are analysed by level in the fair value hierarchy as follows:

i. Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

ii. Level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

iii. Level three measurements are valuations not based on observable market data (that is, unobservable inputs).

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



### 34. Fair Value of Financial Instruments (continued)

***Fair value hierarchy***. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Analysis of financial and non-financial instruments as at 31 December 2019 is as follows:

| In millions of Russian Roubles | Quoted price in an active market (Level 1) | Valuation technique with inputs observable in markets (Level 2) | Valuation technique with non-observable inputs (Level 3) | Total |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Trading securities | 21 974 | - | - | **21 974** |
| Investment securities | 321 329 | 51 880 | 128 | **373 337** |
| Derivative financial instruments | - | 18 265 | - | **18 265** |
| Loans to customers at fair value through profit or loss | - | - | 55 791 | **55 791** |
| Office premises | - | - | 27 349 | **27 349** |
| Other non-financial assets | 118 | - | - | **118** |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | - | 403 564 | - | **403 564** |
| Mandatory cash balances with the Bank of Russia | - | - | 22 334 | **22 334** |
| Due from other banks | - | 47 079 | - | **47 079** |
| Loans and advances to customers | - | - | 2 107 773 | **2 107 773** |
| Investment securities | 52 765 | 7 375 | - | **60 140** |
| Other financial assets | - | - | 9 109 | **9 109** |
| **Total financial and non-financial assets** | **396 186** | **528 163** | **2 222 484** | **3 146 833** |
| **Liabilities measured at fair value** | | | | |
| Derivative financial instruments | - | 4 782 | - | **4 782** |

34. Fair Value of Financial Instruments (continued)

| In millions of Russian Roubles | Quoted price in an active market (Level 1) | Valuation technique with inputs observable in markets (Level 2) | Valuation technique with non-observable inputs (Level 3) | Total |
|---|---|---|---|---|
| **Liabilities for which fair values are disclosed** | | | | |
| Due to other banks | - | 111 138 | - | **111 138** |
| Customer accounts | - | - | 2 499 218 | **2 499 218** |
| Promissory notes issued | - | - | 47 358 | **47 358** |
| Bonds issued: | | | | |
| - Bonds issued on domestic market | 142 322 | 44 539 | - | **186 861** |
| Other financial liabilities | - | - | 23 436 | **23 436** |
| **Total financial liabilities before subordinated debts** | **142 322** | **160 459** | **2 570 012** | **2 872 793** |
| Subordinated debts | 27 354 | 115 817 | - | **143 171** |
| **Total financial liabilities** | **169 676** | **276 276** | **2 570 012** | **3 015 964** |

Analysis of financial and non-financial instruments as at 31 December 2018 is as follows:

| In millions of Russian Roubles | Quoted price in an active market (Level 1) | Valuation technique with inputs observable in markets (Level 2) | Valuation technique with non-observable inputs (Level 3) | Total |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Trading securities | 17 362 | 1 864 | - | **19 226** |
| Investment securities | 470 092 | 43 083 | 2 383 | **515 558** |
| Derivative financial instruments | - | 17 767 | - | **17 767** |
| Loans to customers at fair value through profit or loss | - | - | 25 021 | **25 021** |
| Office premises | - | - | 28 171 | **28 171** |





34. Fair Value of Financial Instruments (continued)

| In millions of Russian Roubles | Quoted price in an active market (Level 1) | Valuation technique with inputs observable in markets (Level 2) | Valuation technique with non-observable inputs (Level 3) | Total |
|---|---|---|---|---|
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | - | 390 585 | - | **390 585** |
| Mandatory cash balances with the Bank of Russia | - | - | 20 651 | **20 651** |
| Due from other banks | - | 41 015 | - | **41 015** |
| Loans and advances to customers | - | - | 1 949 434 | **1 949 434** |
| Investment securities held to maturity | 48 762 | 7 972 | - | **56 734** |
| Other financial assets carried at amortised cost | - | - | 8 002 | **8 002** |
| **Total financial and non-financial assets** | **536 216** | **502 286** | **2 033 662** | **3 072 164** |
| **Liabilities measured at fair value** | | | | |
| Derivative financial instruments | - | 9 213 | - | **9 213** |
| **Liabilities for which fair values are disclosed** | | | | |
| Due to other banks | - | 172 035 | - | **172 035** |
| Customer accounts | - | - | 2 418 828 | **2 418 828** |
| Promissory notes issued | - | - | 42 341 | **42 341** |
| Bonds issued | | | | |
| - Bonds issued on domestic market | 106 781 | 39 025 | - | **145 806** |
| Other financial liabilities | - | - | 3 669 | **3 669** |
| **Total financial liabilities before subordinated debts** | **106 781** | **220 273** | **2 464 838** | **2 791 892** |
| Subordinated debts | 28 194 | 125 580 | - | **153 774** |
| **Total financial liabilities** | **134 975** | **345 853** | **2 464 838** | **2 945 666** |

## 34. Fair Value of Financial Instruments (continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

| In millions of Russian Roubles | At 31 December 2018 | Total gains | New assets recognised | Assets derecognised | At 31 December 2019 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Loans to customers at fair value through profit or loss | 25 021 | **3 550** | 35 302 | (8 082) | 55 791 |
| Investment securities at fair value through profit or loss | 2 383 | **46** | - | (2 301) | 128 |
| **Total level 3 financial assets** | **27 404** | **3 596** | **35 302** | **(10 383)** | **55 919** |

| In millions of Russian Roubles | At 31 December 2017 | Transfers at adoption of IFRS 9 | Total gain/(loss) recorded in profit or loss | New assets recognised | Assets derecognised | At 31 December 2018 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Loans to customers at fair value through profit or loss | n/a | 24 022 | **2 485** | 10 757 | (12 243) | 25 021 |
| Investment securities at fair value through profit or loss | n/a | - | **-** | 2 383 | - | 2 383 |
| **Total level 3 financial assets** | **n/a** | **24 022** | **2 485** | **13 140** | **(12 243)** | **27 404** |

Gains or losses on Level 3 financial assets included in the profit or loss for the period comprise:

| | For the year ended 31 December 2019 | | | For the year ended 31 December 2018 | | |
|---|---|---|---|---|---|---|
| In millions of Russian Roubles | Realised gains/ (losses) | Unrealised gains/ (losses) | Total | Realised gains/ (losses) | Unrealised gains/ (losses) | Total |
| Total gains included in the profit or loss for the period* | 4 951 | (1 355) | **3 596** | 2 263 | 222 | **2 485** |

* Gains are recorded for Interest income and Gains less losses from financial instruments and loans to customers at fair value through profit or loss.





## 34. Fair Value of Financial Instruments (continued)

***Loans at fair value through profit or loss***

The Group determines the fair value of loans based on discounted cash flow models taking into account the borrower's credit risk. The models use a number of unobservable input market data, the main ones being the discount rate, the value of collateral and credit spread.

As of 31 December 2019, if the discount rate used by the Group in the model increases/decreases by 1%, the book value of loans will decrease by RR 1 845 million / increase by RR 1 796 million (31 December 2018: decrease by RR 513 million / increase by RR 535 million). The discount rates used are in range from 4.78% to 20.21% (31 December 2018: from 8.87% to 40.94%).

As of 31 December 2019, the impact of collateral in assessing loans at fair value was RR 83 million (31 December 2018: RR 83 million).

***Investment securities at fair value through profit or loss***

Investment securities at fair value through profit or loss include unquoted equity securities at fair value through an independent appraiser. The estimation was based on the income approach using the discounted dividend method, which includes the forecast and post-forecast period of activity. Forecasting was based on the analysis of the structure of financial investments, the company's strategy for working with clients, assumptions on the forecast of changes in the future of reserves, income from investing funds, the company's own funds. When calculating the total market value of securities, a discount for lack of liquidity was applied expertly. As of 31 December 2018, if the liquidity discount were increased/decreased by 10%, the carrying amount of investment securities at fair value through profit or loss would be lower/higher by RR 252 million.

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2019:

| | Transfers between Level 1 and Level 2 | |
|---|---|---|
| In millions of Russian Roubles | From Level 1 to Level 2 | From Level 2 to Level 1 |
| **Financial assets** | | |
| Trading securities | - | 1 818 |
| Investment securities at fair value through other comprehensive income | 1 308 | 3 585 |
| **Total transfers of financial assets** | **1 308** | **5 403** |

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2018:

| | Transfers between Level 1 and Level 2 | |
|---|---|---|
| In millions of Russian Roubles | From Level 1 to Level 2 | From Level 2 to Level 1 |
| **Financial assets** | | |
| Investment securities at fair value through other comprehensive income | - | 3 168 |
| **Total transfers of financial assets** | **-** | **3 168** |

### 34. Fair Value of Financial Instruments (continued)

Financial instruments are transferred from Level 2 to Level 1 of the fair value hierarchy when they become traded in active markets and fair value can be determined based on quoted prices in active markets.

Financial instruments are transferred from Level 1 to Level 2 when they ceased to be traded in active markets. The liquidity on the market is not sufficient to use market prices for valuation and as a result fair value is determined using valuation techniques with all material inputs observable.

There were no other transfers between levels of the fair value hierarchy during 2019 and 2018.

The following table shows the quantitative information as at 31 December 2019 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

| Assets | Fair value, in millions of Russian Roubles | Valuation technique | Inputs used | | |
|---|---|---|---|---|---|
| | | | Input | Min | Max |
| Office premises and construction in progress (based on valuation at 31 December 2018, fair value of new objects acquired in 2019 equals to current value) | 27 349 | Comparative method | Trade discount | 6.0% | 21.0% |

The following table shows the quantitative information as at 31 December 2018 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

| Assets | Fair value, in millions of Russian Roubles | Valuation technique | Inputs used | | |
|---|---|---|---|---|---|
| | | | Input | Min | Max |
| Office premises and construction in progress (based on valuation at 31 December 2018) | 28 171 | Comparative method | Trade discount | 6.0% | 21.0% |



### 35. Related Party Transactions

For the purposes of these consolidated financial statements, 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's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property, the Ministry of Finance of the Russian Federation and The State Corporation Deposit Insurance Agency. Refer to Note 1.

In these consolidated financial statements, balances and transactions with the state-controlled entities and parties that are related to such entities and balances and transactions with related parties represented by key management and their family members are disclosed.

The outstanding balances with related parties were as follows:

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Bank of Russia | 74 594 | 86 289 |
| Other banks | 164 677 | 148 301 |
| **Loans and advances to customers** | | |
| Loans and advances to customers (before impairment) | 254 740 | 229 223 |
| Key management and their family members | 7 | 6 |
| Less: allowance for impairment | (14 743) | (10 833) |
| Derivative financial instruments — assets | 9 797 | 9 405 |
| **Securities** | | |
| Securities issued by the Russian Federation | 231 086 | 212 179 |
| Securities of entities and banks | 101 903 | 272 115 |
| Less: allowance for impairment | (82) | (300) |
| Due from other banks | 32 630 | 10 520 |
| **Other assets** | | |
| State Corporation Deposit Insurance Agency | 327 | 826 |
| Accrued subsidies under the government program to subsidise mortgage and car loans | - | 3 |
| **Customer accounts** | | |
| Entities | 652 521 | 800 158 |
| Key management and their family members | 4 224 | 3 209 |

**35. Related Party Transactions (continued)**

| In millions of Russian Roubles | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Due to other banks** | | |
| Bank of Russia | 45 280 | 48 054 |
| Other banks | 14 491 | 93 743 |
| Derivative financial instruments – liabilities | 408 | 2 039 |
| Subordinated debts | 71 803 | 80 694 |
| **Credit related commitments** | | |
| Undrawn credit lines | 4 017 | 1 182 |
| Performance guarantees | 10 805 | 8 808 |
| Less: provision for impairment | (20) | (34) |
| Financial guarantees received | 21 072 | 27 885 |

The income and expense items with related parties were as follows:

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| **Interest income on cash and cash equivalents** | | |
| Bank of Russia | 4 402 | 9 700 |
| Other banks | 881 | 1 035 |
| Interest income on due from other banks | 3 062 | 450 |
| **Interest income on loans and advances to customers** | | |
| Loans to legal entities | 16 479 | 16 754 |
| Key management and their family members | 4 | 6 |
| **Interest income on securities** | | |
| Securities issued by the Russian Federation | 20 147 | 16 014 |
| Securities of entities and banks | 8 682 | 13 445 |
| **Gains less losses / (losses net of gains) from securities** | | |
| Securities issued by the Russian Federation | 96 | 1 522 |
| Securities of entities and banks | 612 | (922) |
| **Fee and commission income** | | |
| Commission received from the Deposit Insurance Agency | 119 | 246 |
| Gains less losses / (losses net of gains) from derivative financial instruments | 6 833 | 12 011 |
| Gains from initial recognition of financial instruments at fair value | - | 23 119 |



**35. Related Party Transactions (continued)**

| In millions of Russian Roubles | 2019 | 2018 |
|---|---|---|
| **Interest expense on customer accounts** | | |
| Entities | (46 599) | (42 616) |
| Key management and their family members | (173) | (42) |
| Interest expense on subordinated debts | (3 634) | (3 893) |
| **Interest expense on due to other banks** | | |
| Bank of Russia | (3 780) | (1 293) |
| Other banks | (671) | (656) |
| **Administrative and other operating expenses** | | |
| Payments to the Deposit Insurance Fund | (7 663) | (5 711) |

In 2019, transactions with the shareholder included share capital increase, dividends paid, taxes paid and subsidies received under the government program to subsidize lending (2018: share capital increase, dividends paid, taxes paid and subsidies received under the government program to subsidize lending).

In 2019, the Bank increased its share capital by issuing 29 635 ordinary shares with the total nominal amount of RR 29 635 million (2018: 25 000 ordinary shares with the total nominal amount of RR 25 000 million). All shares were purchased by the Bank's only shareholder – the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

In July 2019, dividends were paid out to the Bank's shareholder in the amount of RR 1 126 million (in July 2018, dividends were paid out to the Bank's shareholder in the amount of RR 884 million).

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. In 2019, total remuneration of the key management amounted of RR 601 million (2018: RR 456 million) including the payments to pension funds and social fund amounted of RR 100 million (2018: RR 72 million). Total remuneration of the key management includes salaries, discretionary bonuses and other short-term benefits. Starting from 2017, the Group adopted a corporate pension plan for employees (Note 25). Expenditures for the key management in respect of defined pension contribution plans for 2019 amounted of RR 210 million and are payable on the occurrence of a retirement conditions in accordance with the laws of the Russian Federation (2018: none).

## 36. Acquisition and Disposal of Subsidiaries and Assets Held for Sale

***(a) Business Combination***

At the end of 2018, the Group obtained control over LLC Tambov Sugar Company and LLC Tambovsakharinvest (hereinafter, "TSK Group"). Taking into account potential rights, the Group's share in LLC Tambov Sugar Company as at 31 December 2018 was 74.99%.

The following is a distribution of the aggregate acquisition value at the fair value of the assets and liabilities of the TSK Group acquired.

| In millions of Russian Roubles | Note | Fair value recognised on acquisition |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | | 4 |
| Property and equipment | 11 | 8 272 |
| | | **8 276** |
| **Liabilities** | | |
| Deferred tax liability | 26 | 1 186 |
| Other liabilities | | 77 |
| | | **1 263** |
| **Total identifiable net assets** | | **7 013** |
| Consideration transferred | | - |
| Non-controlling interests | | 1 754 |
| Fair value of pre-existing relationships | | 5 259 |
| Less: fair value of the identifiable net assets of the acquired Group | | (7 013) |
| **Goodwill** | | **-** |

In accordance with IFRS 3 Business Combinations, the value of the consideration transferred upon acquisition includes a loan provided by the Group to a subsidiary in the amount of RR 5 260 million, which is shown as "Derecognition of pre-existing relationships". Since the carrying value of the loan received is approximately equal to the fair value of the loan provided by the Group, such a settlement of intragroup relationships that existed prior to the acquisition did not affect the result in the consolidated statement of profit or loss and other comprehensive income.

Acquiring the TSK Group at the beginning of the reporting period would not have a material effect on the Group's profit.



## 36. Acquisition and Disposal of Subsidiaries and Assets Held for Sale (continued)

Below is information about the cash flows from the acquisition of TSK Group for 2018.

| In millions of Russian Roubles | |
|---|---|
| Cash and cash equivalents of the TSK Group acquired | 4 |
| Less: cash transferred | - |
| Less: intragroup balances | (4) |
| **Net cash flow during the reporting period** | **-** |

***(b) Disposal of Subsidiaries***

In March 2019, the Group ceased the control over LLC Tambov Sugar Company and LLC Tambovsakharinvest (hereinafter, "TSK Group").

As a result of disposal, the Group recognized a loss of RR 159 million as part of other operating expenses.

The table below shows the assets and liabilities of the TSC Group at the date of disposal:

| In millions of Russian Roubles | Cost at the time of disposal |
|---|---|
| **Assets** | |
| Property and equipment | 8 501 |
| Other assets | 22 |
| **Liabilities** | |
| Deferred tax liability | 1 230 |
| Other liabilities | 83 |
| | **1 313** |
| **Total net assets derecognised** | |
| Net assets | 7 210 |
| Non-controlling interests | (1 803) |
| | **5 407** |

In October 2019, the Group lost control over LLC Agrotorg Troitsk (31 December 2018: the Group's share was 100%).

As a result of this disposal, the Group recognized a loss of RR 23 million under the item "Other operating income/(expenses)" of the consolidated statement of profit or loss and other comprehensive income.

Consideration received in 2019 on the sale includes cash in the amount of RR 15 million.

***(c) Assets held for sale***

During previous years the Group transferred certain assets from premises and equipment and repossessed collateral to assets held for sale. The Group expects the sale to be completed by the end of 2020.

Assets held for sale are accounted for at the lower of net carrying value and fair value less costs to sell with expenses recognised in profit or loss after reclassification.

### 36. Acquisition and Disposal of Subsidiaries and Assets Held for Sale (continued)

As at 31 December 2019, the carrying value of premises and equipment and repossessed collateral that have been reclassified to assets held for sale is as follows:

| In millions of Russian Roubles | Balance amount (before reclassification) | Accumulated depreciation (before reclassification) | Net carrying value before reclassification | Impairment | Carrying value after reclassification |
|---|---|---|---|---|---|
| Reclassified from repossessed collateral before 2019 | 725 | (29) | 696 | (56) | 640 |
| Reclassified from repossessed collateral in 2019 | 849 | - | 849 | - | 849 |
| Assets disposed of in 2019 | (355) | - | (355) | - | (355) |
| **Total** | **1 219** | **(29)** | **1 190** | **(56)** | **1 134** |

As at 31 December 2018, the carrying value of premises and equipment and repossessed collateral that have been reclassified to assets held for sale is as follows:

| In millions of Russian Roubles | Balance amount (before reclassification) | Accumulated depreciation (before reclassification) | Net carrying value before reclassification | Impairment | Carrying value after reclassification |
|---|---|---|---|---|---|
| Reclassified from repossessed collateral before 2018 | 423 | (29) | 394 | (56) | 338 |
| Reclassified from repossessed collateral in 2018 | 828 | - | 828 | - | 828 |
| Assets disposed of in 2018 | (526) | - | (526) | - | (526) |
| **Total** | **725** | **(29)** | **696** | **(56)** | **640** |

The movement in net carrying value of assets held for sale before reclassification is as follows:

| In millions of Russian Roubles | Reclassified from repossessed collateral | Reclassified from premises and equipment | Total |
|---|---|---|---|
| **Net carrying value before reclassification as at 1 January 2019** | **605** | **35** | **640** |
| Additions during the period | 385 | - | **385** |
| Reclassified during the period | 464 | - | **464** |
| Disposed during the period | (355) | - | **(355)** |
| **Net carrying value before reclassification as at 31 December 2019** | **1 099** | **35** | **1 134** |





### 37. Changes in Liabilities Arising from Financing Activities

| In millions of Russian Roubles | Bonds issued | Eurobonds issued | Subordinated debts | Total liabilities from financing activities |
|---|---|---|---|---|
| **Carrying amount at 31 December 2017** | **130 742** | **113 819** | **133 444** | **378 005** |
| Proceeds from issue | 57 900 | - | - | **57 900** |
| Proceeds from sale of previously bought back liabilities | 52 | 37 026 | 219 | **37 297** |
| Redemption | (5 396) | (146 392) | - | **(151 788)** |
| Buy back of liabilities | (40 898) | (11 332) | (5 886) | **(58 116)** |
| Foreign currency translation | - | 8 646 | 18 915 | **27 561** |
| Other | 209 | (1 767) | 587 | **(971)** |
| **Carrying amount at 31 December 2018** | **142 609** | **-** | **147 279** | **289 888** |
| Proceeds from issue | 30 000 | - | - | **30 000** |
| Proceeds from sale of previously bought back liabilities | 15 803 | - | 820 | **16 623** |
| Redemption | (4 575) | - | - | **(4 575)** |
| Buy back of liabilities | (8 834) | - | (1 269) | **(10 103)** |
| Foreign currency translation | - | - | (12 482) | **(12 482)** |
| Other | (49) | - | (259) | **(308)** |
| **Carrying amount at 31 December 2019** | **174 954** | **-** | **134 089** | **309 043** |

The “Other” line includes the effect of accrued but not yet paid interest on bonds issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

**38. Events after the End of the Reporting Period**

In January 2020, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million.

In February 2020, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 4 854 million at the put option date.

In February-March 2020, the Group issued on the domestic market RR 2 481 million bonds (placed at par) maturing in January 2023 with a coupon at 6.05% per annum payable monthly.

At the beginning of March 2020, in Russia there was a significant depreciation of ruble against the dollar and the euro, a decrease in the price of oil and exchange indices. As of the reporting date, the official ruble rate was 73.8896 rubles to the US dollar and 82.3056 rubles to the euro.

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event.

As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Group's IFRS9 estimates of expected credit loss provisions in 2020.

# 11 ADDENDUM

## 11.1. REGIONAL BRANCH ADDRESSES[1]

| | |
|---|---|
| **Adygea Regional Branch**<br>Reg. № 3349/12 as of September 27, 2000<br>24 Krasnooktiabrskaya St., Maikop, Russia, 385000<br>Tel/Fax: +7 (8772) 52-30-24, 57-12-01<br>E-mail: **Direktor@adg.rshb.ru** | **Altai Regional Branch**<br>Reg. № 3349/18 as of December 18, 2000<br>80b Lenina Ave., Barnaul, Altai Krai, Russia, 656015<br>Tel/Fax: +7 (3852) 53-89-48<br>E-mail: **bank@altay.rshb.ru** |
| **Amur Regional Branch**<br>Reg. № 3349/23 as of December 18, 2000<br>142 Lenina St., Blagoveshchensk, Russia, 675000<br>Tel/Fax: +7 (4162) 22-18-00<br>E-mail: **referent@amur.rshb.ru** | **Arkhangelsk Regional Branch**<br>Reg. № 3349/48 as of October 4, 2001<br>34 Karla Libchnechta St., Arkhangelsk, Russia, 163000<br>Tel/Fax: +7 (8182) 65-38-42<br>E-mail: **info@arh.rshb.ru** |
| **Bashkir Regional Branch**<br>Reg. № 3349/62 as of April 26, 2004<br>70 Lenina St., Ufa, Russia, 450008<br>Tel/Fax: +7 (3472) 73-54-32<br>E-mail: **info@bash.rshb.ru** | **Belgorod Regional Branch**<br>Reg. № 3349/30 as of April 10, 2001<br>49 Pushkina St., Belgorod, Russia, 308015<br>Tel/Fax: +7 (4722) 23-50-23<br>E-mail: **BRF@belg.rshb.ru** |
| **Bryansk Regional Branch**<br>Reg. № 3349/69 as of September 14, 2006<br>23 Lenin Ave., Sovetskiy District, Bryansk, Russia, 241050<br>Tel/Fax: +7 (4832) 66-84-00<br>E-mail:**dir@bryansk.rshb.ru** | **Buryatia Regional Branch**<br>Reg. № 3349/59 as of August 1, 2002<br>57d Smolina St., Ulan-Ude, Russia, 670000<br>Tel/Fax: +7 (3012) 28-71-00<br>E-mail: **bank@bur.rshb.ru** |
| **Chechen Regional Branch**<br>Reg. № 3349/34 as of April 10, 2001<br>10/77 M. A. Esambaeva Blvd., Grozny, Russia, 364024<br>Tel/Fax: +7 (8712) 22-27-50<br>E-mail: **office@chechnya.rshb.ru** | **Chelyabinsk Regional Branch**<br>Reg. № 3349/78 as of August 7, 2008<br>26a Lenina Ave., Chelyabinsk, Russia, 454091<br>Tel/Fax: +7 (351) 749-08-46<br>E-mail: **bank@chel.rshb.ru** |

[1] Note: Bank information as of January 1, 2020.





| | |
|---|---|
| **Chita Regional Branch**<br>Reg. № 3349/47 as of October 4, 2001<br>21 Alexandro-Zavodskaya St., Ingodinsky District, Chita, Russia, 672039<br>Tel/Fax: +7 (3022) 36-99-10<br>E-mail: **referent@chita.rshb.ru** | **Corporate business center**<br>Reg. № 3349/79 as of January 17, 2017<br>1 Krasnogvardeysky pr-d, 7, bld. 1, Moscow,123100<br>Tel: +7 (495) 981-36-57<br>E-mail: **referent@ckb.rshb.ru** |
| **Small business center**<br>Reg. № 3349/79 as of January 17, 2017<br>1 Krasnogvardeysky pr-d, 7, bld. 1, Moscow,123100<br>Tel: +7 (495) 981-36-57<br>E-mail: **referent@msk.rshb.ru** | **Daghestan Regional Branch**<br>Reg. № 3349/4 as of September 27, 2000<br>54a Gamidova Ave., Makhachkala, Russia, 367010<br>Tel/Fax: +7 (8722) 51-71-11<br>E-mail: **referent@dag.rshb.ru** |
| **Chuvash Regional Branch**<br>Reg. № 3349/11 as of September 27, 2000<br>31 Presidentskiy Blvd., Cheboksary, Russia, 428032<br>Tel/Fax: +7 (8352) 66-24-64<br>E-mail: **RF@chuvashia.rshb.ru** | **Irkutsk Regional Branch**<br>Reg. № 3349/66 as of October 13, 2005<br>21 Surikova St., Irkutsk, Russia, 664025<br>Tel/Fax: +7 (3952) 50-33-23<br>E-mail: **director@irk.rshb.ru** |
| **Ivanovo Regional Branch**<br>Reg. № 3349/38 as of May 29, 2001<br>21-1 Lenina Ave., Ivanovo, Russia, 153002<br>Tel/Fax: +7 (4932) 24-98-00<br>E-mail: **ivrshb@ivanovo.rshb.ru** | **Kabardino-Balkaria Regional Branch**<br>Reg. № 3349/44 as of June 26, 2001<br>10a Koulieva Ave., Nalchik, Russia, 360030<br>Tel/Fax: +7 (8662) 40-97-75<br>E-mail: **kbr@kbal.rshb.ru** |
| **Ingush Regional Branch**<br>Reg. № 3349/42 as of June 21, 2001<br>13a Moskovskaya St., Nazran, Russia, 386102<br>Tel/Fax: +7 (8732) 22-08-01<br>E-mail: **office@ing.rshb.ru** | **Kaluga Regional Branch**<br>Reg. № 3349/27 as of February 13, 2001<br>9a Kirova St., Kaluga, Russia, 248001<br>Tel/ Fax: +7 (4848-2) 277-377<br>E-mail: **Director@kaluga.rshb.ru** |
| **Kaliningrad Regional Branch**<br>Reg. № 3349/55 as of March 6, 2002<br>3 Gostinaya St., Kaliningrad, Russia, 236022<br>Tel/Fax: +7 (4012) 556-200<br>E-mail: **info@klngd.rshb.ru** | **Kemerovo Regional Branch**<br>Reg. № 3349/56 as of March 6, 2002<br>8a Sovetsky Ave., Kemerovo, Russia, 650099<br>Tel/Fax: +7 (3842) 34-60-32<br>E-mail: **office@kemerovo.rshb.ru** |
| **Kamchatka Regional Branch**<br>Reg. № 3349/53 as of February 8, 2002<br>63 Pobedy Ave., Petropavlovsk-Kamchatsky, Russia, 683023<br>Tel/Fax: +7 (4152) 49-02-15<br>E-mail: **post@kamchatka.rshb.ru** | **Komi Regional Branch**<br>Reg. № 3349/74 as of June 5, 2007<br>112/1 Pervomayskaya St., Syktyvkar, Russia, 167000<br>Tel/Fax: +7 (8212) 25-10-98<br>E-mail: **filial@komi.rshb.ru** |

**Khakassia Regional Branch**
Reg. № 3349/37 as of April 20, 2001
72 Chertygashev St., Abakan, Russia, 655017
Tel/Fax: +7 (3902) 22-33-60, 22-44-67
E-mail: **office@hakas.rshb.ru**

**Krasnodar Regional Branch**
Reg. № 3349/3 as of September 27, 2000
2 Korolenko St., Central District, Krasnodar, Russia, 350038
Tel/Fax: +7 (861) 254-25-65
E-mail: **director@krd.rshb.ru**

**Khabarovsk Regional Branch**
Reg. № 3349/75 as of October 1, 2007
120 Kalinina St., Khabarovsk, Russia, 680000
Tel/Fax: +7 (4212) 47-66-52
E-mail: **priem@hab.rshb.ru**

**Lipetsk Regional Branch**
Reg. № 3349/24 as of December 18, 2000
17a Vodopianova St., Lipetsk, Russia, 398046
Tel/Fax: +7 (4742) 30-75-06
E-mail: **office@lip.rshb.ru**

**Kirov Regional Branch**
Reg. № 3349/22 as of December 18, 2000
5 Gorkogo St., Kirov, Russia, 610017
Tel/Fax: +7 (88332) 51-98-00
E-mail: **mail@kirov.rshb.ru**

**Mari El Regional Branch**
Reg. № 3349/16 as of September 29, 2000
116 Volkova St., Yoshkar-Ola, Russia, 424002
Tel/Fax: +7 (8362) 45-23-55
E-mail: **office@mar.rshb.ru**

**Kostroma Regional Branch**
Reg. № 3349/51 as of January 11, 2002
6 Mira Ave., Kostroma, Russia, 156000
Tel/Fax: +7 (4942) 37-07-00
E-mail: **mail@kostroma.rshb.ru**

**Kursk Regional Branch**
Reg. № 3349/32 as of April 10, 2001
12 Sadovaya St., Kursk, Russia, 305004
Tel/Fax +7 (4712) 39-05-80
E-mail: **referent@kursk.rshb.ru**

**Krasnoyarsk Regional Branch**
Reg. № 3349/49 as of December 13, 2001
33 Perensona St., Krasnoyarsk, Russia, 660049
Tel/Fax: +7 (391) 267-67-00
E-mail: **info@krsn.rshb.ru**

**Nizhny Novgorod Regional Branch**
Reg. № 3349/39 as of June 13, 2001
3 Kulibina St., Nizhny Novgorod, Russia, 603022
Tel/Fax: +7 (831) 421-62-70
E-mail: **nnrshb@nnovgorod.rshb.ru**

**Mordovia Regional Branch**
Reg. № 3349/20 as of December 18, 2000
47a Sovetskaya St., Saransk, Russia, 430005
Tel/Fax: +7 (8342) 29-23-00
E-mail: **info@mrd.rshb.ru**

**Novgorod Regional Branch**
Reg. № 3349/8 as of September 27, 2000
9 Bolshaya Moscovskaya St., Veliky Novgorod, Russia, 173000
Tel/Fax: +7 (8162) 63-22-21
E-mail: **Director@vnovgorod.rshb.ru**

**Novosibirsk Regional Branch**
Reg. № 3349/25 as of February 9, 2001
13 Fabrichnaya St., Novosibirsk, Russia, 630007
Tel/Fax: +7 (383) 218-30-35
E-mail: **bank@nsk.rshb.ru**

**Orel Regional Branch**
Reg. № 3349/10 as of September 27, 2000
31 Moskovskaya St., Bld. A, Orel, Russia, 302030
Tel/Fax: +7 (4862) 73-57-88
E-mail: **ref@orel.rshb.ru**

**Orenburg Regional Branch**
Reg. № 3349/5 as of September 27, 2000
59b Leninskaya St., Orenburg, Russia, 460000
Tel/Fax: +7 (3532) 77-02-95
E-mail: **referent@orn.rshb.ru**

**Primorsky Regional Branch**
Reg. № 3349/54 as of February 8, 2002
26-1 Okeansky Ave., Vladivostok, Russia, 690091
Tel/Fax: +7 (423) 222-13-27
E-mail: **referent@primor.rshb.ru**

**Omsk Regional Branch**
Reg. № 3349/9 as of September 27, 2000
52 Frunze St., Omsk, Russia, 644099
Tel/Fax +7 (3812) 23-34-23
E-mail: **office@omsk.rshb.ru**

**Samara Regional Branch**
Reg. № 3349/13 as of September 29, 2000
10 Academika Platonova St., Samara, Russia, 443011
Tel/Fax: +7 (846) 373-51-04
E-mail: **tmas@samara.rshb.ru**

**Penza Regional Branch**
Reg. № 3349/15 as of September 29, 2000
39 Bekeshskaya St., Penza, Russia, 440018
Tel/Fax: +7 (8412) 42-18-73
E-mail: **info@penza.rshb.ru**

**Rostov Regional Branch**
Reg. № 3349/7 as of September 27, 2000
14a M. Nagibina Ave., Rostov-on-Don, Russia, 344038
Tel/Fax:+7 (863) 243-25-00
E-mail: **rshb@rostov.rshb.ru**

**Perm Regional Branch**
Reg. № 3349/76 as of December 14, 2007
50 Lenina St., Perm, Russia, 614000
Tel/Fax: +7 (342) 259-07-26
E-mail: **ReferentPerm@perm.rshb.ru**

**St. Petersburg Regional Branch**
Reg. № 3349/35 as of April 12, 2001
5 Paradnaya St., Block 1, Bld. A, St. Petersburg, Russia, 119014
Tel/Fax: +7 (812) 335-06-30
E-mail: **office@spb.rshb.ru**

**Pskov Regional Branch**
Reg. № 3349/68 as of September 14, 2006
44a Nekrasova St., Pskov, Russia, 180000
Tel/Fax: +7 (8112) 68-72-22
E-mail: **info@pskov.rshb.ru**

**Sakhalin Regional Branch**
Reg. № 3349/72 as of April 19, 2007
107 Mira Ave. , Yuzhno-Sakhalinsk, the Sakhalin Region, Russia, 693020
Tel/Fax: +7 (4242) 31-21-01
E-mail: **Referent@shl.rshb.ru**

**Smolensk Regional Branch**
Reg. № 3349/43 as of June 25, 2001
2b Tvardovskogo St., Smolensk, Russia, 214014
Tel/Fax: +7 (4812) 38-14-41
E-mail: **info@smol.rshb.ru**

**Stavropol Regional Branch**
Reg. № 3349/6 as of September 27, 2000
26 Marshala Zhukova St., Stavropol, Stavropol Krai, Russia, 355055
Tel/Fax: +7 (8652) 25-80-80
E-mail: **referent@stavropol.rshb.ru**

**Ryazan Regional Branch**
Reg. № 3349/58 as of July 31, 2002
58 Svobody St., Ryazan, Russia, 390000
Tel/Fax: +7 (4912) 28-42-00
E-mail: **bank@ryazan.rshb.ru**

**Tambov Regional Branch**
Reg. № 3349/2 as of September 27, 2000
20 Maksim Gorky St., Tambov, Russia, 392000
Tel/Fax: + 7 (4752) 63-03-05
E-mail: **office@tambov.rshb.ru**

| | |
|---|---|
| **Saratov Regional Branch**<br>Reg. № 3349/52 as of February 6, 2002<br>65/2 Radyscheva St., Saratov, Russia, 410003<br>Tel/Fax: +7 (8452) 619-330<br>E-mail: **info@saratov.rshb.ru** | **Tomsk Regional Branch**<br>Reg. № 3349/64 as of May 11, 2005<br>8b Moskovsky Tract, Tomsk, Russia, 634050<br>Tel/Fax: +7 (3822) 20-22-24<br>E-mail: **info@tomsk.rshb.ru** |
| **Sverdlovsk Regional Branch**<br>Reg. № 3349/73 as of May 18, 2007<br>15 Fevralskoj Revolyutsii St., Ekaterinburg, Russia, 620014<br>Tel/Fax: +7 (343) 356-18-60<br>E-mail: **office@sverdlovsk.rshb.ru** | **Tuva Regional Branch**<br>Reg. № 3349/57 as of March 6, 2002<br>23 Tyvinskie Dobrovoltsy St., Kyzl, the Tuva Republic, Russia, 667000<br>Tel/Fax: +7 (39422) 2-04-01<br>E-mail: **referent@tuva.rshb.ru** |
| **Tatarstan Regional Branch**<br>Reg. № 3349/67 as of March 16, 2006<br>80 Dostoevsky St., Kazan, Russia, 420097<br>Tel/Fax: +7 (843) 524-98-05<br>E-mail: **rkazan@kazan.rshb.ru** | **Udmurt Regional Branch**<br>Reg. № 3349/28 as of February 26, 2001<br>30 Telegina St., Izhevsk, Russia, 426006<br>Tel/Fax: +7 (3412) 631-136<br>E-mail: **RF@udm.rshb.ru** |
| **Tver Regional Branch**<br>Reg. № 3349/19 as of December 18, 2000<br>37 Dmitry Donskoy St., Tver, Russia, 170006<br>Tel/Fax: +7 (4822) 31-07-20<br>E-mail: **mail@tver.rshb.ru** | **Vladimir Regional Branch**<br>Reg. № 3349/41 as of June 21, 2001<br>1b Bolshaya Moskovskaya St., Vladimir, Russia, 600000<br>Tel/Fax: +7 (4922) 47-43-0<br>E-mail: **info@vladimir.rshb.ru** |
| **Tula Regional Branch**<br>Reg. № 3349/1 as of September 27, 2000<br>5 Turgenevskaya St., Tula, Russia, 300041<br>Tel/Fax: +7 (4872) 55-04-04<br>E-mail: **filial@tula.rshb.ru** | **Yakutsk Regional Branch**<br>Reg. № 3349/60 as of February 11, 2003<br>12 Pushkina St., Yakutsk, Russia, 677000<br>Tel/Fax: +7 (4112) 40-21-01<br>E-mail: **office@yakutia.rshb.ru** |
| **Tyumen Regional Branch**<br>Reg. № 3349/71 as of December 29, 2006<br>21 Pervomaiskaya St., Tyumen, Russia, 625000<br>Tel/Fax: +7 (3452) 50-06-25<br>E-mail: **office@tumen.rshb.ru** | **Yaroslavl Regional Branch**<br>Reg. № 3349/61 as of June 11, 2003<br>28a Pobedy St., Yaroslavl, Russia, 150040<br>Tel/Fax: +7 (4852) 32-12-44<br>E-mail: **dir@yar.rshb.ru** |
| **Ulyanovsk Regional Branch**<br>Reg. № 3349/65 as of June 17, 2005<br>15-1 Minayeva St., Ulyanovsk, Russia, 432017<br>Tel/Fax: +7 (8422) 41-00-22<br>E-mail: **DirectorUln@uln.rshb.ru** | **Voronezh Regional Branch**<br>Reg. № 3349/14 as of September 29, 2000<br>19b Moskovskiy Ave., Voronezh, Russia, 394016<br>Tel/Fax: +7 (4732) 69-71-77<br>E-mail: **vrf@vrn.rshb.ru** |
| **Volgograd Regional Branch**<br>Reg. № 3349/46 as of October 4, 2001<br>1b Barrikadnaya St., Volgograd, Russia, 400047<br>Tel/Fax: +7 (8442) 96-23-01<br>E-mail: **mail@volg.rshb.ru** | |





## 11.2. LICENSES AND CERTIFICATES

| **Licenses** | |
|---|---|
| No. 3349<br>Issuing authority: the Bank of Russia<br>Date of issue: 12.08.2015<br>Licensed activities: General license for banking operations | No. 3349<br>Issuing authority: the Bank of Russia<br>Date of issue: 12.08.2015<br>Licensed activities: Attracting deposits and operations with precious metals |
| No. 007-08461-000100<br>Issuing authority: the Federal Financial Markets Service<br>Date of issue: 19.05.2005<br>Licensed activities: Depositary activity | No. 007-08456-010000<br>Issuing authority: the Federal Financial Markets Service<br>Date of issue: 19.05.2005<br>Licensed activities: Dealing operations |
| No. 007-08455-100000<br>Issuing authority: the Federal Financial Markets Service<br>Date of issue: 19.05.2005<br>Licensed activities: Brokerage activity | No. 1473<br>Issuing authority: the Federal Financial Markets Service<br>Date of issue: 17.11.2009<br>Licensed activities: License of the stock market agent for concluding commodity futures and options transactions in stock trading |
| No. 17078 H<br>Issuing authority: the Centre of the Federal Security Service of the Russian Federation for Licensing, Certification and the Protection of State Secrets of the Federal Security Service<br>Date of issue: 05.02.2019<br>Licensed activities: Development, production, distribution of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities, for works and services in the field of data encryption, technical support services of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities (except where technical support services of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities, are performed for the own needs of the legal entity or individual entrepreneur) | No. Version 3.2.1 DN-2020-1<br>Issuing authority: JSC "DialogueScience", QSA-auditor, certificated by PCI DSS Council<br>Date of issue: 17.02.2020<br>Licensed activities: Certificate of conformity of JSC Rosselkhozbank to requirements of the Payment Card Industry Data Security Standard (PCI DSS) |

**Certificates**

| | |
|---|---|
| No. 3349<br>Issuing authority: the Bank of Russia<br>Date of issue: 24.04.2000<br>Certified activities: Certificate of state registration of the credit organization | No. 760<br>Issuing authority: the State Agency for Deposit Insurance<br>Date of issue: 14.03.2005<br>Certified activities: Certificate of inclusion of the bank in the State Register of Banks – participants of the obligatory deposit insurance system |
| No. -<br>Issuing authority: Department of the Federal Tax Service of the city of Moscow<br>Date of issue: 14.03.2005<br>Certified activities: Certificate of registration of the legal entity in the tax authority for the location within the Russian Federation | No. -<br>Issuing authority: the Office of the Ministry of Taxation of Russia of the city of Moscow<br>Date of issue: 22.10.2002<br>Certified activities: Certificate of registration in the Unified State Register of Legal Entities on the legal entity registered before July 1, 2002 |
| No. -<br>Issuing authority: the Moscow regional branch № 13 of the Social Insurance Fund of the Russian Federation<br>Date of issue: 14.03.2001<br>Certified activities: Insurance certificate | No. 002.003.381<br>Issuing authority: the Moscow Registration Chamber<br>Date of issue: 18.05.2000<br>Certified activities: Certificate of registration in the Municipal Register of Enterprises of the city of Moscow |
| No. -<br>Issuing authority: the Office of the Federal Tax Service of the city of Moscow<br>Date of issue: 25.12.2008<br>Certified activities: Certificate of registration in the Unified State Register of Legal Entities | |





## 11.3. CONTACT AND PAYMENT DETAILS

| | |
|---|---|
| **Full Corporate Name** | Joint stock company Russian Agricultural Bank |
| **Abbreviated Corporate Name** | JSC Rosselkhozbank |
| **General Banking License** | 3349 dated 12.08.2015 |
| **Registration Details** | Central Bank of the Russian Federation,<br>April 24, 2000, Moscow |
| **Legal Address** | 3 Gagarinsky Pereulok, Moscow, Russia, 119034 |
| **General inquiries** | + 7(495)787-77-87 |
| **E-mail** | office@rshb.ru |
| **Website** | www.rshb.ru, www.rusagrobank.com |

| **International Contacts** | |
|---|---|
| **Place of business** | 10, Bld. 2 Presnenskaya Emb.<br>(Moscow City, IQ-quarter Complex),<br>123112, Moscow, Russian Federation |
| **Phone/Fax** | +7 (495) 787 77 87 , +7 (495) 644 33 48 |
| **E-mail** | Investor Relations |
| | E-mail: IR_RusAgroBank@rshb.ru |
| | Financial Institutions |
| | E-mail: fininst@rshb.ru |
| | Trade and Structured Finance |
| | Tel.:+7 (495) 648 26 36, +7 (495) 644 33 48<br>E-mail: tsfin@rshb.ru |
| | Documentary Operations |
| | Tel: +7 (495) 648 26 36 |

| Account Details | |
|---|---|
| Correspondent Account | 30101810200000000111 with the Central Bank of the Russian Federation Main Branch for the Central Federal District, Moscow |
| Tax Identification Number (TIN) / KPP | 7725114488/997950001 |
| BIC | 044525111 |
| OKPO | 52750822 |
| OKONKH | 96120 |
| OKATO | 45286590000 |
| OGRN | 1027700342890 |
| OKVED | 65.12 |
| OKOPF | 12267 |
| OKTMO | 45383000 |
| Telex | 485493 RSB RU |
| SWIFT | RUAGRUMM |