# Financial Statements and Independent Auditor's Report

# JSC "Denizbank Moscow"

# 31 December 2018

# Contents

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# Independent auditor's report

**To the Shareholders and Board of Directors of DENIZBANK MOSCOW, Joint-Stock Company**

## Details of auditor

Name: Baker Tilly Rus JSC

Address: Russia, 123007, Moscow, Khoroshevskoye Shosse 32A, premise VII, office 57

State Registration number: 1027700115409

Baker Tilly Rus JSC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA").

Baker Tilly Rus JSC is included in the control copy of the register of auditors and audit organizations, main registration number 11603076265.

## Details of the audited entity

Denizbank Moscow, Joint-Stock Company

13, bld.42, 2-nd Zvenigorodskaya st, 123022, Moscow, Russian Federation

Included in the United State Register of Legal Entities on 24 October 2002 by Moscow Division of the Ministry of taxes and duties of the Russian Federation. Registration No. 1027739453390. Certificate series 77 No. 005391806.

Registered by the Central Bank of the Russian Federation on 15 June 1998.

Registration No.3330

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# Independent auditor's report

To the Shareholders and Board of Directors of
Denizbank Moscow, JSC

## Report on the audit of the financial statements

*Opinion*

We have audited the accompanying financial statements of Denizbank Moscow, JSC, which comprise of the statement of financial position as at 31 December 2018 and the statement of profit or loss and comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Denizbank Moscow, JSC, as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

*Basis for Opinion*

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

*Emphasis of Matter*

We draw attention to Note 25.4 to the financial statements which presents the scheduled limited scope inspection of the Bank by the Central Bank of Russia and the actions undertaken by the Bank to address the misstatements. We do not express a modified opinion on this issue.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Credit loss allowance on loans and advances to customers*

Given the significance of loans and advances to customers, the complexity and judgments related to the estimation of expected credit losses under newly adopted IFRS 9 Financial instruments, we considered this area as a key audit matter.

Assessment of whether a significant increase in credit risk has occurred since initial recognition and calculation of expected credit losses require judgment. The calculation of expected credit losses involves estimation techniques that use significant unobservable inputs and factors, statistical modeling and expert judgment. These techniques are used to determine the probability of default, exposure at default, loss given default based on historic data and external information adjusted for forecast.

We assessed the key methodology for calculation of the allowance for consistency with the requirements of IFRS 9, credit risk factors selected by the management to determine whether significant increase in credit risk has occurred. We assessed and analyzed on a sample basis the basis and operation of models and calculations used for collective or individual assessment of expected credit losses, as well as key inputs and assumptions used and forward-looking information. For significant credit exposures, we evaluated credit risk factors and staging; for a sample of significant credit-impaired loans, we analyzed assumptions on estimated future cash flows, including value of collateral and the probabilities of expected outcomes.

We also assessed the disclosures in the financial statements about the Bank's allowance for expected credit losses on loans and advances to customers.

Information on the allowances for expected credit losses on loans and advances to customers is presented in Notes 13 "Loans to Customers" and 25 "Risk Management" to the financial statement.

*Responsibilities of Management and those charged with governance for the financial statements*

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

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

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

*Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

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

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

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the 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 on examination in accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity"**

Management of the Bank is responsible for compliance of the Bank with the statutory ratios set by the Bank of Russia and for compliance of internal controls and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

In accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity", we have examined the following during the audit of the financial statements of the Bank for the year ended 31 December 2018:

- compliance of the Bank as at 31 December 2018 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

Our examination was limited to procedures selected based on our judgment such as inquires, analysis and examination of documents, comparison of requirements, procedures and methodologies adopted by the Bank with the Bank of Russia's requirements, as well as recalculation, comparison and reconciliation of figures and other information.

We have identified the following based on our examination:

1) as related to compliance of the Bank with the statutory ratios by the Bank of Russia:

as at 31 December 2018, the Bank statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

We draw your attention to the fact that we have not performed any procedures related to the underlying accounting data of the Bank other than the procedures we considered necessary to express our opinion on whether or not the financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance, and its cash flows for the year ended in accordance with IFRS.

2) as related to compliance of internal control and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems:

a) in accordance with the Bank of Russia's requirements and recommendation, as at 31 December 2018, subdivisions of the Bank for managing significant risk of the Bank were not subordinated or accountable to subdivisions assuming corresponding risks;

b) internal documentations of the Bank effective as at 31 December 2018 which set out the methodologies to identify and manage significant credit, operational, market and liquidity risk of the Bank, and the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;

c) as at 31 December 2018, the Bank had in place a reporting system for significant credit, operational, market and liquidity risks, and for equity (capital) of the Bank;

d) frequency and consistency of reports prepared by risk management subdivisions of the Bank and its internal audit function during 2018 as related to management of credit, operational, market and liquidity risks of the Bank complied with internal documents of the Bank; those reports included observations made by risk management subdivisions of the Bank and its internal audit functions as related to the assessment of the effectiveness of the respective methodologies of the Bank as well as recommendations on their improvement;

e) as at 31 December 2018, the authority of the Board of Directors and its executive bodies included control over compliance of the Bank with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2018, the Board of Directors of the Bank and its executive bodies regularly discussed the reports prepared by the risk management subdivisions of the Bank and its internal function and considered proposed measures to eliminate weaknesses.

We have performed the above procedures related to internal control and organization of risk management systems of the Bank solely to examine compliance of internal control and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

The engagement partner on the audit resulting in this independent auditor's report is Maxim Deev.

16 July 2019

# Statement of Profit or Loss and Other Comprehensive Income

| | Notes | 2018 USD'000 | 2017 USD'000 |
|---|---|---|---|
| Interest income | 5 | 19,199 | 16,555 |
| Interest expense | 5 | (2,644) | (2,124) |
| **Net interest income** | | **16,555** | **14,431** |
| Net loss after impairment provisions for debt financial assets | 13 | (359) | (313) |
| **Net interest income after impairment provisions for debt financial assets** | | **16,196** | **14,118** |
| Fee and commission income | 6 | 3,147 | 3,452 |
| Fee and commission expense | 6 | (600) | (451) |
| Net gains / (losses) on financial assets at fair value through profit or loss | 7 | 191 | (784) |
| Net gains / (losses) on financial assets at fair value through other comprehensive income | | 325 | 38 |
| Net gains / (losses) from foreign exchange translation | | (780) | 1,052 |
| Net gains on foreign exchange transactions | | 1,540 | 732 |
| Other operating income | | 29 | 8 |
| Other operating expenses | | (5) | - |
| **Operating income** | | **20,043** | **18,165** |
| General administrative expenses | 8 | (4,597) | (4,512) |
| **Profit before tax** | | **15,446** | **13,653** |
| Income tax expense | 9 | (3,076) | (2,801) |
| **Net profit for the year** | | **12,370** | **10,852** |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Net gains on financial assets at fair value through other comprehensive income disposed of during the year | | (325) | (38) |
| Unrealised profit on financial assets at fair value through other comprehensive income | | (560) | 896 |
| Deferred tax relating to components of other comprehensive income | | 177 | (179) |
| Effect of translation | | (15,218) | 3,722 |
| **Other comprehensive income / (loss) for the period, net of tax** | | **(15,926)** | **4,401** |
| **Total comprehensive income for the year** | | **(3,556)** | **15,253** |

The financial statements were approved by the Board of Management of the Bank on 16 July 2019.

Vice-president

Makar GAVRILOV

Chief Accountant

Natalia ELMANOVA

# Statement of Financial Position

| | Notes | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| | | USD'000 | USD'000 |
| **ASSETS** | | | |
| Cash | | 1,801 | 932 |
| Amounts due from the Central Bank of Russia | 10 | 35,668 | 36,152 |
| Amounts due from banks | 11 | 20,625 | 54,480 |
| Derivative financial instruments | 12 | 32 | 16 |
| Loans to customers | 13 | 185,285 | 162,012 |
| Financial assets at fair value through other comprehensive income | 14 | 18,663 | 42,189 |
| Fixed assets | 15 | 112 | 181 |
| Intangible assets | 16 | 630 | 775 |
| Current tax assets | | 70 | - |
| Other assets | 17 | 328 | 192 |
| **Total Assets** | | **263,214** | **296,929** |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| Derivative financial instruments | 12 | 101 | 11 |
| Amounts due to banks | 18 | 111,392 | 157,049 |
| Amounts due to customers | 19 | 59,407 | 43,361 |
| Debt securities issued | 20 | - | 326 |
| Subordinated loans | 21 | 9,133 | 9,379 |
| Current tax liabilities | | - | 315 |
| Deferred tax liabilities | 23 | 3,415 | 2,973 |
| Other liabilities | 22 | 523 | 716 |
| **Total Liabilities** | | **183,971** | **214,130** |
| **Shareholders' Equity** | | | |
| Share capital | 24 | 49,269 | 49,269 |
| Share premium | | 683 | 683 |
| Revaluation reserve for financial assets at fair value through other comprehensive income | | 73 | 781 |
| Translation reserve | | (58,761) | (43,543) |
| Retained earnings | | 87,979 | 75,609 |
| **Total Shareholder's Equity** | | **79,243** | **82,799** |
| **Total Liabilities and Shareholders' Equity** | | **263,214** | **296,929** |

The financial statements were approved by the Board of Management of the Bank on 16 July 2019.

Vice-president

Makar GAVRILOV

Chief Accountant

Natalia ELMANOVA

# Statement of Cash Flows

| | Note | 2018 USD'000 | 2017 RUB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net profit | | 12,370 | 10,852 |
| **Adjustments for non-cash items** | | | |
| Depreciation | | 163 | 145 |
| Interest expense | | 244 | 4 |
| Interest income | | 214 | (636) |
| Allowance for credit losses | | 359 | 313 |
| Income tax expense | | 3,076 | 2,801 |
| Foreign currency transaction | | (17,024) | (5,257) |
| Other income / (expense) | | (29) | 197 |
| **Cash flow from operating activities before increase/ (decrease) in operating assets and liabilities** | | **(627)** | **8,419** |
| **(Increase) / decrease in operating assets** | | | |
| Amounts due from banks | | (535) | 88 |
| Derivative financial instruments | | 13 | - |
| Loans to customers | | (50,972) | (22,621) |
| Other assets | | (170) | (42) |
| **Increase / (decrease) in operating liabilities** | | | |
| Derivative financial instruments | | (9) | (28) |
| Amounts due to banks | | (18,922) | 30,273 |
| Amounts due to customers | | 23,334 | (5,813) |
| Debt securities issued | | (270) | 326 |
| Other liabilities | | (45) | 64 |
| **Net cash received from / (used in) operating activities before income taxes paid** | | **(48,203)** | **10,666** |
| Income taxes paid | | (2,251) | (1,185) |
| **Net cash received from / (used in) operating activities** | | **(50,454)** | **9,481** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| (Acquisition) / repayment of financial assets at fair value through other comprehensive income | | 15,088 | (21,518) |
| Acquisition of fixed assets | | (48) | (10) |
| Acquisition of other non-current assets | | (52) | (95) |
| **Net cash from investing activities** | | **14,988** | **(21,623)** |
| **Cash flows from financing activities** | | **-** | **-** |
| Effect of translation to presentation currency | | 18,370 | 3,950 |
| Effect of changes in exchange rates in cash and cash equivalents | | (16,505) | 6,506 |
| **Net increase / (decrease) in cash and cash equivalents** | | **(33,601)** | **(1,686)** |
| **Cash and cash equivalents as at the beginning of the year** | 32 | 89,140 | 90,826 |
| **Cash and cash equivalents as at the end of the year** | 32 | **55,539** | **89,140** |

# Statement of Changes in Shareholders' Equity

| | Share capital USD'000 | Share premium USD'000 | Revaluation reserve for financial assets at fair value through other comprehensive income USD'000 | Translation reserve USD'000 | Retained earnings USD'000 | **Total USD'000** |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2017** | **49,269** | **683** | **102** | **(47,265)** | **64,757** | **67,546** |
| Profit for the year | - | - | - | - | 10,852 | **10,852** |
| Other comprehensive income | - | - | 679 | 3,722 | - | **4,401** |
| **Total comprehensive income for the year** | **-** | **-** | **679** | **3,722** | **-** | **4,401** |
| **Balance as at 31 December 2017** | **49,269** | **683** | **781** | **(43,543)** | **75,609** | **82,799** |
| Impact of adopting IFRS 9 as at 1 January 2018 (Note 4 (a)) | - | - | - | - | - | - |
| **Opening balance under IFRS 9 as at 1 January 2018 (Restated)** | **49,269** | **683** | **781** | **(43,543)** | **75,609** | **82,799** |
| Profit for the year | - | **-** | - | - | 12,370 | **12,370** |
| Other comprehensive income | - | - | (708) | (15,218) | - | **(15,926)** |
| **Total comprehensive income for the year** | **-** | **-** | **(708)** | **(15,218)** | **-** | **(15,926)** |
| **Balance as at 31 December 2018** | **49,269** | **683** | **73** | **(58,761)** | **87,979** | **79,243** |

# 1. Introduction

## 1.1 Principal activities

JSC Denizbank Moscow (the «Bank») was re-established on 19 May 2003 as CJSC Denizbank Moscow through the acquirement of CJSC Iktisat Bank (Moscow) and was re-registered on 19 September 2003. The Bank's predecessor, CJSC Iktisat Bank (Moscow), was initially established by Iktisat Bankasi T.A.Sh. as a joint stock company under the legislation of the Russian Federation and was granted its general banking license in 1998. By the decision of the General Meeting of Shareholders dated November 15, 2007, the Bank was renamed into CJSC Dexia Bank. By the decision of the General Meeting of Shareholders dated February 21, 2012, the Bank was renamed to CJSC Denizbank Moscow. In connection with the adoption of the Federal Law of 05.05.2014 No. 99-FZ, which amended Chapter 4 of Part 1 of the Civil Code of the Russian Federation, the name of the Bank was changed to JSC Denizbank Moscow.

The Bank is a part of DenizBank Financial Services Group, which before October 2006 was part of Zorlu Group - a significant financial and industrial group in Turkey, specialising in textile, electronics, energy production and financial services. In October 2006, Dexia Participation Belgique SA, 100% of which was directly and indirectly owned by Dexia SA/NV, became the main shareholder of the DenizBank Financial Services Group, after acquisition of the 75% of the total outstanding shares from Zorlu Holding A.Ş. In December 2006 Dexia acquired the remaining shares listed on Istanbul stock exchange, and the shareholding of Dexia Group came to 99,85%. In September 2012, Sberbank of Russia, more then 50% of which are owned by the Central Bank of the Russian Federation, became the main shareholder of the DenizBank Financial Services Group, after acquisition all 99,85% shares from Dexia Group.

As at 31 December 2018 and 31 December 2017 the Bank's parent companies were DenizBank A.S. (Turkey), the owner of 49% shares of the Bank, and DenizBank AG (Austria), the owner of 51% shares of the Bank.

The Bank does not have ultimate controlling parties since the Bank is a part of Sberbank of Russia Group. Further, Sberbank of Russia Group is controlled by the Central Bank of the Russian Federation (50% shares plus one voting share), and the Central Bank of the Russian Federation is controlled by the government (Russian Federation).

As at today the principal activities of the Bank are deposit taking, corporate lending, documentary business, customer settlements and operations with securities and foreign exchange.

The activities of the Bank are regulated by the Central Bank of the Russian Federation («the CBR»).

The Bank is a member of the state deposit insurance scheme in the Russian Federation.

As at 31 December 2018 the Bank is located and carried out its activities in Moscow.

The average number of persons employed by the Bank during the year was approximately 72 (2017: 73).

## 1.2 Operating Environment

The Russian economy has adapted to international sectoral sanctions imposed on the Russian Federation. The GDP dynamics remained in the positive zone, and the GDP growth in 2018 was 2,3% related to 2017, while in 2017 the GDP growth was 1,6%.

Inflation in annual terms accelerated to 4,3% at the end of 2018 against 2,5% in December 2017. The acceleration of inflation is explained by the preparation for raising VAT from 18% to 20%, depreciation of Russian rouble due to capital outflow and rising geopolitical tensions, and also due to poor harvest. It led to the tightening of monetary policy by the CBR in the second half of the year. The key rate was decreasing during 2018; at the end of 2018 it returned to the initial rate against 2017 and remained at 7,75%.

# 1. Introduction (continued)

## 1.2 Operating Environment (continued)

Oil prices rose in 2018. The average price of Urals oil in 2018 was 69,8 USD per barrel against 53,4 USD per barrel in 2017. The average price in the fourth quarter of 2018 increased to 66,9 USD per barrel against 65,2 USD per barrel in the first quarter of 2018.

The average exchange rate weakened in the fourth quarter of 2018 (66,6 RUB per USD) compared to the first quarter of 2018 (56,9 RUB per USD). The weakening of the exchange rate is mainly explained by capital outflow from emerging countries and rising geopolitical tensions. At the end of 2018 the average exchange rate was 62,8 RUB per USD.

The current account surplus of the balance of payments of the Russian Federation in 2018 reached 114,9 billion USD (33,3 billion USD in 2017). The increase in the surplus can be explained by the growth in oil and gas exports due to higher oil prices in relation to 2017. The capital outflow of the private sector was 67,5 billion USD compared to 25,2 billion USD in 2017. Against the background of a large inflow of funds to the current account the acceleration of capital outflow is mainly due the suspension of the purchase of foreign currency within the fiscal rule. The main channel of the outflow was the purchase of foreign assets by the non-banking sector. The external debt of the Russian Federation since early 2018 decreased by 64,4 billion USD to 453,7 billion USD.

The Russian banking sector in 2018 showed a profit of 1 345 billion RUB against 790 billion RUB a year earlier. Assets of the banking system for the year 2018 increased by 6,9% after the correction for currency revaluation compared to 2017. The loan portfolio of the banking sector increased by 10,7% due to growth in loans to non-financial organizations and individuals by 5,8% и 22,8% respectively (taking into account the adjustment for currency revaluation).

The situation on the Russian stock markets has deteriotared. The RTS index decreased by 7,4% in 2018 compared to 2017. However, the MICEX index increased by 12% due to the depreciation of the ruble.

International rating agencies improved the outlook for the sovereign credit ratings of the Russian Federation. Changes in the ratings with respect to the Bank followed the path of the changes in the sovereign credit ratings of the Russian Federation. In January 2018 Moody's improved its outlook on the sovereign credit rating of the Russian Federation from “stable” to “positive”, while retaining the rating at the level of “Ba1”. In February 2018 Standard&Poor’s improved the sovereign credit rating of the Russian Federation from speculative “BB+” to investment level of “BBB-” with “stable” forecast. In January 2019 Standard&Poor’s Agency confirmed the rating of the Russian Federation for liabilities denominated in foreign currency at investment level “BBB-”; the outlook is “stable”. In February 2019 Moody’s Agency improved the sovereign credit ratings of the Russian Federation from speculative “Ba1” to investment level of “Baa3” and changed the outlook from “positive” to “stable”.

These events may have a significant impact on the future results of operations and the financial position of the Bank, the consequences of which are difficult to forecast. The future economic situation and the regulatory environment and its impact on the Bank's performance may differ from the current expectations of management.

In addition, factors such as rising unemployment in Russia, a reduction in liquidity and profitability of companies, and an increase in bankruptcies of legal entities and individuals can affect the ability of borrowers of the Bank to repay debts. Unfavourable changes in economic conditions may affect the ability of borrowers of the Bank to repay debts to the Bank, and may also lead to a decrease in the cost of collateral held on loans and other liabilities. Based on the information currently available, the Bank has revised its estimate of expected future cash flows during the impairment analysis of assets.

# 2. Basis of Presentation

## 2.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted and published by the International Financial Reporting Interpretations Committee of the IASB.

## 2.2 Going concern principle

Management has prepared these statements based on the going concern assumption.

## 2.3 Basis of measurement

The financial statements are prepared on the historical cost basis except that financial assets and liabilities at fair value through other comprehensive income.

## 2.4 Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble. Previous to 1 January 2006 the Bank used the USD as its functional currency. As at 1 January 2006, due to the constant growth of operations performed in Russian rubles the Bank re-evaluated its functional currency and as a result changed it from the USD to the RUB.

The USD balance sheet figures as at 31 December 2005 were translated to the RUB at the official exchange rate of the CBR effective as at this date. The Russian rouble was chosen as the presentation currency.

All the financial statement data was rounded to the nearest thousand unless otherwise specified.

## 2.5 Significant accounting judgements, estimates and assumptions

In the process of applying the Bank's accounting policies the Bank's management makes judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors, including expectations regarding future events that are believed to be reasonable under the circumstances. Actual results ultimately may differ from these estimates. Estimates and associated assumptions are reviewed on a regular basis. Changes in estimates are recorded in the period in which the estimate was revised if the change affects only this period or in the period in which the estimate was revised and in future periods it the change affects both current and future periods.

**Business model assessment**

Assessment of the business models within which the assets are held and the assessment of whether the contractual terms of the financial asset are solely payments of the principal and interest on the principal amount are disclosed in the Notes 3 and 25.1.

**Credit loss allowance on financial assets**

The measurement of expected credit loss allowance for financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income (FVOCI) requires the use of complex models and significant assumptions about future economic conditions and credit behavior. A number of significant judgements are also required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

# 2. Basis of Presentation (continued)

## 2.5 Significant accounting judgements, estimates and assumptions (continued)

- Determining the criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Establishing the number and relative weights of forward-looking scenarios for each type of product/market and the associate expected credit loss
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses.

Allowance for expected credit losses is affected by the following factors:
- Transfers and corresponding remeasurement of credit loss allowances between Stage 1 (12-month ECL) and Stage 2 (Lifetime ECL not credit-impaired) or 3 (Lifetime ECL credit-impaired) due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL, as well as net remeasurement of credit loss allowance within the same stage
- Additional allowances for new originated or purchased financial instruments during the period, as well as releases for financial instruments derecognised in the period
- Changes to ECL measurement model assumptions and estimates due to changes in PDs, EADs and LGDs in the period, arising from regular update of inputs to ECL models
- Remeasurement of credit loss allowance to reflect all contractually receivable interest due to the passage of time because ECL is measured on a present value basis
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period, as well as recoveries of amounts previously written off
- Exchange differences on translating foreign operations and assets denominated in foreign currencies, and other movements.

Information on estimation techniques, judgements and assumptions used in measuring expected credit losses is presented in Notes 3 and 25.1.

**Fair value of financial instruments**

The estimated fair value of financial instruments has been determined by the Bank using available market information, where it exists. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques.

# 3. Summary of Significant Accounting Policies

The accounting policies applied in the financial statement are presented below. Except for the accounting policies and impact of the adoption of the IFRS 9 and IFRS 15 from 1 January 2018 these principles are consistent with all the periods represented in the financial statement unless otherwise specified. See Note 4.

The accounting policies applied in the financial statements for the year ended 31 December 2018

## 3.1 Financial instruments

***Amortised cost and gross carrying amount***

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

Gross carrying amount is the amortised cost of a financial asset before adjusting for any loss allowance.

# 3. Summary of Significant Accounting Policies (continued)

## 3.1 Financial instruments (continued)

***Financial assets and financial liabilities - recognition and initial measurement***

The Bank initially recognises loans and advances, deposits, debt securities, issued and subordinated liabilities on the date of origin. All other financial instruments (including regular acquisition and sale of financial assets) are recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount..

***Financial instruments - classification***

The Bank classifies all of its financial assets at initial recognition, measured at either: at amortised cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit of loss (FVPL).

Financial asset is measured at amortised cost if both of the following conditions are met and if it is not classified as measured at fair value through profit or loss:

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

Debt instruments is measured at fair value through other comprehensive income, if both of the following conditions are met and if it is not classified as measured at fair value through profit or loss:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and
- 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.

Upon initial recognition of an investment in equity instruments that are not held for trading, the Bank may choose (without the right of subsequent reclassification) to recognise subsequent changes in fair value in other comprehensive income. The choice is made by the Bank at its own discretion in each specific case.

All other financial assets are classified as measured at fair value through profit or loss.

Moreover, at initial recognition the Bank may irrevocably classify a financial asset which may be classified as measured at amortised cost or at fair value through other comprehensive income according to the requirements specified above as measured at fair value thfrough profit or loss when it eliminates, or significantly reduces, a measurement or recognition inconsistency ("an accounting mismatch") that would otherwise arise.

***Derivatives***

The Bank is a party of derivatives, part of which is held for trading and the remaining part — for managing interest, credit and currency risks. Derivatives which are held include foreign currency forward contracts, interest rate swaps, cross-currensy interest rate swaps.

# 3. Summary of Significant Accounting Policies (continued)

## 3.1 Financial instruments (continued)

Derivatives are initially recognised at fair value at the date of concluding an instrument and then revalued at fair value at each reporting date. Changes in the fair value of derivatives are immediately included in net gains/(losses) on financial assets at fair value through profit or loss.

Financial derivatives with a positive fair value are recognised as a financial asset, while financial derivatives with a negative fair value are recognised as a financial liability.

***Business model assessment***

The Bank carries assessment of the business models within which the assets are held at the level of investment portfolio as far as it is the easiest way to understand the way the business is managed and the nature of information provided to the management.

Information considered includes:

- Investment strategy and the goal stated for the portfolio, as well as the implementation of this strategy. In particular, it is determined whether the strategy of the Bank's management aimed at obtaining contractual interest income is implemented by maintaining a certain level of interest rates, by matching the terms of receipt of financial assets with the maturity of liabilities financing these assets or by generating cash flows through the sale of assets
- How the yield on portfolio is estimated and how this information is reported to the Banks's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated ( for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- Frequency, value and timing of sales in the previous periods, the reasons for such sales and expectations for the activities on future sales. However, the sales themselves do not define the business model and, accordingly, cannot be viewed in isolation but only as part of an assessment of how the financial assets management objective stated by the Bank is achieved, and, in particular, how cash flows are realised

Financial assets which are managed and the profitability of which is estimated on the fair value basis are classified as measured at fair value, and the changes in fair value are recognised in profit or loss since these financial instruments are held neither for collecting contractual cash flows nor for selling financial assets.

***Assessesment of whether the contractual cash flows are solely payments of principal and interest on the amount outstanding (the SPPI test)***

In order to estimate whether the contractual terms of financial assets meet the SPPI criteria the Bank carries out the SPPI test. In conducting this test, the Bank evaluates whether the contractual cash flows are consistent with the main credit mechanism, i.e. interest includes only the consideration for the time value of money and credit risk, other credit risks and profit related to the basic lending arrangement. In case when the contractual terms of an asset include risk or volatility, which do not meet the main credit mechanism, such asset is classified and measured at fair value through profit or loss. For the implementation of the SPPI test, the Bank uses the SPPI checklist.

# 3. Summary of Significant Accounting Policies (continued)

## 3.1 Financial instruments (continued)

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as the consideration for the time value of money, credit risk associated with the principal amount outstanding for a certain period and for other ordinary risks and costs related to lending (for example, liquidity risk and credit management costs), as well as profit margin.

While identifying whether the contractual cash flows are solely payments of principal and interest on the amount outstanding, the Bank assesses the contractual terms of financial instrument. In particular, the Bank should assess whether the contract provides such a condition that may change the timing or amounts of contractual cash flows so that it will be impossible to meet the specified condition. In conducting such an assessment, the Bank takes into account:

- Events which lead to changes in timing and the amounts of cash flows
- The ratio of debt to equity
- Terms of advance payments and term extensions
- Conditions that limit the Bank's ability to claim cash flows from certain assets (for example, the release of an asset from the right of recourse), and also
- Conditions which change the consideration for the time value of money, for example, periodic review of the interest rate.

***Reclassification***

Financial assets may be reclassified after the initial recognition only and exclusively in the period after which the Bank changes its financial asset management business model.

***Modification***

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. In this case the Bank recalculates the gross carrying amount of the financial asset and records gain or loss resulting from the adjustment of the gross carrying amount as modification gain or loss in the statement of profit and loss. If financial difficulties faced by a borrower is the reason for modification, gains of losses are recognised along with the impairment loss. In other cases such gains or losses are considered as interest income.

***Loans***

Loans include:

- Loans and advances measured at amortised cost; they are initially recognised at fair value plus additional direct transaction costs, further they are measured at amortised cost calculated using the effective interest rate method
- Loans and advances measured at amortised cost on a mandatory basis with the changes of the amortised cost recorded in profit or loss or classified as measured at fair value with the changes of the amortised cost recorded in profit or loss; they are initially recognised at fair value with the changes of the fair value recognised immediately in profit or loss
- Financial receivables on finance leases.

If the Bank aquires a financial asset and simultaneously concludes an agreement to resell this (or substantially similar) asset at a fixed price on a future date (in the form of reverse repurchase agreement or stock borrow), such an agreement is recorded as loan or advance and the underlying asset is not recorded in the financial statements of the Bank.

# 3. Summary of Significant Accounting Policies (continued)

## 3.1 Financial instruments (continued)

***Securities***

Securities include:

- Debt securities measured at amortised cost; they are initially recognised af fair value plus additional direct transaction costs, consequently they are recorded at amortised cost calculated using the effective interest rate method
- Debt securities and investments in equity instruments which are measured at fair value on a mandatory basis with the changes of fair value recorded in profit or loss or classified as measured at fair value with the changes of fair value recorded in profit or loss; instant recognition of changes in fair value in the statement of profit and loss is not provided.
- Debt securities measured at fair value through other comprehensive income
- Investments in equity instruments classified as measured at fair value through other comprehensive income.

Gains and losses arising due to changes in fair value of debt instruments measured at fair value through other comprehensive income are recognised in other comprehensive income, except for the following indicators, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest income calculated using the effective interest rate method
- Expected credit losses and recoveries of losses, and
- Gains and losses from foreign exchange translation.

On derecognition of financial instrument measured at fair value through other comprehensive income, cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to the statement of profit and loss.

The Bank chose to record in other comprehensive income changes in fair value of certain investments in equity instruments which are not held for trade. The choice is made for each instrument at initial recognition and is not the subject for reclassification.

Gains and losses arising from such equity instruments are never reclassified to the statement of profit or loss, moreover, impairment is never recorded at statement of profit and loss either. Dividends are recorded in the statement of profit or loss unless they obviously represent a return of a part of costs associated with these investments; in this case they are recorded in other comprehensive income. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are transferred to retained earnings at the moment of derecognition.

***Financial liabilities***

The Bank classifies all the financial liabilities as measured at amortised cost using the effective interest rate method, except for:

- Financial liabilities held for trading, including derivatives. Such liabilities are subsequently measured at fair value through profit or loss
- Financial liabilities which were designated by the Bank as liabilities measured at fair value through profit or loss

Financial liabilities, that arise when the transfer of a financial asset does not meet the requirements for derecognition or when the principle of continuing involvement is applied. Despite other IFRS requirements related to measurement, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. The associated liability is measured in such a way that net book value of the transferred asset and the associated liability is:

# 3. Summary of Significant Accounting Policies (continued)

## 3.1 Financial instruments (continued)

- o Amortised cost of the rights and obligations that the Bank has retained if the transferred asset is measured at amortised cost, or
- o Fair value of rights and obligations retained by the Bank estimated on its own, if the transferred asset if measured at fair value
- Financial guarantee contracts, under which the issuer is obliged to make certain payments in order to recover losses to the holder, due to the fact that a certain debtor is not able to make a payment within a specified period in accordance with the original or revised terms of a debt instrument.

After the initial recognition the issuer of such an agreement subsequently evaluates such an agreement on the largest of:

- Allowance for expected credit losses measured according IFRS 9 and initially recognised fair value less, if necessary, cumulative income recognised accorning to IFRS 15 "Revenue from Contracts with Customers"
- Loan commitments at below market interest rates drawdown. After initial recognition such commitments are subsequently measured by the issuer at the higher of the:
  - o the amount of the expected credit loss allowance, measured in accordance with IFRS 9, and
  - o the fair value initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IFRS 15 "Revenue from Contracts with Customers"
- Contingent consideration of an acquirer in a business combination in respect of which IFRS 3 "Business Combination" is applied. Such a contingent consideration should be subsequently measured at fair value through profit or loss.

Deposits, debt securities issued and subordinated liabilities are a socurce of debt refinancing for the Bank.

Deposits, debt securities issued and subordinated liabilities were initially measured at fair value less additional direct transaction costs, consequently they were measures at amortised cost using the effective interest rate method, except for the cases when the Bank classifies liabilities as measured at fair value through profit or loss.

The Bank derecognises financial liabilities, when the obligation under the liability is discharged, cancelled or expired.

***Calculating interest income and expense***

When calculating interest income and interest expense, the effective interest rate is applied to the gross carrying amount of the asset other than credit-impaired assets or to the amortised cost of the liability.

However, when a financial asset becomes credit-impaired after initial recognition interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on the basis of gross carrying amount.

For purchased or originated credit-impaired (POCI) financial assets, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.

Interest income will not be calculated on the basis of gross carrying amount of the asset even in the case if credit risk associated with the asset decreases.

# 3. Summary of Significant Accounting Policies (continued)

## 3.2 Impairment of assets

The Bank recognises allowance for expected credit losses in relation to the following financial instruments, which are not classified as measured at fair value through profit or loss:
- Debt financial instruments
- Finance lease receivables
- Financial guarantees issued
- Loan commitments issued.

Impairment losses on investments in equity instruments are not reported in the financial statements.

The expected credit loss allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL) except for the following instruments for which the allowance is based on the 12 months' expected credit loss (12mECL):
- debt investment securities defined as having low credit risk as at the reporting date, and
- other financial instruments (except (finance) lease receivables), unless there has been no significant increase in credit risk since origination.

The expected credit loss allowance for from (finance) lease receivables  is always calculated for the lifetime expected credit loss.

The Bank believes that a debt security has low credit risk if its credit rating corresponds to internationally accepted definition of "investment grade".

The 12 months' expected credit loss is the portion of lifetime expected credit loss that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

***The estimation of expected credit losses***

The expected credit losses represent probability-weighted estimation of credit losses. They are estimated as follows:
- for financial assets that are not credit-impaired as at reporting date, the ECL is calculated as the present value of all the cash shortfalls (i.e. the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the Bank expects to receive);
- for financial assets that are credit-impaired as at reporting date, the ECL is calculated as the difference between gross carrying amount and the present value of expected future cash flows;
- for loan commitments the ECL is calculated as the present value of the difference between the cash flows that are due to an entity in accordance with the contract in case if the Bank draws down these loan commitments and the cash flows that the Bank expects to receive, and
- for financial guarantee contracts the ECL is calculated as the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to repossess.

***Forbearance of financial assets***

If the conditions of a financial asset have been  renegotiated or modified or the existing asset is replaced by a new one due to the financial difficulties of the borrower, the Bank estimates if the asset should be derecognised and calculates the expected credit losses as follows:

# 3. Summary of Significant Accounting Policies (continued)

## 3.2 Impairment of assets (continued)

- If the expected forbearance does not result in derecognition of the existing asset expected cash flows from modified financial asset will be included in calculation of the cash shortfalls from the existing asset
- If the expected forbearance result in derecognition of the existing asset the estimated fair value of a new asset is considered as the last receipt from the existing financial asset at the moment of the write-off. This amount is included in the calculation of the cash shortfalls from the existing asset which are discounted since the expected date of write-off till the reporting date on the basis of the initial effective interest rate for the existing financial asset.

***Credit-impaired assets***

As at each reporting date the Bank estimates whether financial assets at amortised cost and debt financial assets measured at fair value through other comprehensive income became credit-impaired. A financial asset is considered to be "credit-impaired" when one or more events occur that adversely affect the expected future cash flows of such a financial asset.

Evidence of the impairment of a credit asset is, in particular, observed data under the following events:
- Significant financial difficulties of the borrower or issuer
- Violation of the terms of a contract, such as default past due payments
- Restructuring of a loan or advance by the Bank on terms that otherwise the Bank would not have provided
- The appearance of the probability of bankruptcy or other form of financial reorganisation, or
- The disappearance of an active market for the financial asset as a result of financial difficulties.

A loan whose terms have been renegotiated due to a significant deterioration in the condition of the borrower is usually considered to be impaired if there is no evidence that the risk of cash shortfalls has decreased significantly and there are no other evidence of impairment. Also a loan to individual, private entrepreneur or small business is considered to be impaired when the borrower becomes 90 days past due on its contractual payments.

To determine whether an investment in sovereign (public) debt is impaired, the Bank takes into account the following factors:
- The estimation of the creditworthiness reflected in bond yield by the market
- Credit rating assigned by rating agencies
- Access of the government to capital markets for issuing new bonds
- The possibility of debt restructuring resulting in losses of the debt holders due to voluntary or mandatory written-offs of the debt.
- The availability of international financial support mechanisms that are ready to provide the necessary "loan of last resort" to such a government and the intension provided in public statements of public authorities and institutions to use these mechanisms. Such as estimate includes an analysis of the depth of these mechanisms as well as, regardless of the political component, the conformity of the government with the necessary criteria.

***The disclosure of allowance for expected credit losses in the financial statements***

Allowances for expected credit losses are presented in the statement of financial position as follows:
- Financial assets measured at amortised cost: as deduction from gross carrying amount of assets
- Loan commitments and financial guarantee contracts: according to the general principles within provisions

# 3. Summary of Significant Accounting Policies (continued)

## 3.2 Impairment of assets (continued)

- If a financial asset consists of both drawn down and undrawn part and the Bank cannot isolate from the expected credit losses the part that is related to drawn down commitments: the Bank presents a combined allowance for expected losses for both components. The amount of such a combined reserve is recorded as a deduction from gross carrying amount of drawn down commitments. The excess of the allowance for expected credit loss over gross carrying amount of the component is recorded as provision, and
- Debt instruments measured at fair value through other comprehensive income: allowance for expected credit loss is not recorded in the balance sheet since carrying amount of such assets is their fair value. At the same time data on allowance for expected credit losses is disclosed and are recognised in revaluation reserve for financial assets at fair value through other comprehensive income.

***Write-offs***

Loans and debt securities are written-off (either partially or in their entirety), if there are no real prospects for their recovery. Usually the Bank determines that the borrower does not have assets or sources of income that may generate cash flows sufficient for to pay the amounts that have been written off. At the same time for written off financial assets actions may be undertaken to enforce debt collection on them within the scope of the Bank's rules related to bad debt recovery.

## 3.3 The effective interest rate

Interest income and interest expense are recorded using the effective interest rate in the statement of profit and loss. The effective interest rate is the rate that discounts estimated future cash receipts and payments through the expected life of the financial instrument to:
- the gross carrying amount of the financial asset, or
- the amortised cost of the financial liability.

When the Bank calculated the effective interest rate for financial instruments other than credit-impaired assets the Bank estimates future cash flows within a period specified in the contract without taking into account expected credit losses. For credit-impaired financial assets the credit-adjusted effective interest rate is calculated on the basis of the estimated future cash flows (including credit losses).

The effective interest rate is calculated by taking into account transaction costs and fees and costs that are an integral part of the EIR. Transaction costs include additional costs that are directly related to the acquisition or issue of a financial asset or a financial liability.

## 3.4 Financial guarantees and loan commitments

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

Financial guarantees or loan commitments, at interest rate below market interest rates drawdown, are initially recognised at fair value, subsequently the initial fair value is amortised over the life of the financial guarantee or loan commitment. Such commitments are subsequently measured at the higher of the amortised cost and the amount of the expected credit loss allowance.

For other loan commitments the Bank recognises allowance for expected losses.

# 3. Summary of Significant Accounting Policies (continued)

***The accounting policies applied in the financial statements for the year ended 31 December 2018***

### 3.5 Financial instruments

The Bank classified its financial instruments into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. Financial instruments are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial instruments is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date. Financial instruments are initially measured at its fair value plus including transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

*Financial instruments at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset or liability is classified in this category if acquired or incurred principally for the purpose of selling or repurchasing in the near term, or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making.

A derivative (except for a derivative that is designated and effective hedging instrument), or upon initial recognition, designated by management as at fair value through profit or loss. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Subsequent to initial recognition, the financial instruments included in this category are measured at fair value with changes in fair value recognised in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

*Available-for-sale financial instrument*

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

# 3. Summary of Significant Accounting Policies (continued)

## 3.5 Financial instruments (continued)

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognised in other comprehensive income, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognised in the total comprehensive income when they are sold or when the investment is impaired. Interest in relation to an available-for-sale financial asset is recognised as earned in the statement of comprehensive income calculated using the effective interest method.

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if there is an intention and ability of the Bank's management to hold them until maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in profit or loss.

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or substantially all of the risks and rewards of ownership have been transferred. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

## 3.6 Impairment

The carrying amounts of Bank's financial assets carried at amortised cost/cost and non financial assets, non including deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

*Financial assets carried at amortised cost*

The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

# 3. Summary of Significant Accounting Policies (continued)

## 3.6 Impairment (continued)

At first the Bank determines the existence of objective evidence of impairment of loans and receivables on an individual basis for significant balances, and then on an individual or cumulative basis for unimportant balances. After determining the objective evidence of impairment on an individual basis and subject to the absence of such characteristics, loans are included in a group of financial assets with similar characteristics of credit risk for determining impairment indicators on an aggregate basis. Loans and receivables, individually assessed and for which an allowance for impairment is created or was created, cannot be included in the above-mentioned groups for aggregate assessment.

In the case that there is evidence of impairment in respect of loans and receivables, the amount of the loss is determined as the difference between the book value of the asset and the present value of the estimated future cash flows, including the amounts recoverable under guarantees and collateral calculated at the original effective interest rate for that financial asset. The valuation of future cash flows are estimated on the basis of cash flows under the relevant contract and loss statistics for similar instruments, taking into account current economic situation.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the statement of comprehensive income and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

*Financial assets carried at cost*

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses respect of these investments are recognised in the statement of comprehensive income and can not be reversed.

*Non financial assets*

Non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

# 3. Summary of Significant Accounting Policies (continued)

## 3.7 Borrowed funds (including subordinated debt)

Borrowings are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over period of the borrowings using the effective interest rate method.

Borrowings originated at interest rate different from market rates are measured at origination to their fair value, being future interest payments and principal repayments discounted at market rates for similar borrowings.

The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the statement of income using the effective interest rate method.

***The accounting policies applied in the financial statements for the year ended 31 December 2018 and for the year ended 31 December 2017***

## 3.8 Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

## 3.9 Cash and cash equivalents

The Bank considers cash, balances with Central Bank, placements with banks and financial institutions as well as financial assets at fair value through profit or loss with original maturity periods of less than three months to be cash and cash equivalents.

Cash and cash equivalents are reflected at amortised cost in the statement of financial position.

## 3.10 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the statement of comprehensive income over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the statement of comprehensive income over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements have been shown net of any necessary provisions for impairment.

# 3. Summary of Significant Accounting Policies (continued)

## 3.11 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## 3.12 Leases

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. The related asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at commencement of the lease, less accumulated depreciation and impairment losses. A corresponding amount is recognised as a finance lease liability.

Subsequent accounting for assets held under finance lease agreements correspond to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

Payments made under operating lease are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

## 3.13 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of the self-constructed assets includes the cost of materials, direct labour and an appropriate portion of production overhead. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditure is recognised in the statement of comprehensive income as an expense incurred.

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

| | |
|---|---|
| Leasehold improvements | 10 – 50 years |
| Vehicles | 4 years |
| Fixtures, fittings and other equipment | 5 – 10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

## 3.14 Intangible asset

Intangible assets, which are acquired by the Bank, are stated at cost, less accumulated amortization and impairment losses.

Amortization is charged to the comprehensive income statement on a straight-line basis over the estimated useful lives of intangible assets. At the beginning of reporting period the estimated useful life of intangible assets was 3-30 years.

# 3. Summary of Significant Accounting Policies (continued)

## 3.15 Debt securities issued

Debt securities are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between net proceeds and the redemption value is recoded in the statement of income over the period of the security issue using the effective interest rate method.

## 3.16 Equity

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

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

## 3.17 Employee benefits

In the normal course of business the Bank contributes to the Russian Federation Pension Fund, the Social Insurance Fund and the Federal Compulsory Medical Insurance Fund on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in staff costs in the statement of comprehensive income.

## 3.18 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised of the liability settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

## 3.19 Fee and commission income

Fee and commission income arises on financial services provided by the Bank including cash management services and asset management services.

## 3.20 Net result on financial instruments at fair value through profit or loss

Net result on financial instruments at fair value through profit or loss and other comprehensive income for the period includes gains and losses arising from the sale or change in the fair value of financial assets and liabilities that are measured at fair value through profit or loss, fair value, the changes of which are reflected in the profit and loss account and other comprehensive income for the period.

# 3. Summary of Significant Accounting Policies (continued)

### 3.21 Net result on available-for-sale financial assets

Net result on available-for-sale financial assets includes gains and losses arising from disposals of financial assets available-for-sale.

# 4. New and Amended Standards and Interpretations

### 4.1 New standards and interpretations that are effective for the current year

***IFRS 9 "Financial Instruments"*** the Bank has adopted IFRS 9 "Financial Instruments", issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 "Financial Instruments: Recognition and Measurement". The new standard brings fundamental changes to the accounting of financial assets and to certain aspects of the accounting for financial liabilities.

***Impact of initial application of IFRS 9 "Financial Instruments"***

In the current year the Bank has applied IFRS 9 Financial Instruments (revised in July 2014) and the related consequential amendments to other IFRS standards that are effective for an annual period begins on or after 1 January 2018. The transition requirements of IFRS 9 enable the Bank not to restate the comparative information. The information for the previous periods has not been restated since a modified retrospective approach was applied in transition which enables to recognize the differences arising from the adoption of a new standard directly in retained earnings at the beginning of the year. Therefore, the information for 2017 does not meet the requirements of IFRS 9 and is not comparable to the information presented for 2018 in accordance with IFRS 9.

Measurement categories of financial assets and financial liabilities under IAS 39 and IFRS 9 as at 1 January 2018 are presented in the table below:

| | Measurement category under IAS 39 | Measurement category under IFRS 9 | Carrying amount under IAS 39 as at 31 December 2017 | Impact of adopting IFRS 9 | Carrying amount under IFRS 9 as at 1 January 2018 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and balances with the CBR | Loans and receivables | Amortised cost | 36,152 | - | 36,152 |
| Due from banks | Loans and receivables | Amortised cost | 54,480 | - | 54,480 |
| Loans to customers | Loans and receivables | Amortised cost | 162,012 | - | 162,012 |
| Derivative financial assets | Fair value through profit or loss (FVPL) | Fair value through profit or loss (FVPL) | 16 | - | 16 |
| Financial assets, at fair value through other comprehensive income (FVOCI) | Available for sale (AFS) | Fair value through other comprehensive income (FVOCI) | 42,189 | - | 42,189 |
| Other assets | Loans and receivables | Amortised cost | 161 | - | 161 |
| **Total financial assets** | | | **295,011** | - | **295,011** |

# 4. New and Amended Standards and Interpretations (continued)

## 4.1 New standards and interpretations that are effective for the current year (continued)

| | | | | | |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Derivative financial liabilities | Fair value through profit or loss (FVPL) | Fair value through profit or loss (FVPL) | 11 | - | 11 |
| Due to banks | Amortised cost | Amortised cost | 157,049 | - | 157,049 |
| Due to customers | Amortised cost | Amortised cost | 43,361 | - | 43,361 |
| Subordinated loans | Amortised cost | Amortised cost | 9,379 | - | 9,379 |
| Other liabilities | Amortised cost | Amortised cost | 674 | - | 674 |
| **Total financial liabilities** | | | **210,474** | **-** | **210,474** |
| | | | | | |
| **Total impact of adopting IFRS 9 before tax** | | | | **-** | |

The table below provides a reconciliation of loan loss provision allowances under IAS 39 as at 31 December 2017 and loan loss provision allowances under IFRS 9 as at 1 January 2018.

| | As at 31 December 2017 under IAS 39 | Impact of adopting IFRS 9 | As at 1 January 2018 under IFRS 9 |
|---|---|---|---|
| Loans to customers under IAS 39 / financial assets at amortised cost under IFRS 9 | (2,074) | - | (2,074) |
| **Total** | **(2,074)** | **-** | **(2,074)** |

***IFRS 15 Revenue from Contracts with Customers*** (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018) establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

Any single consignments of goods or services should be recognised separately, and all discounts and retrospective discounts from the contract price are usually allocated to individual items. If the fee is changed for any reason, the minimum amounts should be recognised if they are not subject to a significant risk of return.

The costs incurred in securing contracts with customers must be capitalized and amortised over the period of consumption of benefits from the contract.

***Annual Improvements to IFRSs 2014-2016 cycle*** (issued in December 2016 and effective with respect to the application of amendments to IFRS 1 and IAS 28 for annual periods beginning on or after 1 January 2018). IFRS 1 has been amended and some of the short-term exemptions from IFRSs relating to disclosures about financial instruments, employee benefits and investment companies have been removed after they have been applied for the intended purpose. Amendments to IAS 28 clarify that an investor organization has the option, in relation to each investment object, to apply an assessment of an investee at fair value in accordance with IAS 28 if the investor is an entity specializing in venture capital investments or a unit investment fund, trust fund or similar organization, including insurance funds related to investments.

# 4. New and Amended Standards and Interpretations (continued)

### 4.1 New standards and interpretations that are effective for the current year (continued)

***IFRIC 22 Foreign Currency Transactions and Advance Consideration*** (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. IFRIC 22 only applies in circumstances in which an entity recognizes a non-monetary asset or non-monetary liability arising from an advance consideration. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

***IFRS (IAS) 17 Insurance Contracts*** (issued in 12 September 2016 and effective for annual periods beginning on or after 1 January 2018), introduce two approaches to reduce the impact of differences in the dates of entry of IFRS 9 and IFRS 4: an overlay approach and a deferral approach. A new standard for insurance contracts is currently being developed and planned to be applied no earlier than 2020.

***Amendments to IFRS 2 Share based Payment*** (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

The amendments mean that nonmarket performance vesting conditions will impact measurement of cash- settled share based payment transactions in the same manner as equity-settled awards.

The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share based payment. The amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled.

The Bank management does not expect that the application of these amendments will have a significant impact on the financial statements of the Bank.

### 4.2 New and revised IFRSs in issue but not yet effective

***IFRS 16 Leases*** (issued in January 2016 and effective for the annual periods beginning on or after 1 January 2019). IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognize a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17.

***IFRS (IAS) 17 Insurance Contracts*** was issued on May 2017 and effective for annual periods beginning on or after 1 January 2021.

IFRS (IAS) 17 replaces IFRS 4 "Insurance Contracts", which allowed companies to apply existing accounting practices for insurance contracts. IFRS 17 is a single standard, based on the principles of accounting for all types of insurance contracts available to the insurer. Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

# 4. New and Amended Standards and Interpretations (continued)

## 4.2 New and revised IFRSs in issue but not yet effective (continued)

***IFRIC 23 Uncertainty over Income Tax Treatments*** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

***Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures*** (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that an entity applies IFRS 9 to long-term investments in associates or joint ventures to which the equity method is not applicable, but which, in essence, form part of the net investment in associates or joint ventures.

***Annual Improvements to IFRSs, 2015-2017 – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

*IFRS 3 Business Combinations*
The amendments clarify that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business.

*IFRS 11 Joint Arrangements*
The amendments clarify that the investor should not remeasure its previously held interest when it obtains joint control of joint operations.

*IAS 12 Income Taxes*
The amendments clarify that tax consequences of dividends are more related to past operations or events that generated the distributable profits than to distributions between owners. An entity should recognize tax consequences related to dividends in profit or loss, other comprehensive income or equity depending on the initial recognition of such last transactions or events.

*IAS 23 Borrowing Costs*
The amendments clarify that an entity should recognize borrowings obtained specifically for funding a specified asset within the pool of general borrowings when all the work necessary to prepare this asset for its intended use or sale has been completed.

***Amendments to IAS 19 Employees Benefits Plan Amendment, Curtailment or Settlement*** (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur.

***Amendments to IFRS 3 Definition of a Business*** (issued on 22 October 2018 and effective for annual periods beginning on or after 1 January 2020). These amendments modify the definition of a business.

**Amendments to IAS 1 and IAS 8 Definition of Material** (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). These amendments clarify the definition of "material" and applications of the definition by including some recommendations regarding the definition which were previously included in other IFRS. Moreover, clarifications related to the definition have been improved.

# 4. New and Amended Standards and Interpretations (continued)

## 4.2 New and revised IFRSs in issue but not yet effective (continued)

**Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

These amendments consider the conflict between the requirements of IFRS 10 and IAS 28 which are related to the recognition of gain or loss resulting from the sale or contribution to an associate or a joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of a subsidiary that constitute a business as defined in IFRS 3 for transactions between an investor and its associate or joint venture is recognised in full. However, the gain or loss resulting from the sale or contribution to an associate or a joint venture of assets that do not constitute a business is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB deferred indefinitely the effective date, however an entity applying these amendments in advance should apply them prospectively. The Bank does not expect significant effect as a result of the application of these amendments.

**Amendments to IFRS 9 Prepayment Features with Negative Compensation** According to IFRS 9 debt instrument may be measured at amortised cost or at fair value through other comprehensive income if contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI test) and the instrument is held within an appropriate business model which allows such classification.

Amendments to IFRS 9 clarify that a financial asset meet the SPPI test regardless of which events or circumstances lead to the early termination of the contract an also regardless of which party pays or receives a reasonable compensation for the early termination of the contract.

These amendments are to be applied retrospectively for annual periods on or after 1 January 2019. Early application is permitted. These amendments does not affect the financial statements of the Bank.

The management of the Bank assumes that the application of these amendments may affect the financial statements of the Bank in future periods.

## 5. Interest Income and Expense

| | 2018<br>USD'000 | 2017<br>USD'000 |
|---|---|---|
| **Interest income** | | |
| Loans to customers | 13,747 | 10,604 |
| Financial assets at fair value through other comprehensive income | 2,111 | 3,606 |
| Due from banks | 3,341 | 2,435 |
| **Total interest income** | **19,199** | **16,555** |
| **Interest expense** | | |
| Due to banks | (1,367) | (997) |
| Due to customers | (1,057) | (896) |
| Subordinated loans | (220) | (200) |
| Debt securities issued | - | (31) |
| **Total interest expense** | **(2,644)** | **(2,124)** |

## 6. Fee and Commission Income and Expense

| | 2018<br>USD'000 | 2017<br>USD'000 |
|---|---|---|
| **Fee and commission income** | | |
| Guarantees issued | 1,819 | 2,131 |
| Settlement transactions | 882 | 838 |
| Currency control | 349 | 438 |
| Cash management | 97 | 45 |
| **Total fee and commission income** | **3,147** | **3,452** |
| **Fee and commission expense** | | |
| Settlement transactions | (293) | (212) |
| Guarantees issued | (224) | (201) |
| Cash management | (8) | (5) |
| Other | (75) | (33) |
| **Total fee and commission expense** | **(600)** | **(451)** |

## 7. Net Gains / (Losses) on Financial Assets at Fair Value through Profit or Loss

| | 2018<br>USD'000 | 2017<br>USD'000 |
|---|---|---|
| Net gains / (losses) on foreign exchange derivatives | 191 | (784) |
| **Total net gains / (losses) on foreign exchange derivatives** | **191** | **(784)** |

# 8. General Administrative Expenses

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| Employee compensation | 3,205 | 3,035 |
| Occupancy | 361 | 390 |
| Communication and information services | 169 | 130 |
| Depreciation and amortization (Note 15,16) | 164 | 146 |
| Taxes other than on income | 156 | 158 |
| Repairs and maintenance | 98 | 115 |
| Professional services | 58 | 61 |
| IT support expenses | 34 | 154 |
| Security | 28 | 30 |
| Representation expenses | 23 | 31 |
| Insurance (including insurance of bank deposits of physical persons) | 7 | 29 |
| Other | 294 | 233 |
| **Total general administrative expenses** | **4,597** | **4,512** |

# 9. Income Tax Expense

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| *Current tax expense* | | |
| Current income tax expense | 1,865 | 1,646 |
| *Deferred tax expense* | | |
| Changes in deferred tax due to the origination of temporary differences (Note 23) | 1,211 | 1,155 |
| **Total income tax expense** | **3,076** | **2,801** |

The Bank's applicable tax rate for 2018 was 20% (2017 – 20%). Income tax rate on interest income from government and municipal financial instruments is 15% (2017 – 15%).

**Reconciliation of theoretical income tax expenses with actual income tax expenses**

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| Income before tax | 15,446 | 13,653 |
| Theoretical income tax benefit at the applicable statutory rate | 3,089 | 2,730 |
| Tax effect of non-deductible costs and non-taxable income | (13) | 71 |
| **Total income tax expense** | **3,076** | **2,801** |

# 10. Amounts due from the CBR

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| Nostro accounts | 6,485 | 11,159 |
| Deposits | 26,653 | 22,586 |
| Minimum reserve deposit | 2,530 | 2,407 |
| **Total amounts due from the CBR** | **35,668** | **36,152** |

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawal is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end. As at the end of the period, there were no restrictions on its use.

# 11. Amounts due from Banks

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| Nostro accounts | 13,487 | 52,495 |
| Deposits | 7,138 | 1,985 |
| **Total amounts due from banks** | **20,625** | **54,480** |

As at 31 December 2018 and 31 December 2017 the Bank did not have any overdue balances on placements with banks and other financial institutions.

### Significant exposures

As at 31 December 2018 the Bank had four related groups of banks (as at 31 December 2017: one related groups of banks), whose balance exceeded 10% of the placements with banks and other financial institutions. As at 31 December 2018 the gross value of this exposure was 20,621 USD'000 (as at 31 December 2017: 48,566 USD'000).

# 12. Derivative Financial Instruments

The fair value of derivative financial instruments as at 31 December 2018 are set out in the following table:

| | **Notional or agreed amount** | **Fair value** | | **Weighted average exchange rate** |
|---|---|---|---|---|
| | | **Assets** | **Liabilities** | |
| Derivative foreign exchange contracts to buy EUR and sell USD | 9,516 | 8 | 16 | 1,14 |
| Derivative foreign exchange contracts to buy EUR and sell RUB | 151 | - | - | 79,60 |

## 12. Derivative Financial Instruments (continued)

| | | | | |
|---|---|---|---|---|
| Derivative foreign exchange contracts to buy RUB and sell EUR | 24,142 | 4 | 23 | 79,40 |
| Derivative foreign exchange contracts to buy RUB and sell USD | 10,033 | 20 | - | 69,61 |
| Derivative foreign exchange contracts to buy USD and sell RUB | 16,065 | - | 62 | 66,90 |
| **Total derivative financial instruments** | **59,907** | **32** | **101** | |

The fair values of derivative financial instruments as at 31 December 2017 are set out in the following table:

| | **Notional or agreed amount** | **Fair values** | | **Weighted average exchange rate** |
|---|---|---|---|---|
| | | **Assets** | **Liabilities** | |
| Derivative foreign exchange contracts to buy EUR and sell RUB | 23,912 | 15 | - | 68,82 |
| Derivative foreign exchange contracts to buy EUR and sell USD | 1,196 | 1 | - | 1,19 |
| Derivative foreign exchange contracts to buy USD and sell EUR | 19,119 | - | 11 | 0,84 |
| **Total derivative financial instruments** | **44,227** | **16** | **11** | |

## 13. Loans to Customers

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| Loans to commercial customers | 187,286 | 164,023 |
| Loans to individuals | 43 | 63 |
| **Loans to customers before impairment** | **187,329** | **164,086** |
| Less: Credit loss allowance | (2,044) | (2,074) |
| **Total loans to customers** | **185,285** | **162,012** |

## 13. Loans to Customers (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans and advances to customers at amortised cost during the reporting period is, as follows:

| | ECL allowance | | | Gross carrying amount | | |
|---|---|---|---|---|---|---|
| | Loans to commercial customers | Loans to individuals | Total | Loans to commercial customers | Loans to individuals | Total |
| **Stage 1** | | | | | | |
| **as at 1 January 2018** | **2,069** | **5** | **2,074** | **164,023** | **63** | **164,086** |
| Net change in gross carrying amount | - | - | **-** | 55,617 | (10) | **55,607** |
| Transfers to Stage 1 | - | - | **-** | - | - | **-** |
| Transfers to Stage 2 | (186) | - | **(186)** | (15,462) | - | **(15,462)** |
| Transfers to Stage 3 | - | - | **-** | - | - | **-** |
| Charge / (Reversal) of allowance | (708) | (1) | **(709)** | - | - | **-** |
| Effect of translation to presentation currency | (266) | | **(266)** | (31,935) | (10) | **(31,945)** |
| **as at 31 December 2018** | **909** | **4** | **913** | **172,243** | **43** | **172,286** |
| **Stage 2** | | | | | | |
| **as at 1 January 2018** | **-** | **-** | **-** | **-** | **-** | **-** |
| Net change in gross carrying amount | - | - | **-** | 1,203 | - | **1,203** |
| Transfers to Stage 1 | - | - | **-** | - | - | **-** |
| Transfers to Stage 2 | 186 | - | **186** | 15,462 | - | **15,462** |
| Transfers to Stage 3 | - | - | **-** | - | - | **-** |
| Charge / (Reversal) of allowance | 1,068 | - | **1,068** | - | - | **-** |
| Effect of translation to presentation currency | (123) | | **(123)** | (1,622) | | **(1,622)** |
| **as at 31 December 2018** | **1,131** | **-** | **1,131** | **15,043** | **-** | **15,043** |
| **Stage 3** | | | | | | |
| **as at 1 January 2018** | **-** | **-** | **-** | **-** | **-** | **-** |
| Net change in gross carrying amount | - | - | **-** | - | - | **-** |
| Transfers to Stage 1 | - | - | **-** | - | - | **-** |
| Transfers to Stage 2 | - | - | **-** | - | - | **-** |
| Transfers to Stage 3 | - | - | **-** | - | - | **-** |
| **as at 31 December 2018** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total as at 1 January 2018** | **2,069** | **5** | **2,074** | **164,023** | **63** | **164,086** |
| **Total as at 31 December 2018** | **2,040** | **4** | **2,044** | **187,286** | **43** | **187,329** |

# 13. Loans to Customers (continued)

An analysis of the changes in allowance for impairment losses under IAS 39 for loans for the year ended 31 December 2017 is, as follows:

| | Loans to commercial customers | Loans to individuals | Total |
|---|---|---|---|
| **As at 1 January 2017** | **1,757** | **-** | **1,757** |
| Charge / (reversal) of allowance for the year | 312 | 5 | **317** |
| Loans written off during the year as uncollectible | - | - | **-** |
| **As at 31 December 2017** | **2,069** | **5** | **2,074** |

An analysis of loans to customers and allowances for credit losses under IFRS 9 for loans for the year ended 31 December 2018 is, as follows:

| USD'000 | Gross carrying amount of loans | Allowance for impairment | Total amortised cost of loans | Allowance for impairment to gross carrying amount of loans (%) |
|---|---|---|---|---|
| Loans to commercial customers | | | | |
| not past due | 187,286 | (2,040) | 185,246 | 1,09% |
| **Total loans to commercial customers** | 187,286 | (2,040) | 185,246 | **1,09%** |
| Loans to individuals | | | | |
| not past due | 43 | (4) | 39 | 7,91% |
| **Total loans to individuals** | **43** | **(4)** | **39** | **7,91%** |
| **Total loans to customers** | **187,329** | **(2,044)** | **185,285** | **1,09%** |

An analysis of loans to customers and allowances for impairment losses under IAS 39 for loans for the year ended 31 December 2017 is, as follows:

| USD'000 | Gross carrying amount of loans | Allowance for impairment | Total amortised cost of loans | Allowance for impairment to gross carrying amount of loans (%) |
|---|---|---|---|---|
| Loans to commercial customers | | | | |
| not past due | 164,023 | (2,069) | 161,954 | 1,26% |
| **Total loans to commercial customers** | **164,023** | **(2,069)** | **161,954** | **1,26%** |
| Loans to individuals | | | | |
| loans not past due | 63 | (5) | 58 | 8,47% |
| **Total loans to individuals** | **63** | **(5)** | 58 | **8,47%** |
| **Total loans to customers** | **164,086** | **(2,074)** | **162,012** | **1,26%** |

## 13. Loans to Customers (continued)

An analysis of the loan portfolio (less impairment) by types of collateral as at 31 December 2018 is, as follows:

| USD'000 | Loans to commercial customers | Loans to individuals | Total | Share in loan portfolio (%) |
|---|---|---|---|---|
| Guarantees issued by banks | 136,254 | - | 136,254 | 73,54% |
| Other collaterals | 41,964 | - | 41,964 | 22,65% |
| Unsecured | 7,027 | 40 | 7,067 | 3,81% |
| **Total loans to customers** | **185,245** | **40** | **185,285** | |

An analysis of the loan portfolio (less impairment) by types of collateral as at 31 December 2017 is, as follows:

| USD'000 | Loans to commercial customers | Loans to individuals | Total | Share in loan portfolio (%) |
|---|---|---|---|---|
| Guarantees issued by banks | 89,183 | - | 89,183 | 55,04% |
| Other collaterals | 66,537 | 3 | 66,540 | 41,07% |
| Unsecured | 6,235 | 54 | 6,289 | 3,89% |
| **Total loans to customers** | **161,955** | **57** | **162,012** | |

The structure of the Bank's loan portfolio reflecting the concentration risk by industry is, as follows:

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| Manufacturing | 60,490 | 57,545 |
| Finance | 32,321 | 3,472 |
| Construction, glass and mining | 33,154 | 27,196 |
| Forestry | 25,319 | 17,489 |
| Trade | 14,652 | 14,973 |
| Farming and Cattle | 10,646 | 15,158 |
| Rent services | 8,733 | 8,733 |
| Real state | 1,971 | 143 |
| Publishing and printing | - | 9,809 |
| Food services | - | 9,505 |
| Individuals | 43 | 63 |
| | **187,329** | **164,086** |
| Allowance for expected credit losses | (2,044) | (2,074) |
| **Total loans to customers** | **185,285** | **162,012** |

## 13. Loans to Customers (continued)

**Significant exposures**

As at 31 December 2018 the Bank had three exposures to related groups of companies (as at 31 December 2017 the Bank had four exposures), which individually comprised more than 10% of loans to customers. The total amount of these exposures as at 31 December 2018 was 85,381 USD'000 (as at 31 December 2017: 93,211 USD'000), and additional amount related guarantees issued by Bank was 0 USD'000 (as at 31 December 2017: 0 USD'000).

## 14. Financial Assets at Fair Value through Other Comprehensive Income

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| **Debt instruments** | | |
| Corporate bonds | 10,654 | 32,416 |
| Bonds of the Bank of Russia | 4,334 | - |
| Bank bonds | 3,675 | 9,773 |
| **Total financial assets at fair value through other comprehensive income** | **18,663** | **42,189** |

As at 31 December 2018 and 31 December 2017 financial assets at fair value through other comprehensive income were not past due or impaired.

An analysis of the Bank's debt securities at fair value through other comprehensive income as at 31 December 2018 is, as follows:

| | **Maturity** | | **Interest range** | |
|---|---|---|---|---|
| | **minimum** | **maximum** | **minimum** | **maximum** |
| Corporate bonds | 25.04.2019 | 22.12.2049 | 8,30% | 10,30% |
| Bonds of the Bank of Russia | 13.03.2019 | 13.03.2019 | 7,75% | 7,75% |
| Bank bonds | 20.12.2026 | 20.12.2026 | 9,80% | 9,80% |

An analysis of the Bank's debt securities at fair value through other comprehensive income as at 31 December 2017 is, as follows :

| | **Maturity** | | **Interest range** | |
|---|---|---|---|---|
| | **minimum** | **maximum** | **minimum** | **maximum** |
| Corporate bonds | 04.12.2018 | 22.12.2049 | 9,15% | 10,75% |
| Bank bonds | 20.11.2018 | 20.12.2026 | 9,20% | 9,80% |

## 15. Property and Equipment

| USD'000 | Leasehold improvements | Fixtures and fittings | Vehicles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 1 January 2018 | 195 | 459 | 57 | 711 |
| Additions | 3 | 14 | - | 17 |
| Disposals | - | (5) | - | (5) |
| Effect of translation to presentation currency | (34) | (79) | (10) | (123) |
| **As at 31 December 2018** | **164** | **389** | **47** | **600** |
| **Depreciation** | | | | |
| As at 1 January 2018 | (135) | (358) | (37) | (530) |
| Depreciation charge (Note 8) | (29) | (21) | (10) | (60) |
| Disposals | - | 5 | - | 5 |
| Effect of translation to presentation currency | 26 | 63 | 8 | 97 |
| **As at 31 December 2018** | **(138)** | **(311)** | **(39)** | **(488)** |
| **Carrying value** | | | | |
| **As at 31 December 2018** | **26** | **78** | **8** | **112** |

| USD'000 | Leasehold improvements | Fixtures and fittings | Vehicles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 1 January 2017 | 187 | 445 | 48 | 680 |
| Additions | - | - | 10 | 10 |
| Disposals | - | (5) | (8) | (13) |
| Effect of translation to presentation currency | 8 | 19 | 7 | 34 |
| **As at 31 December 2017** | **195** | **459** | **57** | **711** |
| **Depreciation** | | | | |
| As at 1 January 2017 | (130) | (305) | (13) | (448) |
| Depreciation charge (Note 8) | (16) | (41) | (16) | (73) |
| Disposals | - | 5 | 8 | 13 |
| Effect of translation to presentation currency | 11 | (17) | (16) | (22) |
| **As at 31 December 2017** | **(135)** | **(358)** | **(37)** | **(530)** |
| **Carrying value** | | | | |
| **As at 31 December 2017** | **60** | **101** | **20** | **181** |

As at 31 December 2018 and 31 December 2017 the Bank had no restrictions on ownership of fixed assets, fixed assets pledged as collateral for obligations were not transferred.

As at 31 December 2018 and 31 December 2017 temporarily unused fixed assets and contractual obligations to acquire fixed assets were absent.

## 16. Intangible Assets

| USD'000 | Licenses |
|---|---|
| **Cost** | |
| As at 1 January 2018 | 1,505 |
| Additions | 90 |
| Disposal | (32) |
| Effect of translation to presentation currency | (263) |
| **As at 31 December 2018** | **1,300** |
| | |
| **Depreciation** | |
| As at 1 January 2018 | (730) |
| Depreciation charge (Note 8) | (104) |
| Disposals | 32 |
| Effect of translation to presentation currency | 132 |
| **As at 31 December 2018** | **(670)** |
| | |
| **Carrying value** | |
| **As at 31 December 2018** | **630** |

| USD'000 | Licenses |
|---|---|
| **Cost** | |
| As at 1 January 2017 | 1,340 |
| Additions | 94 |
| Disposal | - |
| Effect of translation to presentation currency | 71 |
| **As at 31 December 2017** | **1,505** |
| | |
| **Depreciation** | |
| As at 1 January 2017 | (624) |
| Depreciation charge (Note 8) | (73) |
| Disposals | - |
| Effect of translation to presentation currency | (33) |
| **As at 31 December 2017** | **(730)** |
| | |
| **Carrying value** | |
| **As at 31 December 2017** | **775** |

## 17. Other Assets

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| **Other assets at amortised cost** | | |
| Deposits and advances paid | 198 | 161 |
| **Total other financial assets** | **198** | **161** |
| | | |
| Tax prepayments | 130 | 31 |
| **Total other non-financial assets** | **130** | **31** |
| | | |
| **Total other assets** | **328** | **192** |

## 18. Amounts due to Banks

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| Term deposits | 88,255 | 152,742 |
| Vostro accounts | 23,137 | 4,307 |
| **Total amounts due to banks** | **111,392** | **157,049** |

**Significant exposures**

As at 31 December 2018 there was one related group of banks (as at 31 December 2017: one related group which individually comprised more than 10% of total amounts due to banks. The total amount of balances on such accounts as at 31 December 2018 was 109,905 USD'000 (as at 31 December 2017: 152,961 USD'000). (See Note 31 "Related Party Transactions").

## 19. Amounts due to Customers

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| Current accounts and demand deposits | | |
| - commercial customers | 25,753 | 24,208 |
| - individuals | 892 | 796 |
| Term deposits | | |
| - commercial customers | 31,195 | 16,873 |
| - individuals | 1,567 | 1,484 |
| **Total amounts due to customers** | **59,407** | **43,361** |

**Significant exposures**

As at 31 December 2018 there were three groups of companies, which individually comprised more than 10% of total amounts due to customers (as at 31 December 2017: one group of companies). The total amount of balances on such accounts as at 31 December 2018 was 28,330 USD'000 (as at 31 December 2017: 13,074 USD'000).

The table below displays customer accounts and deposits from customers by economic branches:

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| Construction | 17,742 | 8,876 |
| Metallurgy industry | 10,572 | 13,075 |
| Mineral manufacturing | 9,705 | 1,042 |
| Transport and communication | 6,870 | 8,395 |
| Manufacturing | 5,091 | 420 |
| Trade | 4,416 | 4,751 |
| Individuals | 2,459 | 2,280 |
| Machinery and equipment | 1,326 | 799 |

## 19. Amounts due to Customers (continued)

| | | |
|---|---|---|
| Paper-and-pulp industry and publishing activities | 334 | 108 |
| Financial services | 284 | 102 |
| Production and distribution of electrical energy, gas, and water | 260 | 2,434 |
| Real estate | 170 | 442 |
| Food services | 5 | 21 |
| Individual entrepreneurs | 1 | 3 |
| Other | 172 | 613 |
| **Total amounts due to customers** | **59,407** | **43,361** |

## 20. Debt Securities Issued

### Pledged promissory notes

As at 31 December 2017 promissory notes with notional amount of 326 USD'000 were pledged as collateral for guarantees issued by the Bank. Amortized cost of these securities as of 31 December 2017 was 326 USD'000.

## 21. Subordinated Loans

As at 31 December 2018 shareholders granted to the Bank the following subordinated loans:

- Loan denominated in USD in the amount of 700 USD'000 (2017: 700 USD'000) with the maturity date of December 2025 and annual interest rate of 5.21% (LIBOR + 3.1%)
- Loan denominated in EUR in the amount of 5,433 USD'000 (2017: 5,679 USD'000) with the maturity date of December 2025 and annual interest rate of 1.00% (LIBOR + 1%)
- Loan denominated in USD in the amount of 2,000 USD'000 (2017: 2,000 USD'000) with the maturity date of December 2025 and annual interest rate of 4.11% (LIBOR + 2%)
- Loan denominated in USD in the amount of 1,000 USD'000 (2017: 1,000 USD'000) with the maturity date of December 2025 and annual interest rate of 4.11% (LIBOR + 2%).

## 22. Other Liabilities

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| Payables to employees | 448 | 575 |
| Trade payables | 37 | 99 |
| **Total other financial liabilities** | **485** | **674** |
| Other taxes payable | 38 | 42 |
| **Total other non-financial liabilities** | **38** | **42** |
| **Total other liabilities** | **523** | **716** |

## 23. Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are, as follows:

| USD'000 | Assets | | Liabilities | | Net Position | |
|---|---|---|---|---|---|---|
| | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | **31 December 2018** | **31 December 2017** |
| Financial assets at fair value through profit or loss | **12** | 2 | **-** | (3) | **12** | (1) |
| Loans to customers | **-** | - | **(3,404)** | (2,740) | **(3,404)** | (2,740) |
| Financial assets at fair value through other comprehensive income | **-** | - | **(35)** | (271) | **(35)** | (271) |
| Property and equipment | **20** | 19 | **-** | - | **20** | 19 |
| Intangible assets | **-** | 13 | **-** | - | **-** | 13 |
| Current tax asset | **-** | - | **(14)** | - | **(14)** | - |
| Other liabilities | **6** | 7 | **-** | - | **6** | 7 |
| **Tax assets / (liabilities)** | **38** | **41** | **(3,453)** | **(3,014)** | **(3,415)** | **(2,973)** |

Movement in temporary differences during the year ended 31 December 2018:

| USD'000 | Balance as at 1 January 2018 | Recognised in statement of profit and loss (Note 9) | Recognised in other comprehen-sive income | Effect of translation to presentation currency | Balance as at 31 December 2018 |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | **(1)** | 15 | - | (2) | **12** |
| Loans to customers | **(2,740)** | (1,254) | - | 590 | **(3,404)** |
| Financial assets at fair value through other comprehensive income | **(271)** | 51 | 177 | 8 | **(35)** |
| Property and equipment | **19** | 5 | - | (4) | **20** |
| Intangible assets | **13** | (12) | - | (1) | **-** |
| Current tax asset | **-** | (16) | - | 2 | **(14)** |
| Other liabilities | **7** | - | - | (1) | **6** |
| **Tax assets / (liabilities)** | **(2,973)** | **(1,211)** | **177** | **592** | **(3,415)** |

## 23. Deferred Tax Assets and Liabilities (continued)

Movement in temporary differences during the year ended 31 December 2017:

| RUB'000 | Balance as at 1 January 2017 | Recognised in statement of profit and loss (Note 9) | Recognised in other comprehen-sive income | Effect of translation to presentation currency | Balance as at 31 December 2017 |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | **5** | (7) | - | 1 | **(1)** |
| Loans to customers | **(1,526)** | (1,132) | - | (82) | **(2,740)** |
| Financial assets at fair value through other comprehensive income | **(34)** | (52) | (179) | (6) | **(271)** |
| Property and equipment | **(26)** | 47 | - | (2) | **19** |
| Intangible assets | **23** | (11) | - | 1 | **13** |
| Other liabilities | **6** | - | - | 1 | **7** |
| **Tax assets / (liabilities)** | **(1,552)** | **(1,155)** | **(179)** | **(87)** | **(2,973)** |

## 24. Shareholders' Equity

As at 31 December 2018 the authorised, issued and fully paid outstanding share capital comprised of 192,300 ordinary shares with a par value of RUB 5,869 per share.

| | 2018 | 2017 |
|---|---|---|
| Issued and fully paid ordinary shares as at 1 January | 192,300 | 192,300 |
| **Issued and fully paid ordinary shares as at 31 December** | **192,300** | **192,300** |

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. Dividends payables are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation as at 31 December 2018 retained earnings available for distribution amounted to 46,309 USD'000 (2017: 47,054 USD'000).

## 25. Risk Management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The major risks faced by the Bank are those related to price, credit exposures, liquidity and movements in interest rates and foreign exchange rates.

The Executive Management Board has overall responsibility for the oversight of risk management, management of key risks and approving its risk management policies and procedures. The Assets and Liabilities Management Committee ("ALCO") as well as operational departments are accountable for all risks assumed and responsible for their continuous and active management. An independent control process is implemented to provide an objective check on risk-taking activities when required by the nature of the risks, in particular to balance short term profit incentives and the long term interests of the Bank.

# 25. Risk Management (continued)

The Risk Management Service of the Bank is responsible for the monitoring and implementation of risk management measures and oversight that the Bank operates within the established risk parameters.

Market (price, interest rate, currency risks), credit and liquidity risks are managed and controlled through a system of Committees (weekly ALCO meeting, and monthly Risk Committee meeting (including Market, Credit and Liquidity Risk Committees)), established by the Executive Management Board.

## 25.1 Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank on all credit related products granted to a Client.

Credit risk arises primarily from credit transactions with all counterparties (commercial legal entities, financial institutions and individuals) as well as from other types of credit risk related transactions including issuance of guarantees, L/C confirmations, purchase of debt securities, factoring operations, forward settlement transactions.

*Credit risk management*

Credit risk management includes approval of credit limits and their continuous monitoring and update, analyses of customers applications and creditworthiness of applicants, approval of interest rates, approval of segregation of duties and authorities, continuous credit monitoring, credit portfolio management, including non-performing loans.

The Risk Management Service of the Bank forms credit risk policy. The Executive Management Board approves credit risk policy and approves key credit risk related transactions. Where necessary Executive Management Board approves Credit Committee decisions and establishes limits of authority.

Credit Committee of the Bank is responsible for the approval of credit risk related transactions in Roubles and foreign currencies with commercial legal entities and individuals. Credit Committee is also authorized to approve any changes to the existing credit risk transactions.

Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Risk Management Service, Credit Allocation and Financial Analysis Department and Financial Institutions Department.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product are approved quarterly by the Executive Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Credit risk limits, which comply with DenizBank Financial Services Group Credit Risk Policy, are approved by Risk Management Department of DenizBank A.S. on consolidated basis for DenizBank AG, DenizBank A.S. and the Bank. For the Bank, the total credit limit is set per country (Russia) in absolute amount, with a breakdown into counterparty types (corporate, bank, etc.). When the specific transaction exceeds the limits, a file is submitted to the Risk Management Service of Bank and ALCO.

During normal course of business the Bank also uses methodologies prescribed by the CBR for determining the ratios of maximum credit risk exposures, as well as other best practices.

# 25. Risk Management (continued)

## 25.1 Credit risk (continued)

Every credit application is analysed by the Bank taking into account the following aspects:

- Analysis of the creditworthiness of the customer, sources of repayment, its reputation and market position within the operating industry
- Analyses of the quality of the collateral, including the creditworthiness of the guarantors
- Analyses of the possible effect of the non-payment of the principal or interest amount on the Banks overall position
- Analyses of the creditworthiness of the customer are made from the standard list of documents required for the submission by the Bank. Additional documents may be requested subject to the Bank's decision. Documents such as financial statements and/or budgets are requested for submission at every reporting date during the whole period of the credit instrument.

Periodic monitoring of the credit risk on the portfolio is made collectively when new credit instruments are granted.

*Collateral and other credit enhancements*

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. Exposure to credit risk is also managed by obtaining sufficient and qualitative collateral. Bank foresees collateral as an instrument to mitigate the credit risk and considers collateral only as a secondary source of repayment.

The Bank normally considers as collateral any tangible assets, personal and corporate guarantees, property rights, cash equivalents, and cash flows which may be utilized to cover losses as a result of the default on the credit instrument (including principal and interest amounts outstanding at the moment of the default, as well as any other direct costs incurred by the Bank and associated with the possible default of the credit instrument).

Quality of the collateral is determined by its fair (market) value and liquidity. Fair (market) value of collateral is determined at each credit risk assessment date for every credit facility.

*Recording the allowance for expected credit losses*

In order to maintain high level of reliability the Bank records the allowance for expected credit losses for loans and credit related commitments, including guarantees issued by the Bank, undrawn loan commitments.

The Bank estimates financial assets according to the credit risk group (Stage) determined by the Bank. Based on the analysis undertaken the Bank classifies financial assets into three Stages:

Stage 1 - 12-months' expected credit loss (12mECL)
Stage 2 - Lifetime expected credit loss - not credit-impaired assets (LTECL)
Stage 3 - Lifetime expected credit loss - credit-impaired assets (default).

When there has been a significant increase in credit risk the Bank transfers the asset from Stage 1 (an allowance is based on the 12 months' expected credit loss) to Stage 2 (an allowance is estimated for the lifetime expected credit losses). The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments or if there is objective evidence that the customer is unlikely to honour its obligations to the Bank in full.

# 25. Risk Management (continued)

## 25.1 Credit risk (continued)

The Bank calculates ECLs either on a collective or an individual basis.

In order to calculate expected credit losses on a collective basis the Bank groups financial assets with similar credit risk to analyse whether there have been a significant increase in credit risk.

In order to estimate credit risk of financial assets either on a collective or on individual basis the Bank analyses information related to past due payments, facilitated conditions provided to the counterparty in relation to the financial asset that shows a significant increase in credit risk or to the defaulted financial asset, and also other available reasonable and reasoned information received without committing unnecessary costs and efforts that affect future.

In the process of calculating the expected cash flows the Bank takes into account all contractual cash flows of the financial asset including cash flows from the realisation of collateral. The cash flows recorded by the Bank are then discounted using the effective interest rate method.

When an asset is uncollectible, it is written off against the related allowance for impairment. Also the Bank writes off accrued interest related to the uncollectible loans.

*Settlement risk*

The Bank's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transactions specific and/or counterparty specific settlement limits which form part of the counterparty limit approval/monitoring process described earlier.

## 25.2 Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios.

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, whilst optimizing the return on risk.

Market risk is managed primarily through daily mark-to-market procedures and control of position limits in various types of financial instruments, as well as stop-loss limits and pre-settlements limits.

# 25. Risk Management (continued)

## 25.2 Market risk (continued)

*Price risk*

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The risk is mitigated by establishing appropriate counterparty limits in accordance with the Bank's risk management policies and methodologies.

Sensitivity analyses below shows possible effect of the price change of the value of financial instruments as at 31 December 2018 and 31 December 2017 which would have been on the statement of comprehensive income and shareholders' equity given a 10% change in price (pre-tax):

| USD'000 | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Price risk on fixed income debt securities | 1,827 | 4,034 |

*Foreign exchange rate risk*

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

Foreign exchange rate risk is managed with respect to open foreign currency positions within the established by the CBR limits and other normative documents.

The Bank's foreign currency policy is reviewed and approved by the Executive Management Board.

The following table details the Bank's sensitivity analysis and possible effect on the statement of comprehensive income and shareholders' equity as at 31 December 2018 assuming a 10% change in the functional currency against the relevant foreign currency:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| USD'000 | Comprehensive income | Capital | Comprehensive income | Capital |
| 10% increase USD/RUB rate | (107) | (107) | (185) | (185) |
| 10% decrease USD/RUB rate | 107 | 107 | 185 | 185 |
| 10% increase EUR/RUB rate | (34) | (34) | 8 | 8 |
| 10% decrease EUR/RUB rate | 34 | 34 | (8) | (8) |

See Note 36 "Currency analysis".

*Interest rate risk*

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

# 25. Risk Management (continued)

## 25.2 Market risk (continued)

Vast majority of the interest rate assets and liabilities of the Bank have a fixed rate interest. Settlement Treasury Department of the Bank is responsible for monitoring the interest rate margin gap and considers that the Bank is not significantly exposed to a fluctuation in the interest rates with respect to its cash flows.

An analysis of sensitivity of the Bank's projected net interest rate margin for the year to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) parallel shifts in all yield curves (assuming a constant balance sheet position), which could have had an effect on the Bank's statement of comprehensive income and shareholders' equity is presented as follows::

| USD'000 | **31 December 2018** | **31 December 2017** |
|---|---|---|
| 100 bp parallel increase | (199) | (1,034) |
| 100 bp parallel decrease | 199 | 1,034 |

See Note 33 "Average effective interest rates".
See Note 34 "Interest rate repricing analysis".

## 25.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities as a result of mismatch in maturities between cash inflows and outflows in respective currencies.

Treasury Department is responsible for daily management of the current, short-term and long-term liquidity position of the Bank.

Liquidity Management Committee, Credit/Finance Committee are responsible for monitoring the liquidity positions of the Bank. Internal Control Committee insures that appropriate procedures are in place over the management and control of the liquidity positions.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBR. These ratios include:

- Instant liquidity ratio (N2), which regulates (limits) the risk of the Bank losing liquidity within one business day and determines the minimum ratio of the amount of highly liquid assets of the Bank to the amount of the Bank's liabilities on demand deposits
- Current liquidity ratio (N3), which regulates (limits) the risk of liquidity loss by the Bank during the nearest 30 days to the settlement date and determines the minimum ratio of the amount of the Bank's liquid assets to the amount of the Bank's liabilities on demand accounts and for up to 30 calendar days
- Long-term liquidity ratio (N4), which regulates (limits) the risk of the Bank losing liquidity as a result of placing funds in long-term assets and determines the maximum permissible ratio of the Bank's credit claims for the remaining period up to the maturity date of over 365 or 366 calendar days to own funds (capital) The Bank, as well as the Bank's obligations and liabilities (liabilities) with the remaining period up to the maturity date exceeding 365 or 366 calendar days.

See also Note 35 "Maturity analysis".

# 25. Risk Management (continued)

## 25.4 Regulatory risk

Regulatory risk - is the risk of financial loss occurring as a result of non-compliance with legislation of the Russian Federation, internal documents of the Bank, standards of self-regulatory organisations (if such standards or rules are mandatory for the Bank) and also as a result of the application of sanctions or other enforcement actions undertaken by the regulatory authorities. The main purpose of regulatory risk management is the reduction (elimination) of potential losses for the Bank as well as the imposition of sanctions and / or other enforcements on behalf the regulatory authorities due to the non-compliance with the requirements of federal laws and other legal acts of the Russian Federation, internal documents of the Bank, standards of self-regulatory organisations (if such standards or rules are mandatory for the Bank.

The main objectives of regulatory risk management are:

- Obtaining reliable information on the regulatory risk
- Determination of the acceptable level of regulatory risk for the Bank
- Development of internal control procedures aimed at preventing / minimising the consequences of risk realisation for the Bank
- Permanent monitoring of regulatory risk
- Improving the approaches to risk management.

Control over the upper limit and monitoring of regulatory risk is carries out by those charged with governance, including by:

- Establishing and ensuring the effective functioning of the internal control system
- Regular evaluation of the effective functioning of the internal control system carried out at the meetings as well as discussion of the structure of internal controls and measures for improving its efficiency
- Review of internal documents on internal control, annual and currents audit plans of the Internal Audit Service, reports on the implementation of the audit plans of the Internal Audit Service, annual reports on implementation of the workplans of Internal Control Service, other documents;
- Taking actions to ensure that the recommendations and comments of the Internal Audit Service, the Internal Control Service, the audit organization conducting (or was conducting) audit, and the regulatory authorities are promptly implemented by the executive bodies of the Bank.

The identification of regulatory risk is carried out permanently and is based on the following areas:

- Analysis of changes in the legislation of the Russian Federation which may affect the efficiency of the Bank's activities
- Analysis of internal documents of the Bank for compliance with the existing legislation of the Russian Federation as well as the timeliness of their updating
- Analysis of the regulatory risk exposure of the Bank's activities, taking into account its priorities and development strategies.

**The CBR inspection**

In the second half of 2018 the CBR carried out a scheduled limited scope inspection of the Bank for the period from 1 January 2017 till 29 November 2018. One of the issues of the inspection was the compliance with the requirements of the law on countering the legalisation, or laundering, of the proceeds of crime and the financing of terrorism by the Bank.

The CBR drew up an act and an order based on the inspection results. The Bank took actions to address the violations. Among these measures, monitoring by the dedicated unit (AML/CFT Department) and by the Control Services (ICS, IAS) was strengthened.

# 25. Risk Management (continued)

## 25.5 Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

Capital requirements are determined for different operations and activities as to maximize the return on the distributed capital taking into account respective risk factors. When determining capital requirements other factors such as availability of human and other resources, redistribution of capital between the different operations, alignment with long-term strategy of the Bank are also taken into consideration. Capital requirements and distribution policies are analyzed and approved on a regular basis by the Board of Directors during annual budgeting process for the Bank and different business processes.

The CBR sets and monitors capital adequacy requirements of the Bank. Under the current capital requirements set by the CBR banks have to maintain a ratio of capital to risk weighted assets ("Capital Adequacy Ratio") above the prescribed minimum level.

As at 31 December 2018 and 31 December 2017 this minimum level required by the CBR was 8%.

As at 31 December 2018 and 31 December 2017 the capital adequacy ratio calculated in accordance with the requirements of the Bank of Russia was as follows:

| | 2018<br>USD'000 | 2017<br>USD'000 |
|---|---|---|
| Tier 1 Capital | 57,238 | 63,171 |
| Tier 2 Capital | 16,559 | 15,949 |
| **Total capital** | **73,797** | **79,120** |
| **Risk weighted assets** | **84,558** | **110,128** |
| **Capital adequacy ratio (H 1.0)** | **28,39%** | **26,41%** |

The Bank monitors compliance with these regulatory requirements on a daily basis and sends monthly reports to the Bank of Russia. The Bank was in compliance with the above ratios during the years ended 31 December 2018 and 31 December 2017.

# 26. Offsetting of Financial Instruments

Disclosures presented in the following tables include information on financial assets and financial liabilities which are:

- offset in a financial statement of the Bank, or
- are subject to a legally enforceable agreement of offsetting or similar agreements that apply to similar financial instruments, regardless of whether they are offset in a consolidated financial statement.

Operations with derivative financial instruments of the bank, which are not carried on a stock exchange, conducted in accordance with general agreements with counterparties of the Bank. Basically, in accordance with these agreements, the amounts payable by each counterparty on a particular day in respect of pending operations in the same currency form a single net amount payable by one party to the other. Under certain circumstances such as credit event or default; all outstanding transactions under contracts are terminated. The net value of transactions at the time of termination is estimated and paid as a single amount.

# 26. Offsetting of Financial Instruments (continued)

The table below presents financial assets and financial liabilities, being a subject of legally enforceable netting agreements and similar agreements as at 31 December 2018:

| USD'000<br>Type of financial assets / financial liabilities | Total sum of financial assets/financial liabilities | Total sum of financial assets/financial liabilities, which were offset in a consolidated financial statement | Net sum of financial assets/financial liabilities, which were not offset in a consolidated financial statement | Sums which were not offset in a consolidated financial statement | | |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Obtained cash security | Net sum |
| Derivatives - assets | 32 | - | 32 | 32 | - | - |
| **Total financial assets** | **32** | **-** | **32** | **32** | **-** | **-** |
| Derivatives - liabilities | 101 | - | 101 | (101) | - | - |
| **Total financial liabilities** | **101** | **-** | **101** | **(101)** | **-** | **-** |

The table below presents financial assets and financial liabilities, being a subject of legally enforceable netting agreements and similar agreements as at 31 December 2017:

| USD'000<br>Type of financial assets / financial liabilities | Total sum of financial assets/financial liabilities | Total sum of financial assets/financial liabilities, which were offset in a consolidated financial statement | Net sum of financial assets/financial liabilities, which were not offset in a consolidated financial statement | Sums which were not offset in a consolidated financial statement | | |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Obtained cash security | Net sum |
| Derivatives - assets | 16 | - | 16 | 16 | - | - |
| **Total financial assets** | **16** | **-** | **16** | **16** | **-** | **-** |
| Derivatives - liabilities | 11 | - | 11 | (11) | - | - |
| **Total financial liabilities** | **11** | **-** | **11** | **(11)** | **-** | **-** |

## 27. Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 1 year.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| **Contracted amount** | | |
| Guarantees and letters of credit | 73,740 | 77,595 |
| Undrawn loan commitments | 21,814 | 21,763 |
| **Total commitments** | **95,554** | **99,358** |

Some of the above commitments may expire or terminate without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash outflows.

**Significant exposures**

As at 31 December 2018 the Bank had three exposures to counterparties (as at 31 December 2017: two exposures to counterparties), which individually comprised more than 10% of guarantees issued. The gross value of these exposures as at 31 December 2018 was 67,148 USD'000 (as at 31 December 2017: 69,150 USD'000).

## 28. Operating Leases

The Bank leases a number of premises and vehicles under operating lease. Non-cancellable operating lease rentals are payable as follows:

| | 31 December 2018 RUB'000 | 31 Decmeber 2017 RUB'000 |
|---|---|---|
| Less than one year | 383 | 412 |
| Between one and five years | 278 | 709 |
| **Total operating leases** | **661** | **1,121** |

## 29. Contingencies

### 29.1 Insurance

The Bank insures its fixed assets amounting to 553 USD'000, civil liability amounting to 216 USD'000, cash on hand amounting to 2,879 USD'000 and business interruption amounting to 4,821 USD'000.

# 29. Contingencies (continued)

### 29.2 Litigation

From time to time and in the normal course of business, claims against the Bank are received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

### 29.3 Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

Fiscal period remain open and subject to review by the tax authorities is 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.

As at 31 December 2018 the Bank's management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

# 30. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. an exit price) in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market condition, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value measurements are analyzed by level in the fair value hierarchy as follows:

- Level 1 measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) and
- Level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. 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. Discount rates used depend on the currency, the maturity of the instrument and the credit risk of the counterparty.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2018:

# 30. Fair Value of Financial Instruments (continued)

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through other comprehensive income | 18,663 | - | - | **18,663** |
| Derivative financial assets | 32 | - | - | **32** |
| **Financial liabilities** | | | | |
| Derivative financial liabilities | 101 | - | - | **101** |

The following table presents an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through other comprehensive income | 42,189 | - | - | **42,189** |
| Derivative financial assets | 16 | - | - | **16** |
| **Financial liabilities** | | | | |
| Derivative financial liabilities | 11 | - | - | **11** |

Management of the Bank believes that as at 31 December 2018 and 31 December 2017 the fair value of assets and liabilities not measured at fair value is not significantly different from their book value.

The following table presents an analysis of financial instruments not recorded at fair value by level of the fair value hierarchy as at 31 December 2018:

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | 1,801 | - | - | **1,801** |
| Due from the Central Bank of Russia | 33,138 | - | 2,530 | **35,668** |
| Due from banks | 13,487 | 7,138 | - | **20,625** |
| Loans to customers | - | - | 185,285 | **185,285** |
| **Liabilities** | | | | |
| Due to banks | 23,137 | 88,255 | - | **111,392** |
| Due to customers | 26,645 | 32,762 | - | **59,407** |
| Subordinated loans | - | 9,133 | - | **9,133** |

The following table presents an analysis of financial instruments not recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | 932 | - | - | **932** |
| Due from the Central Bank of Russia | 33,745 | - | 2,407 | **36,152** |
| Due from banks | 52,494 | 1,986 | - | **54,480** |
| Loans to customers | - | - | 162,012 | **162,012** |
| **Liabilities** | | | | |
| Due to banks | 4,307 | 152,742 | - | **157,049** |
| Due to customers | 25,004 | 18,357 | - | **43,361** |
| Debt securities issued | - | 326 | - | **326** |
| Subordinated loans | - | 9,379 | - | **9,379** |

# 31. Related Party Transactions

The Bank's shareholding structure as at 31 December 2018 is, as follows:

- DenizBank A.S. 49%
- DenizBank AG 51%.

Both DenizBank A.S. and DenizBank AG are part of DenizBank Financial Services Group, which before October 2007 was part of a larger Zorlu Group – a significant financial and industrial group in Turkey. In October 2007, Dexia Participation Belgique SA, 100% of which is directly and indirectly owned by Dexia SA/NV, became the main shareholder of the DenizBank Financial Services Group, after acquisition of the 75% of the total outstanding shares from Zorlu Holding A.Ş. In December 2007 Dexia acquired the remaining shares listed on Istanbul stock exchange and the shareholding of Dexia Group came to 99,85%. In September 2012, Sberbank of Russia, more than 50% of which are owned by the CBR, became the main shareholder of the DenizBank Financial Services Group, after acquisition all 99,85% shares from Dexia Group.

## 31.1 Transactions with Directors and Management

During 2018 total Directors and Management remuneration was USD 1,037 USD'000 (2017: 950 USD'000).

All transactions with Directors and Management were concluded on an arm's length basis.

The outstanding balances and average interest rates as at 31 December 2018 and 31 December 2017 with Directors and Management are as follows:

| | 31 December 2018 USD'000 | Average effective interest rate | 31 December 2017 USD'000 | Average effective interest rate |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans to customers | 5 | 11% | 8 | 11% |
| **Liabilities** | | | | |
| Due to customers | 191 | 5,68% | 164 | 4,65% |
| Other liabilities | 371 | - | 426 | - |

Information on the volume of transactions with members of the Board of Directors and the Bank's Management for 2018 is, as follows:

| | 31 December 2018 USD'000 | Payment | Repayment | Effect of translation to presentation currency | 31 December 2017 USD'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans to customers | 5 | 3 | (5) | (1) | 8 |

| | 31 December 2018 USD'000 | Withdrawal | Placement | Effect of translation to presentation currency | 31 December 2017 USD'000 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to customers | 191 | (674) | 735 | (34) | 164 |
| Other liabilities | 371 | (187) | 207 | (75) | 426 |

# 31. Related Party Transactions (continued)

## 31.1 Transactions with Directors and Management (continued)

Information on the volume of transactions with members of the Board of Directors and the Bank's Management for the year 2017 is as follows:

| | 31 December 2017 USD'000 | Payment | Repayment | Effect of translation to presentation currency | 31 December 2016 USD'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans to customers | 8 | 14 | (8) | 1 | 1 |

| | 31 December 2017 USD'000 | Withdrawal | Placement | Effect of translation to presentation currency | 31 December 2016 USD'000 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to customers | 164 | (467) | 420 | 10 | 201 |
| Other liabilities | 426 | (8) | 51 | 20 | 363 |

Amounts included in the statement of comprehensive income in relation to transactions with members of the Board of Directors and the Bank's Management are, as follows:

| | 2018 RUB'000 | 2017 RUB'000 |
|---|---|---|
| Interest income | 1 | 1 |
| Interest expense | (2) | (2) |

## 31.2 Transactions with Shareholders

| | 31 December 2018 RUB'000 | Average effective interest rate | 31 December 2017 RUB'000 | Average effective interest rate |
|---|---|---|---|---|
| **Assets** | | | | |
| Due from banks | 2,436 | - | 48,566 | - |
| **Liabilities** | | | | |
| Due to banks | 109,905 | 1,28% | 152,962 | 1,48% |
| Subordinated loan | 9,133 | 2,34% | 9,379 | 2,14% |

Information on the volume of transactions with Shareholders for 2018 is, as follows:

| | 31 December 2018 USD'000 | Payment | Repayment | Effect of translation to presentation currency | 31 December 2017 USD'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Due from banks | 2,436 | 6,096,983 | (6,138,895) | (4,218) | 48,566 |

| | 31 December 2018 USD'000 | Withdrawal | Placement | Effect of translation to presentation currency | 31 December 2017 USD'000 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to banks | 109,905 | (13,338,031) | 13,319,287 | (24,313) | 152,962 |
| Subordinated loan | 9,133 | (6,281) | 7,784 | (1,749) | 9,379 |

# 31. Related Party Transactions (continued)

## 31.2 Transactions with Shareholders (continued)

Information on the volume of transactions with Shareholders for 2017 is, as follows:

| | 31 December 2017 USD'000 | Payment | Repayment | Effect of translation to presentation currency | 31 December 2016 RUB'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Due from banks | 48,566 | 2,795,087 | (2,813,597) | 3,151 | 63,925 |

| | 31 December 2017 USD'000 | Withdrawal | Placement | Effect of translation to presentation currency | 31 December 2016 RUB'000 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to banks | 152,962 | (9,150,005) | 9,183,632 | 6,432 | 112,903 |
| Subordinated loan | 9,379 | (6,084) | 6,302 | 464 | 8,697 |

**Commitments and Contingent liabilities**

As at 31 December 2018 the Bank has also obtained from shareholders 31 guarantees (as at 31 December 2017: 16 guarantees) as securities for granted loans to customers with total value of 149,216 USD'000 (2017: 89,656 USD'000) and 6 guarantees (as at 31 December 2017: 8 guarantees) as security for guarantees issued with total value of 17,135 USD'000 (as at 31 December 2017: 21,524 USD'000).

Amounts included in the statement of comprehensive income in relation to transactions with Shareholders are, as follows:

| | 2018 USD'000 | 2017 USD'000 |
|---|---|---|
| Interest income | 302 | 828 |
| Interest expense | (1,575) | (1,183) |
| Fee and commission income | 1,085 | 1,402 |
| Fee and commission expense | (412) | (298) |
| Net gains / (losses) from foreign exchange transactions | 373 | (30) |

# 32. Cash and Cash Equivalents

Cash and cash equivalents as at the end of the year as shown in the statement of cash flows are, as follows:

| | 31 December 2018 USD'000 | 31 December 2017 USD'000 |
|---|---|---|
| Cash | 1,801 | 932 |
| Due from the Central Bank of Russia | 33,115 | 33,728 |
| Due from banks | 20,623 | 54,480 |
| **Total cash and cash equivalents** | **55,539** | **89,140** |

## 32. Cash and Cash Equivalents (continued)

As at 31 December 2018 amounts due to banks are included in cash and cash equivalents less accrued interest in the amount of 2 USD'000 (as at 31 December 2017: 0,05 USD'000); amounts due from the Central Bank of Russia - less accrued interest in the amount of 23 USD'000 (as at 31 December 2017: 17 USD'000) and mandatory balances with the CBR.

## 33. Average Effective Interest Rates

The table below presents the Bank's interest bearing assets and liabilities and the corresponding average effective interest rates as at 31 December 2018 and 31 December 2017:

| | Effective interest rates as at 31 December 2018 | Effective interest rates as at 31 December 2017 |
|---|---|---|
| **Interest Bearing Assets** | | |
| **Due from the Central Bank of Russia** | 0 - 7,73% | 0 - 7,75% |
| **Due from banks** | | |
| - RUB | 0-7,5% | 0% |
| - USD | 0 – 1,5% | 0 - 1% |
| - EUR | 0% | 0% |
| - other | 0% | 0% |
| **Loans to customers** | | |
| - RUB | 8 - 12% | 9 - 17% |
| - USD | 2 - 8% | 2 - 8% |
| - EUR | 3,75 - 8% | 3,75 - 8% |
| **Financial assets at fair value through other comprehensive income** | | |
| - RUB | 8 - 10% | 9 - 11% |
| **Interest Bearing Liabilities** | | |
| **Due to banks** | | |
| - RUB | 0 - 5% | 5 - 8% |
| - USD | 0% | 0 - 1,5% |
| - EUR | 0 - 3% | 0 - 2% |
| **Due to customers** | | |
| - RUB | 0 – 7,5% | 0 - 9% |
| - USD | 0 - 2% | 0 - 2% |
| - EUR | 0% | 0 - 1% |
| - other | 0% | 0% |
| **Debt securities issued** | | |
| - RUB | 0% | 0% |
| - USD | 0% | 0% |
| **Subordinated loan** | | |
| - USD | 4 - 5% | 4 - 5% |
| - EUR | 1% | 1% |

# 34. Interest Rate Repricing Analysis

The table below presents assets and liabilities by contractual interest rate repricing date as at 31 December 2018:

| | Less than 1 month USD'000 | 1 to 3 months USD'000 | 3 months to 1 year USD'000 | More than 1 year USD'000 | Maturity Undefined USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 1,801 | - | - | - | - | **1,801** |
| Due from the Central Bank of Russia | 35,668 | - | - | - | - | **35,668** |
| Due from banks | 20,625 | - | - | - | - | **20,625** |
| Derivative financial assets | 32 | - | - | - | - | **32** |
| Loans to customers | 21,562 | 29,115 | 106,138 | 29,449 | (979) | **185,285** |
| Financial assets at fair value through other comprehensive income | - | 13,179 | 5,484 | - | - | **18,663** |
| Property and equipment | - | - | - | - | 112 | **112** |
| Intangible assets | - | - | - | - | 630 | **630** |
| Current tax assets | - | - | - | - | 70 | **70** |
| Other assets | - | - | - | - | 328 | **328** |
| **Total assets** | **79,688** | **42,294** | **111,622** | **29,449** | **161** | **263,214** |
| **Liabilities** | | | | | | |
| Derivative financial liabilities | 101 | - | - | - | - | **101** |
| Due to banks | 76,955 | 22,974 | 11,463 | - | - | **111,392** |
| Due to customers | 37,240 | 10,298 | 11,869 | - | - | **59,407** |
| Subordinated loans | - | - | 9,133 | - | - | **9,133** |
| Deferred tax liabilities | - | - | - | - | 3,415 | **3,415** |
| Other liabilities | 25 | - | 28 | - | 470 | **523** |
| **Total liabilities** | **114,321** | **33,272** | **32,493** | **-** | **3,885** | **183,971** |
| **Net position as at 31 December 2018** | **(34,633)** | **9,022** | **79,129** | **29,449** | **(3,724)** | **79,243** |
| Net position as at 31 December 2017 | (28,905) | 31,903 | 42,482 | 40,057 | (2,738) | 82,799 |

# 34. Interest Rate Repricing Analysis (continued)

The table below presents assets and liabilities by contractual interest rate repricing date as at 31 December 2017:

| | Less than 1 month USD'000 | 1 to 3 months USD'000 | 3 months to 1 year USD'000 | More than 1 year USD'000 | Maturity undefined USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 932 | - | - | - | - | **932** |
| Due from the Central Bank of Russia | 36,152 | - | - | - | - | **36,152** |
| Due from banks | 54,480 | - | - | - | - | **54,480** |
| Derivative financial instruments | 16 | - | - | - | - | **16** |
| Loans to customers | 31,141 | 15,848 | 74,966 | 40,057 | - | **162,012** |
| Financial assets at fair value through other comprehensive income | - | 16,089 | 26,100 | - | - | **42,189** |
| Property and equipment | - | - | - | - | 181 | **181** |
| Intangible assets | - | - | - | - | 775 | **775** |
| Other assets | - | - | - | - | 192 | **192** |
| **Total assets** | **122,721** | **31,937** | **101,066** | **40,057** | **1,148** | **296,929** |
| **Liabilities** | | | | | | |
| Derivative financial liabilities | 11 | - | - | - | - | **11** |
| Due to banks | 109,203 | - | 47,846 | - | - | **157,049** |
| Due to customers | 42,328 | 34 | 999 | - | - | **43,361** |
| Debt securities issued | - | - | 326 | - | - | **326** |
| Subordinated loans | - | - | 9,379 | - | - | **9,379** |
| Current tax liabilities | - | - | - | - | 315 | **315** |
| Deferred tax liabilities | - | - | - | - | 2,973 | **2,973** |
| Other liabilities | 84 | - | 34 | - | 598 | **716** |
| **Total liabilities** | **151,626** | **34** | **58,584** | **-** | **3,886** | **214,130** |
| **Net position as at 31 December 2017** | **(28,905)** | **31,903** | **42,482** | **40,057** | **(2,738)** | **82,799** |
| Net position as at 31 December 2016 | (2,836) | (18,921) | 54,862 | 35,148 | (707) | 64,646 |

# 35. Maturity Analysis

The table below presents the undiscounted cash flows as at 31 December 2018 of the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognised loan commitments vary significantly from this analysis.

| | Less than 1 month | 1 to 3 months | 3 months to 1 year | More than 1 year | Maturity undefined | Notional value of cash flow | Carrying amount |
|---|---|---|---|---|---|---|---|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **Non-derivative financial instruments** | | | | | | | |
| Due to banks | 77,392 | 23,093 | 11,547 | - | - | 112,032 | 111,392 |
| Due to customers | 37,262 | 10,409 | 12,062 | - | - | 59,733 | 59,407 |
| Subordinated loans | - | 53 | 54 | 10,546 | - | 10,653 | 9,133 |
| Other liabilities | 25 | - | 28 | - | 470 | 523 | 523 |
| **Derivative financial instruments** | | | | | | | |
| Inflow | 59,977 | - | - | - | - | 59,977 | 69 |
| Outflow | (59,908) | - | - | - | - | (59,908) | |
| **Total liabilities** | **114,748** | **33,555** | **23,691** | **10,546** | **470** | **183,010** | **180,524** |
| Credit related commitments | 3,038 | 8,109 | 20,917 | 41,676 | - | 73,740 | |

# 35. Maturity Analysis (continued)

The following table shows the undiscounted cash flows as at 31 December 2017 of the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognised loan commitments vary significantly from this analysis.

| | Less than 1 month | 1 to 3 months | 3 months to 1 year | More than 1 year | Maturity Undefined | Notional value of cash flow | Carrying amount |
|---|---|---|---|---|---|---|---|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **Non-derivative financial instruments** | | | | | | | |
| Due to banks | 109,244 | - | 48,093 | - | - | 157,337 | 157,049 |
| Due to customers | 42,337 | 34 | 1,005 | - | - | 43,376 | 43,361 |
| Debt securities issued | - | - | 326 | - | - | 326 | 326 |
| Subordinated loans | - | 50 | 51 | 10,909 | - | 11,010 | 9,379 |
| Other liabilities | 84 | - | 34 | - | 598 | 716 | 716 |
| **Derivative financial instruments** | | | | | | | |
| Inflow | 44,221 | - | - | - | - | **44,221** | - |
| Outflow | (44,226) | - | - | - | - | **(44,226)** | (5) |
| **Total liabilities** | **151,660** | **84** | **49,509** | **10,909** | **598** | **212,760** | **210,826** |
| Credit related commitments | 23,892 | 12,764 | 36,468 | 26,235 | - | 99,359 | |

## 35. Maturity Analysis (continued)

The table below presents assets and liabilities by remaining contractual maturity dates as at 31 December 2018.

Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

| | Less than 1 month | 1 to 3 months | 3 months to 1 year | More than 1 year | Maturity undefined | Total |
|---|---|---|---|---|---|---|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **Assets** | | | | | | |
| Cash | 1,801 | - | - | - | - | **1,801** |
| Due from the Central Bank of Russia | 35,668 | - | - | - | - | **35,668** |
| Due from banks | 20,625 | - | - | - | - | **20,625** |
| Derivative financial assets | 32 | - | - | - | - | **32** |
| Loans to customers | 7,038 | 11,935 | 100,461 | 66,830 | (979) | **185,285** |
| Financial assets at fair value through other comprehensive income | - | 4,335 | - | 14,328 | - | **18,663** |
| Property and equipment | - | - | - | - | 112 | **112** |
| Intangible assets | - | - | - | - | 630 | **630** |
| Current tax assets | - | - | - | - | 70 | **70** |
| Other assets | - | - | - | - | 328 | **328** |
| **Total assets** | **65,164** | **16,270** | **100,461** | **81,158** | **161** | **263,214** |
| **Liabilities** | | | | | | |
| Derivative financial liabilities | 101 | - | - | - | - | **101** |
| Due to banks | 76,955 | 22,974 | 11,463 | - | - | **111,392** |
| Due to customers | 37,240 | 10,298 | 11,869 | - | - | **59,407** |
| Subordinated loans | - | - | - | 9,133 | - | **9,133** |
| Deferred tax liabilities | - | - | - | - | 3,415 | **3,415** |
| Other liabilities | 25 | - | 28 | - | 470 | **523** |
| **Total Liabilities** | **114,321** | **33,272** | **23,360** | **9,133** | **3,885** | **183,971** |
| **Net position as at 31 December 2018** | **(49,157)** | **(17,002)** | **77,101** | **72,025** | **(3,724)** | **79,243** |
| Net position as at 31 December 2017 | **(57,654)** | **17,518** | **41,885** | **83,788** | **(2,738)** | **82,799** |

# 35. Maturity Analysis (continued)

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2017.

Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

| | Less than 1 month USD'000 | 1 to 3 months USD'000 | 3 months to 1 year USD'000 | More than 1 year USD'000 | Maturity undefined USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 932 | - | - | - | - | **932** |
| Due from the Central Bank of Russia | 36,152 | - | - | - | - | **36,152** |
| Due from banks | 54,480 | - | - | - | - | **54,480** |
| Derivative financial assets | 16 | - | - | - | - | **16** |
| Loans to customers | 2,392 | 17,552 | 86,582 | 55,486 | - | **162,012** |
| Financial assets at fair value through other comprehensive income | - | - | 4,508 | 37,681 | - | **42,189** |
| Property and equipment | - | - | - | - | 181 | **181** |
| Intangible assets | - | - | - | - | 775 | **775** |
| Other assets | - | - | - | - | 192 | **192** |
| **Total assets** | **93,972** | **17,552** | **91,090** | **93,167** | **1,148** | **296,929** |
| **Liabilities** | | | | | | |
| Derivative financial liabilities | 11 | - | - | - | - | **11** |
| Due to banks | 109,203 | - | 47,846 | - | - | **157,049** |
| Due to customers | 42,328 | 34 | 999 | - | - | **43,361** |
| Debt securities issued | - | - | 326 | - | - | **326** |
| Subordinated loans | - | - | - | 9,379 | - | **9,379** |
| Current tax liabilities | - | - | - | - | 315 | **315** |
| Deferred tax liabilities | - | - | - | - | 2,973 | **2,973** |
| Other liabilities | 84 | - | 34 | - | 598 | **716** |
| **Total Liabilities** | **151,626** | **34** | **49,205** | **9,379** | **3,886** | **214,130** |
| **Net position as at 31 December 2017** | **(57,654)** | **17,518** | **41,885** | **83,788** | **(2,738)** | **82,799** |
| Net position as at 31 December 2016 | (32,057) | (22,731) | 69,761 | 53,280 | (707) | **67,546** |

## 36. Currency Analysis

The table below presents the currency structure of assets and liabilities as at 31 December 2018:

| | RUB USD'000 | USD USD'000 | EUR USD'000 | Other USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 1,271 | 446 | 84 | - | **1,801** |
| Due from the Central Bank of Russia | 35,668 | - | - | - | **35,668** |
| Due from banks | 6,527 | 2,473 | 11,621 | 4 | **20,625** |
| Derivative financial assets | 24 | - | 8 | - | **32** |
| Loans to customers | 63,776 | 25,320 | 96,189 | - | **185,285** |
| Financial assets at fair value through other comprehensive income | 18,663 | - | - | - | **18,663** |
| Property and equipment | 112 | - | - | - | **112** |
| Intangible assets | 630 | - | - | - | **630** |
| Current tax assets | 70 | - | - | - | **70** |
| Other assets | 328 | - | - | - | **328** |
| **Total assets** | **127,069** | **28,239** | **107,902** | **4** | **263,214** |
| **Liabilities** | | | | | |
| Derivative financial liabilities | 23 | 62 | 16 | - | **101** |
| Due to banks | 18,949 | 12,046 | 80,397 | - | **111,392** |
| Due to customers | 41,472 | 10,016 | 7,919 | | **59,407** |
| Subordinated loans | - | 3,700 | 5,433 | - | **9,133** |
| Deferred tax liabilities | 3,415 | - | - | - | **3,415** |
| Other liabilities | 523 | - | - | - | **523** |
| **Total Liabilities** | **64,382** | **25,824** | **93,765** | **-** | **183,971** |
| **Net on balance sheet position as at 31 December 2018** | **62,687** | **2,415** | **14,137** | **4** | **79,243** |
| Net off balance sheet position as at 31 December 2018 | 17,960 | (3,485) | (14,475) | - | - |
| **Net (short) / long position as at 31 December 2018** | **80,647** | **(1,070)** | **(338)** | **4** | **79,243** |
| Net (short) / long position as at 31 December 2017 | 84,563 | (1,849) | 82 | 3 | 82,799 |

# 36. Currency Analysis (continued)

The table below presents the currency structure of assets and liabilities as at 31 December 2017:

| | RUB USD'000 | USD USD'000 | EUR USD'000 | Other USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 128 | 216 | 588 | - | **932** |
| Due from the Central Bank of Russia | 36,152 | - | - | - | **36,152** |
| Due from banks | 984 | 2,479 | 51,014 | 3 | **54,480** |
| Derivative financial assets | - | - | 16 | - | **16** |
| Loans to customers | 73,483 | 31,458 | 57,071 | - | **162,012** |
| Financial assets at fair value through other comprehensive income | 42,189 | - | - | - | **42,189** |
| Property and equipment | 181 | - | - | - | **181** |
| Intangible assets | 775 | - | - | - | **775** |
| Other assets | 192 | - | - | - | **192** |
| **Total assets** | **154,084** | **34,153** | **108,689** | **3** | **296,929** |
| | | | | | |
| **Liabilities** | | | | | |
| Derivative financial liabilities | - | - | 11 | - | **11** |
| Due to banks | 18,827 | 30,587 | 107,635 | - | **157,049** |
| Due to customers | 22,452 | 19,638 | 1,271 | - | **43,361** |
| Debt securities issued | 326 | - | - | - | **326** |
| Subordinated loans | - | 3,700 | 5,679 | - | **9,379** |
| Current tax liailities | 315 | - | - | - | **315** |
| Deferred tax liabilities | 2,973 | - | - | - | **2,973** |
| Other liabilities | 716 | - | - | - | **716** |
| **Total Liabilities** | **45,609** | **53,925** | **114,596** | **-** | **214,130** |
| | | | | | |
| **Net on balance sheet position as at 31 December 2017** | **108,475** | **(19,772)** | **(5,907)** | **3** | **82,799** |
| Net off balance sheet position as at 31 December 2017 | (23,912) | 17,923 | 5,989 | - | - |
| **Net (short) / long position as at 31 December 2017** | **84,563** | **(1,849)** | **82** | **3** | **82,799** |
| Net (short) / long position as at 31 December 2016 | 68,517 | (1,006) | 32 | 3 | 67,546 |

## 37. Geographical Analysis

The table below presents the geographical concentration of assets and liabilities as at 31 December 2018:

| | Russia USD'000 | OECD USD'000 | Other USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | 1,801 | - | - | **1,801** |
| Due from the Central Bank of Russia | 35,668 | - | - | **35,668** |
| Due from banks | 16,092 | 4,533 | - | **20,625** |
| Derivative financial assets | 32 | - | - | **32** |
| Loans to customers | 123,261 | 62,016 | 8 | **185,285** |
| Financial assets at fair value through other comprehensive income | 18,663 | - | - | **18,663** |
| Property and equipment | 112 | - | - | **112** |
| Intangible assets | 630 | - | - | **630** |
| Current tax assets | 70 | - | - | **70** |
| Other assets | 307 | 21 | - | **328** |
| **Total assets** | **196,636** | **66,570** | **8** | **263,214** |
| **Liabilities** | | | | |
| Derivative financial liabilities | 78 | 23 | - | **101** |
| Due to banks | - | 111,392 | - | **111,392** |
| Due to customers | 54,316 | 5,066 | 25 | **59,407** |
| Subordinated loans | - | 9,133 | - | **9,133** |
| Deferred tax liabilities | 3,415 | - | - | **3,415** |
| Other liabilities | 523 | - | - | **523** |
| **Total Liabilities** | **58,332** | **125,614** | **25** | **183,971** |
| **Net on balance sheet position as at 31 December 2018** | **138,304** | **(59,044)** | **(17)** | **79,243** |

## 37. Geographical Analysis (continued)

The table below presents the geographical concentration of assets and liabilities as at 31 December 2017:

| | Russia USD'000 | OECD USD'000 | Other USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | 932 | - | - | **932** |
| Due from the Central Bank of Russia | 36,152 | - | - | **36,152** |
| Due from banks | 3,814 | 50,666 | - | **54,480** |
| Derivative financial assets | 16 | - | - | **16** |
| Loans to customers | 158,536 | 3,472 | 4 | **162,012** |
| Financial assets at fair value through other comprehensive income | 42,189 | - | - | **42,189** |
| Property and equipment | 181 | - | - | **181** |
| Intangible assets | 775 | - | - | **775** |
| Other assets | 192 | - | - | **192** |
| **Total assets** | **242,787** | **54,138** | **4** | **296,929** |
| | | | | |
| **Liabilities** | | | | |
| Derivative financial liabilities | 11 | - | - | **11** |
| Due to banks | 3,474 | 153,575 | - | **157,049** |
| Due to customers | 42,252 | 1,091 | 18 | **43,361** |
| Debt securities issued | 326 | - | - | **326** |
| Subordinated loans | - | 9,379 | - | **9,379** |
| Current tax liabilities | 315 | - | - | **315** |
| Deferred tax liabilities | 2,973 | - | - | **2,973** |
| Other liabilities | 716 | - | - | **716** |
| **Total Liabilities** | **50,067** | **164,045** | **18** | **214,130** |
| | | | | |
| **Net on balance sheet position as at 31 December 2017** | **192,720** | **(109,907)** | **(14)** | **82,799** |

## 38. Events after the Reporting Date

There have been no non-adjusting events after the balance sheet date that require disclosure.