Independent auditor’s report
on the financial statements of
***Credit Agricole CIB AO***
for the year ended 31 December 2018

*April 2019*

## Contents

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# Independent auditor's report

To the Shareholders and Board of Directors of
Credit Agricole CIB AO

## Report on the audit of the financial statements

### *Opinion*

We have audited the financial statements of Credit Agricole CIB AO (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for 2018, and notes to the financial statements, including a summary of significant accounting policies.

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

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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.

### *Responsibilities of management 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.

***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 skepticism throughout the audit. We also:

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

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

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

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

In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activities* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's financial statements for the year ended 31 December 2018, we determined:

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

2) Whether internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:

   - Subordination of the risk management departments;
   - The existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
   - Consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
   - Oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

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

The findings from our work are provided below.

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

We found that the values of the obligatory ratios of the Bank as of 1 January 2019 were within the limits established by the Bank of Russia.

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

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

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2018 the Bank's internal audit division was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.

- We found that the Bank's internal documents effective as at 31 December 2018 that establish the methodologies for detecting and managing credit, interest rate (part of market risk), operational and liquidity risks that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2018, the Bank had a reporting system pertaining to credit, interest rate (part of market risk), operational and liquidity risks that were significant to the Bank and pertaining to its capital.

- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2018 with regard to the management of credit, interest rate (part of market risk), operational and liquidity risks of the Bank complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies.

- We found that, as at 31 December 2018, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2018, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

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

D.E. Weinstein
Partner
Ernst & Young LLC

24 April 2019

***Details of the audited entity***

Name: Credit Agricole CIB AO
Record made in the State Register of Legal Entities on 3 September 2002, State Registration Number 1027800000953.
Address: Russia 191186, Saint-Petersburg, Nevsky prospekt, 12.

***Details of the auditor***

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

## Statement of financial position
## as of 31 December 2018
*(thousands of Russian rubles)*

| | Notes | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 26 052 509 | 17 720 688 |
| Amounts due from credit institutions | 7 | 5 361 161 | 336 918 |
| Derivative financial assets | 8 | 2 450 049 | 4 022 275 |
| Loans to customers | 9 | 17 533 384 | 20 678 471 |
| Investment securities at FVOCI (previously classified as available-for-sale) | 6 | 520 167 | 3 055 044 |
| Debt securities at amortized cost | 6 | 4 829 844 | – |
| Fixed assets | 10 | 1 059 663 | 1 209 705 |
| Current income tax assets | | 73 410 | 39 261 |
| Other assets | 12 | 119 378 | 68 677 |
| **Total assets** | | **57 999 565** | **47 131 039** |
| **Liabilities** | | | |
| Amounts due to credit institutions | 13 | 2 685 797 | 2 720 395 |
| Derivative financial liabilities | 8 | 2 397 325 | 4 077 942 |
| Amounts due to customers | 14 | 39 764 983 | 28 242 519 |
| Deferred income tax liabilities | 11 | 183 833 | 189 502 |
| Other liabilities | 12 | 326 479 | 298 956 |
| Subordinated debt | 15 | 7 233 582 | 5 991 070 |
| **Total liabilities** | | **52 591 999** | **41 520 384** |
| **Equity** | 16 | | |
| Share capital | | 2 959 679 | 2 959 679 |
| Share premium | | 734 148 | 734 148 |
| Revaluation reserve for premises | | 622 691 | 691 220 |
| Revaluation reserve for investment securities at FVOCI (previously classified as available-for-sale) | | 1 629 | 9 713 |
| Retained earnings | | 1 089 419 | 1 215 895 |
| **Total equity** | | **5 407 566** | **5 610 655** |
| **Total equity and liabilities** | | **57 999 565** | **47 131 039** |

**Signed and authorised for release on behalf of the Management Board of the Bank.**

Erik Koebe — President

Alla Astyukevich — Chief Accountant

24 April 2019

*The accompanying notes are an integral part of these financial statements.*

## Statement of profit or loss

## for the year ended 31 December 2018

*(thousands of Russian rubles)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| Interest revenue calculated using effective interest rate | 18 | 2 799 640 | 2 468 113 |
| Interest expense | 18 | (1 733 737) | (2 062 156) |
| **Net interest income** | 18 | **1 065 903** | **405 957** |
| Fee and commission income | 19 | 366 023 | 367 975 |
| Fee and commission expense | 19 | (49 156) | (25 804) |
| Net gains/(losses) from foreign currencies: | | | |
| - dealing | | (1 115 518) | (505 800) |
| - translation differences | | 1 166 825 | 1 372 214 |
| - foreign currency derivatives | | (1 920) | (40 710) |
| (Provision)/reversal of allowance for impairment of premises | 10 | (16 322) | 3 720 |
| Other income | | 110 090 | 31 291 |
| **Non-interest income** | | **460 022** | **1 202 886** |
| Administrative and other operating expenses | 20 | (1 388 326) | (1 263 676) |
| **Non-interest expense** | | **(1 388 326)** | **(1 263 676)** |
| **Profit before income tax expense** | | **137 599** | **345 167** |
| Income tax expense | 11 | (56 097) | (106 064) |
| **Profit for the year** | | **81 502** | **239 103** |

*The accompanying notes are an integral part of these financial statements.*

## Statement of comprehensive income

## for the year ended 31 December 2018

*(thousands of Russian rubles)*

| | ***Note*** | ***2018*** | ***2017*** |
|---|---|---|---|
| **Profit for the year** | | **81 502** | **239 103** |
| **Other comprehensive income** | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods* | | | |
| Net change in fair value of debt instruments at FVOCI (previously classified as available-for-sale) | 23 | (10 105) | (18 017) |
| Income tax relating to components of other comprehensive income | 11 | 2 021 | 3 604 |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent periods** | | **(8 084)** | **(14 413)** |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods* | | | |
| Revaluation of premises | 10 | (85 661) | 19 525 |
| Income tax relating to components of other comprehensive income | | 17 132 | (3 905) |
| **Total other comprehensive income not to be reclassified to profit or loss in subsequent periods** | | **(68 529)** | **15 620** |
| **Other comprehensive income for the year, net of tax** | | **(76 613)** | **1 207** |
| **Total comprehensive income for the year** | | **4 889** | **240 310** |

*The accompanying notes are an integral part of these financial statements.*

## Statement of changes in equity

## for the year ended 31 December 2018

*(thousands of Russian rubles)*

| | *Attributable to shareholders of the Bank* | | | | | |
|---|---|---|---|---|---|---|
| | ***Share capital*** | ***Share premium*** | ***Revaluation reserve for premises*** | ***Revaluation reserve for investment securities at FVOCI (previously classified as available-for-sale)*** | ***Retained earnings*** | ***Total*** |
| **1 January 2017** | **2 959 679** | **734 148** | **675 600** | **24 126** | **1 241 255** | **5 634 808** |
| Profit for the year | – | – | – | – | 239 103 | **239 103** |
| Other comprehensive income for the year | – | – | 15 620 | (14 413) | – | **1 207** |
| **Total comprehensive income for the year** | **–** | **–** | **15 620** | **(14 413)** | **239 103** | **240 310** |
| Dividends to shareholders of the Bank (Note 21) | – | – | – | – | (264 463) | **(264 463)** |
| **31 December 2017** | **2 959 679** | **734 148** | **691 220** | **9 713** | **1 215 895** | **5 610 655** |
| Impact of adopting IFRS 9 (Note 3) | – | – | – | – | (5 106) | **(5 106)** |
| **Restated opening balance under IFRS 9** | **2 959 679** | **734 148** | **691 220** | **9 713** | **1 210 789** | **5 605 549** |
| Profit for the year | – | – | – | – | 81 502 | **81 502** |
| Other comprehensive income for the year | – | – | (68 529) | (8 084) | – | **(76 613)** |
| **Total comprehensive income for the year** | **–** | **–** | **(68 529)** | **(8 084)** | **81 502** | **4 889** |
| Dividends to shareholders of the Bank (Note 21) | – | – | – | – | (202 872) | **(202 872)** |
| **31 December 2018** | **2 959 679** | **734 148** | **622 691** | **1 629** | **1 089 419** | **5 407 566** |

*The accompanying notes are an integral part of these financial statements.*

## Statement of cash flows

## for the year ended 31 December 2018

*(thousands of Russian rubles)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 2 845 034 | 2 559 253 |
| Interest paid | | (1 778 790) | (2 070 375) |
| Fees and commissions received | | 377 147 | 338 456 |
| Fees and commissions paid | | (49 411) | (113 357) |
| Realised gains less losses from dealing in foreign currencies | | (1 115 518) | (505 800) |
| Realised gains less losses from operations with interest rate derivatives | | (1 920) | (42 074) |
| Other income received | | 110 509 | 30 627 |
| Administrative and other operating expenses paid | | (1 311 639) | (1 183 587) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **(924 588)** | **(986 857)** |
| *Net (increase)/decrease in operating assets* | | | |
| Amounts due from credit institutions | | (5 000 381) | 49 700 |
| Loans to customers | | 4 606 701 | 6 905 318 |
| Other assets | | (73 271) | (1 292) |
| *Net increase/(decrease) in operating liabilities* | | | |
| Amounts due to credit institutions | | 2 575 | (5 814 565) |
| Amounts due to customers | | 9 849 671 | 2 644 605 |
| Other liabilities | | 66 123 | (4 452) |
| **Net cash flows from operating activities before income tax** | | **8 526 830** | **2 792 457** |
| Income tax paid | | (75 486) | (107 324) |
| **Net cash from operating activities** | | **8 451 344** | **2 685 133** |
| **Cash flows from investing activities** | | | |
| Purchase of investment securities | | (16 356 610) | (3 577 809) |
| Proceeds from redemption of investment securities | | 14 051 427 | 2 687 756 |
| Purchase of fixed assets | 10 | (27 479) | (11 619) |
| Proceeds from sale of fixed assets | | – | 1 388 |
| **Net (used in) / cash from investing activities** | | **(2 332 662)** | **(900 284)** |
| **Cash flows from financing activities** | | | |
| Dividends paid to shareholders of the Bank | 21 | (202 872) | (264 463) |
| **Net cash from / (used in) financing activities** | | **(202 872)** | **(264 463)** |
| Effect of exchange rates changes on cash and cash equivalents | | 2 416 011 | 1 430 644 |
| **Net increase in cash and cash equivalents** | | **8 331 821** | **2 951 030** |
| Cash and cash equivalents, beginning | | 17 720 688 | 14 769 658 |
| **Cash and cash equivalents, ending** | 5 | **26 052 509** | **17 720 688** |

*The accompanying notes are an integral part of these financial statements.*

*(thousands of Russian rubles)*

## 1. Principal activities

These financial statements of Credit Agricole CIB AO (the “Bank”) have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations. The Bank’s shareholders are Credit Agricole CIB France (former Calyon S.A.) (“the Parent Bank”) holding 82,4% of share capital and Credit Agricole CIB Global Banking (former Calyon Global Banking S.A.) holding 17,6% of share capital (2017: Credit Agricole CIB France holding 82,4% of share capital and Credit Agricole CIB Global Banking holding 17,6% of share capital). Credit Agricole CIB AO is a part of Credit Agricole CIB Group. The ultimate shareholder of the Bank is Crédit Agricole SA.

The Bank’s shareholders do not have the power to amend the financial statements after the issue.

The Bank’s principal business activity is corporate and investment banking operations within the Russian Federation. The Bank has been operating under a full general banking license issued by the Central Bank of the Russian Federation (“CBR”) since 1993. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law No. 177-FZ *On Insurance of Individuals Deposits in the Russian Federation* dated 23 December 2003.

On 8 August 2018 ACRA confirmed to Credit Agricole CIB AO a credit rating assigned earlier on 9 August 2017 under the national scale for the Russian Federation at the level of AAA(RU), outlook Stable.

The Bank’s registered address is Russian Federation, Saint Petersburg, Nevsky prospekt, 12. The Bank has one (2017: one) branch in Moscow.

## 2. Basis of preparation

### General

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

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, securities at FVOCI, derivative financial instruments, buildings have been measured at fair value.

These financial statements are presented in thousands of Russian rubles (“RUB”), except per share amounts and unless otherwise indicated.

## 3. Summary of accounting policies

### Changes in accounting policies

The Bank applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below.

*IFRS 9 Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

*(thousands of Russian rubles)*

# 3. Summary of accounting policies (continued)

## Changes in accounting policies (continued)

*(a) Classification and measurement*

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

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

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

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

*(b) Impairment*

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

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

| | |
|---|---|
| Stage 1: | When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. |
| Stage 2: | When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. |
| Stage 3: | Loans considered credit-impaired. The Bank records an allowance for the LTECL. |

If there is no realistic prospect of future recovery of financial assets partially or in full, the carrying amount of the asset needs to be reduced. This change is treated as partial derecognision of financial asset.

*(thousands of Russian rubles)*

# 3. Summary of accounting policies (continued)

## Changes in accounting policies (continued)

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

| | |
|---|---|
| Probability of default (PD) | The *Probability of Default* (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. |
| Exposure at default (EAD) | The *Exposure at Default (EAD)* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. |
| Loss given default (LGD) | The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. |

*(c) Effect of transition to IFRS 9*

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

| | *IAS 39 measurement* | | *Remeasurement* | *IFRS 9 measurement* | |
|---|---|---|---|---|---|
| | *Category* | *Amount* | *ECL* | *Amount* | *Category* |
| **Financial assets** | | | | | |
| Cash and cash equivalents | L&R[1] | 17 720 688 | − | 17 720 688 | Amortised cost |
| Obligatory reserve with the CBR | L&R | 336 918 | − | 336 918 | Amortised cost |
| Derivative financial assets | FVPL | 4 022 275 | − | 4 022 275 | FVPL (mandatory) |
| Loans to customers − Amortised cost | L&R | 20 678 471 | (5 066) | 20 673 405 | Amortised cost |
| Debt securities at FVOCI | AFS[2] | 3 055 044 | − | 3 055 044 | FVOCI (debt) |
| **Total assets** | | **45 813 396** | **(5 066)** | **45 808 330** | |
| **Non-financial liabilities** | | | | | |
| Off-balance sheet Provisions | | − | (1 316) | (1 316) | |
| Deferred tax liabilities | | (189 502) | 1 276 | (188 226) | |
| **Total liabilities** | | **(189 502)** | **(40)** | **(189 542)** | |

[1] L&R: Loans and receivables.

[2] AFS: Available-for-sale.

Bank takes a decision to reclassify part of Debt securities, previously classified as available-for-sale to Debt securities at FVOCI. Investment securities purchased after 1 January 2019 were classified to category "Hold to collect" and were accounted at amortised cost.

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

| | *Reserves and retained earnings* |
|---|---|
| **Retained earnings** | |
| **Closing balance under IAS 39 (31 December 2017)** | **1 215 895** |
| Recognition of IFRS 9 ECLs according to IFRS 9 | (6 382) |
| Deferred tax in relation to the above | 1 276 |
| **Restated opening balance under IFRS 9 (1 January 2018)** | **1 210 789** |
| **Total change in equity due to adopting IFRS 9** | **(5 106)** |

*(thousands of Russian rubles)*

## 3. Summary of accounting policies (continued)

### Changes in accounting policies (continued)

*Reclassifications*

From 1 January 2018, the Bank has been treating received guarantees as integral part of contractual terms of loans facilities and reduces interest income accordingly by amount of comisison paid for related guarantees received.

| | ***In accordance with financial statements for 2017*** | ***Reclassification*** | ***After reclassification*** |
|---|---|---|---|
| Interest revenue calculated using effective interest rate | 2 548 695 | (80 582) | 2 468 113 |
| Fee and commission income | 371 135 | (3 160) | 367 975 |
| Fee and commission expenses | (109 546) | 83 742 | (25 804) |

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Bank's revenue including interest revenue, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the majority of the Bank's income are not impacted by the adoption of this standard.

### Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

*(thousands of Russian rubles)*

# 3. Summary of accounting policies (continued)

## Financial assets and liabilities

***Initial recognition***

*Date of recognition*

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

***Initial measurement***

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

*Measurement categories of financial assets and liabilities*

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

*Amounts due from credit institutions, loans to customers, investments securities at amortised cost*

Before 1 January 2018, amounts due from credit institutions and loans to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term;
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale;
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Bank only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

*Business model assessment*

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

*(thousands of Russian rubles)*

## 3. Summary of accounting policies (continued)

### Financial assets and liabilities (continued)

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity'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);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

*The SPPI test*

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

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

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

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

*Debt instruments at FVOCI*

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

*Financial guarantees, letters of credit and undrawn loan commitments*

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

*(thousands of Russian rubles)*

## 3. Summary of accounting policies (continued)

### Financial assets and liabilities (continued)

*Performance guarantees*

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

*Loans and receivables*

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investment securities available-for-sale. Such assets were carried at amortised cost using the effective interest method. Gains and losses were recognised in profit or loss when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognised in other comprehensive income until the investment was derecognised or until the investment was determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to the statement of profit or loss. However, interest calculated using the effective interest method was recognised in profit or loss.

*Reclassification of financial assets and liabilities*

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2018.

*Cash and cash equivalents*

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

*Mandatory reserves on the Central Bank of Russia (the CBR) account*

Mandatory cash balances with the CBR are carried at amortised cost and represent non-interest bearing deposits which are not available to finance the Bank's day-to-day operations.

### Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

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

*(thousands of Russian rubles)*

## 3. Summary of accounting policies (continued)

### Derivative financial instruments (continued)

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

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

### Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

### Leases

*i. Operating − Bank as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

*ii. Operating − Bank as lessor*

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

### Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

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

*(thousands of Russian rubles)*

## 3. Summary of accounting policies (continued)

### Renegotiated loans

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

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

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

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

### Impairment of financial assets under IAS 39

Before 1 January 2018, the Bank assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may have included indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in fair value of investment below its cost.

The Bank assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

If there was an objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using original effective interest rate, or, for financial assets available-for-sale, as the difference between cost of investment and its fair value. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. Interest revenue continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for financial assets available-for-sale, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognised, the previously recognised impairment loss was reversed in statement of profit or loss, except for equity investments available-for-sale, for which increase in their fair value after impairment were recognised in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of the Bank’s internal credit grading system that considered credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

*(thousands of Russian rubles)*

# 3. Summary of accounting policies (continued)

## Impairment of financial assets under IAS 39 (continued)

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that had not affected the years on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist currently. Estimates of changes in future cash flows reflected, and were directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that were indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## Derecognition of financial assets and liabilities

***Financial assets***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Write-off*

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

***Financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

## Guarantees

In the ordinary course of business, the Bank gives guarantees. Financial guarantees are contracts that reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees include letters of credit, acceptances and guarantees of contractual payments.

Guarantees also include performance guarantees, which provide compensation if a specified party fails to perform under a contract, guarantees provided to tender participants, guarantees of customs payments and other types of guarantees. Such contracts do not transfer credit risk.

*(thousands of Russian rubles)*

## 3. Summary of accounting policies (continued)

### Guarantees (continued)

Guarantees are initially recognised in the financial statements at fair value, in “Other liabilities”, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The premium received is recognised in profit or loss on a straight-line basis over the life of the guarantee.

### Taxation

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

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible 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 or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

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

### Property and equipment

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

| | ***Years*** |
|---|---|
| Buildings | 50 |
| Leasehold improvements | 49 |
| Equipment | 3-10 |

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

*(thousands of Russian rubles)*

## 3. Summary of accounting policies (continued)

### Share capital

*Share capital*

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

*Dividends*

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

### Contingencies

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

### Recognition of income and expenses

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

***Interest and similar revenue and expense***

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

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in “Other interest revenue” in the statement of profit or loss.

***Fee and commission income***

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

*Fee income earned from services that are provided over a certain period of time*

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

*(thousands of Russian rubles)*

## 3. Summary of accounting policies (continued)

### Recognition of income and expenses (continued)

*Fee income from providing transaction services*

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

### Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### Standards issued but not yet effective

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

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Bank plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Bank will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Bank has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

*(thousands of Russian rubles)*

## 3. Summary of accounting policies (continued)

### Standards issued but not yet effective (continued)

Preliminary estimated effect of adoption of IFRS 16 on Bank's statement of financial position is as follows:

| | ***1 January 2018*** |
|---|---|
| **Assets** | |
| Property and equipment (right of use assets) | 307 530 |
| **Total assets** | **307 530** |
| **Liabilities** | |
| Other liabilities (lease liabilities) | (307 530) |
| **Total liabilities** | **(307 530)** |
| **Net impact on equity** | **–** |

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

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

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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply the interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

## 4. Significant accounting judgments and estimates

The Bank applies estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated on the basis of management's experience and other factors, including expectations regarding future events that management considers reasonable under the current circumstances. In the process of applying the accounting policies, management use professional judgments and estimates. Professional judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities during the next financial year include:

### Going concern

Management prepared these financial statements on a going concern basis. In making this judgment management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Bank.

*(thousands of Russian rubles)*

## 4. Significant accounting judgments and estimates (continued)

### Expected credit losses / Impairment losses on loans and advances

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL / impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

### Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party transactions are disclosed in Note 24.

### Revaluation of premises

The Building of the Bank is subject to revaluation on annual basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The Bank's management uses judgment for determining the materiality of changes in the fair values of premises during the reporting period for deciding whether a revaluation is necessary.

Fair value of premises is determined with valuation techniques. Valuation is based on the market value. Market value of the Bank's premises is obtained from the report of independent appraiser, who hold a recognised and relevant professional qualification and who has recent experience in valuation of property of similar location and category. Market value was based on the direct comparison of the revalued object with other objects sold or offered for sale.

## 5. Cash and cash equivalents

Cash and cash equivalents comprise:

| | ***2018*** | ***2017*** |
|---|---|---|
| Cash on hand | 84 298 | 44 714 |
| Current accounts with the CBR (other than mandatory reserve deposits) | 778 834 | 8 166 183 |
| Overnight placements with the CBR | 15 212 649 | 7 204 253 |
| Correspondent accounts and overnight placements with other banks: | | |
| - Russian Federation | 347 645 | 14 677 |
| - Other countries | 310 456 | 1 457 235 |
| Settlement accounts with trading systems | 1 076 987 | 833 501 |
| Placements with other banks with original maturities of less than 90 days | 8 241 640 | 125 |
| **Cash and cash equivalents** | **26 052 509** | **17 720 688** |

Correspondent accounts, overnight placements with other banks and placements with other banks with original maturities of less than 90 days are placed with large Russian and European banks.

All balances of cash equivalents are allocated to Stage 1.

*(thousands of Russian rubles)*

## 5. Cash and cash equivalents (continued)

The credit quality of cash and cash equivalents balances excluding cash on hand may be summarised based on internal credit ratings as described in Note 22 as follows at 31 December 2018:

| *(thousands of Russian rubles)* | ***Current accounts with the CBR (other than mandatory reserve deposits)*** | ***Overnight placements with the CBR*** | ***Correspondent accounts and overnight placements with other banks*** | ***Settlement accounts with trading systems*** | ***Placements with other banks with original maturities of less than 90 days*** | ***Total*** |
|---|---|---|---|---|---|---|
| **Neither past due nor impaired** | | | | | | |
| A+ | – | – | 431 533 | – | 8 241 640 | **8 673 173** |
| A | – | – | 2 568 | – | – | **2 568** |
| B+ | – | – | 123 500 | – | – | **123 500** |
| B | – | – | 337 | – | – | **337** |
| C | 778 834 | 15 212 649 | – | – | – | **15 991 483** |
| C- | – | – | 100 163 | 1 076 987 | – | **1 177 150** |
| **Total cash and cash equivalents, excluding cash on hand** | **778 834** | **15 212 649** | **658 101** | **1 076 987** | **8 241 640** | **25 968 211** |

The credit quality of cash and cash equivalents balances excluding cash on hand may be summarised based on internal credit ratings as described in Note 22 as follows at 31 December 2017:

| *(thousands of Russian rubles)* | ***Current accounts with the CBR (other than mandatory reserve deposits)*** | ***Overnight placements with the CBR*** | ***Correspondent accounts and overnight placements with other banks*** | ***Settlement accounts with trading systems*** | ***Placements with other banks with original maturities of less than 90 days*** | ***Total*** |
|---|---|---|---|---|---|---|
| **Neither past due nor impaired** | | | | | | |
| A+ | – | – | 1 354 195 | – | 1 | **1 354 196** |
| A | – | – | 8 897 | – | – | **8 897** |
| B+ | – | – | 94 143 | – | – | **94 143** |
| C | 8 166 183 | 7 204 253 | – | – | – | **15 370 436** |
| C- | – | – | 14 677 | 833 501 | 124 | **848 302** |
| **Total cash and cash equivalents, excluding cash on hand** | **8 166 183** | **7 204 253** | **1 471 912** | **833 501** | **125** | **17 675 974** |

## 6. Investment securities

Investment securities owned comprise:

Debt securities at FVOCI (previously classified as available-for-sale):

| | ***2018*** | ***2017*** |
|---|---|---|
| Federal loan bonds (OFZ) | 520 167 | 522 255 |
| Bonds of CBR | – | 2 532 789 |
| **Debt securities at FVOCI (previously classified as available-for-sale)** | **520 167** | **3 055 044** |

Debt securities at amortized cost:

| | ***2018*** | ***2017*** |
|---|---|---|
| Bonds of CBR | 4 829 844 | – |
| **Debt securities at amortized cost** | **4 829 844** | **–** |

To obtain intraday credit and overnight credit in correspondent account in the framework of the General credit agreement for providing Bank of Russia loans secured by pledge (blocking) of securities, OFZ bonds issued by the Ministry of Finance of the Russian Federation and bonds of CBR in amount of RUB 5 317 674 thousand are blocked in “Blocked by CBR” Bank’s depo accounts in NKO ZAO NRD.

*(thousands of Russian rubles)*

## 6. Investment securities (continued)

At 31 December 2018 and 31 December 2017 the debt securities are not collateralized.

Analysis by credit quality of investment securities outstanding at 31 December 2018 based on internal credit ratings as described in Note 22 is as follows:

| *(thousands of Russian rubles)* | *Debt securities at FVOCI* | *Debt securities at amortized cost* | *Total* |
|---|---|---|---|
| C | – | 4 829 844 | **4 829 844** |
| D+ | 520 167 | – | **520 167** |
| **Investment securities** | **520 167** | **4 829 844** | **5 350 011** |

Analysis by credit quality of investment securities outstanding at 31 December 2017 based on internal credit ratings as described in Note 22 is as follows:

| *(thousands of Russian rubles)* | *Securities available for sale* | *Total* |
|---|---|---|
| C | 2 532 789 | **2 532 789** |
| D+ | 522 255 | **522 255** |
| **Investment securities** | **3 055 044** | **3 055 044** |

## 7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

| | *2018* | *2017* |
|---|---|---|
| Obligatory reserve with the CBR | 459 820 | 336 918 |
| Time deposits for more than 90 days | 4 902 542 | – |
| Less – allowance for impairment | (1 201) | – |
| **Amounts due from credit institutions** | **5 361 161** | **336 918** |

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

The movements in allowance for impairment of amounts due from credit institutions during the year ended 31 December 2018 were as follows:

| | *2018* |
|---|---|
| **1 January** | **–** |
| Charge | (1 201) |
| **31 December** | **(1 201)** |

Analysis by credit quality of amounts due from credit institutions (except obligatory reserve with the CBR) outstanding at 31 December 2018 based on internal credit ratings as described in Note 22 is as follows:

| *(thousands of Russian rubles)* | *Time deposits for more than 90 days* |
|---|---|
| C- | 2 893 074 |
| D+ | 2 009 468 |
| **Amounts due from credit institutions** | **4 902 542** |

*(thousands of Russian rubles)*

## 8. Derivative financial instruments

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

| | | ***2018*** | | ***2017*** | |
|---|---|---|---|---|---|
| *(thousands of Russian rubles)* | ***Note*** | ***Contracts with positive fair value*** | ***Contracts with negative fair value*** | ***Contracts with positive fair value*** | ***Contracts with negative fair value*** |
| Currency forwards and swaps | | 1 546 649 | (1 493 925) | 3 882 339 | (3 936 506) |
| Interest rate swaps | | 337 407 | (337 407) | 139 936 | (141 436) |
| Cross currency interest swaps | | 565 993 | (565 993) | – | – |
| **Total derivatives financial instruments** | 23 | **2 450 049** | **(2 397 325)** | **4 022 275** | **(4 077 942)** |

## 9. Loans to customers

Loans to customers comprise:

| | ***2018*** | ***2017*** |
|---|---|---|
| Corporate lending | 12 726 712 | 17 818 798 |
| Structured finance loans | 4 810 969 | 2 859 673 |
| **Gross loans to customers at amortised cost** | **17 537 681** | **20 678 471** |
| Less – allowance for impairment | (4 297) | – |
| **Loans to customers** | **17 533 384** | **20 678 471** |

Corporate loans represent loans issued to finance borrower's working capital needs and operating expenses. Structured finance loans represent loans issued to finance capital expenditure related to development and new construction and trade finance operations of the borrowers.

As at 31 December 2018, 27,4% were syndicated loans in amount RUB 4 810 969 thousand (2017: 13,8% were syndicated loans in amount RUB 2 859 673 thousand), which were included into structured finance loans.

As at 31 December 2018, 99,6% of total loans and advances to customers were collateralized by guarantees received from Credit Agricole Group in the total amount of RUB 17 475 935 thousand (2017: 99,6% or RUB 20 603 059 thousand).

Analysis by credit quality of loans and advances to customers outstanding at 31 December 2018 based on internal credit ratings as described in Note 22 is as follows:

| *(thousands of Russian rubles)* | ***Corporate lending (Stage 1)*** | ***Structured finance loans (Stage 2)*** | ***Total*** |
|---|---|---|---|
| C+ | 1 742 401 | – | **1 742 401** |
| C | 4 567 155 | – | **4 567 155** |
| C- | 6 320 365 | – | **6 320 365** |
| D+ | 96 791 | 4 810 969 | **4 907 760** |
| **Loans to customers (less – allowance for impairment)** | **12 726 712** | **4 810 969** | **17 537 681** |

*(thousands of Russian rubles)*

## 9. Loans to customers (continued)

Analysis by credit quality of loans and advances to customers outstanding at 31 December 2017 based on internal credit ratings as described in Note 22 is as follows:

| | *Corporate lending* | *Structured finance loans* | *Total* |
|---|---|---|---|
| C | 6 851 267 | – | **6 851 267** |
| C- | 8 798 987 | – | **8 798 987** |
| C+ | 2 065 223 | – | **2 065 223** |
| D | 47 304 | – | **47 304** |
| D+ | 56 017 | 2 859 673 | **2 915 690** |
| **Total loans to customers** | **17 818 798** | **2 859 673** | **20 678 471** |

### Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value in relation to structured finance loans during the year ended 31 December 2018 is as follows:

| *Corporate lending* | *Stage 1* | *Total* |
|---|---|---|
| **Gross carrying value as at 1 January 2018** | **17 818 798** | **17 818 798** |
| New assets originated or purchased | 339 679 536 | **339 679 536** |
| Assets repaid | (341 375 427) | **(341 375 427)** |
| Foreign exchange adjustments | (3 396 195) | **(3 396 195)** |
| **At 31 December 2018** | **12 726 712** | **12 726 712** |

An analysis of changes in the gross carrying value in relation to corporate lending during the year ended 31 December 2018 is as follows:

| *Structured finance loans* | *Stage 2* | *Total* |
|---|---|---|
| **Gross carrying value as at 1 January 2018** | **2 859 673** | **2 859 673** |
| New assets originated or purchased | 1 738 441 | **1 738 441** |
| Assets repaid | (385 948) | **(385 948)** |
| Foreign exchange adjustments | 598 803 | **598 803** |
| **At 31 December 2018** | **4 810 969** | **4 810 969** |

A reconciliation of the allowance for impairment of loans to customers by class during the year ended 31 December 2018 is as follows:

| | *Corporate lending* | *Structured finance loans* | *Total* |
|---|---|---|---|
| **At 1 January 2018** | **(4 366)** | **(700)** | **(5 066)** |
| Charge for the year | – | – | **–** |
| Recoveries | – | (479) | **(479)** |
| Amounts written off | 1 248 | – | **1 248** |
| **At 31 December 2018** | **(3 118)** | **(1 179)** | **(4 297)** |
| Collective impairment | (3 118) | (1 179) | **(4 297)** |
| **Total allowance for impairment of loans to customers** | **(3 118)** | **(1 179)** | **(4 297)** |

*(thousands of Russian rubles)*

## 9. Loans to customers (continued)

### Concentration of loans to customers

Loans are made principally within Russia in the following industry sectors:

| | *2018* | *2017* |
|---|---|---|
| Manufacturing | 8 870 144 | 8 444 005 |
| Trade | 3 478 488 | 5 885 257 |
| Financial services and insurance | 2 723 687 | – |
| Leasing | 1 899 244 | 5 555 244 |
| Other | 566 118 | 793 965 |
| Less – allowance for impairment | (4 297) | – |
| **Loans to customers** | **17 533 384** | **20 678 471** |

At 31 December 2018 the Bank had 6 groups of related borrowers (2017: 8 groups of related borrowers) with the total amount of loans issued to the group of related borrowers more than RUB 600 000 thousand. The aggregate balance of these loans was RUB 16 089 065 thousand (2017: RUB 18 190 284 thousand) or 91,7% of the gross loan portfolio (2017: 88,0%).

Breakdown of loans and advances to customers by type of collateral at 31 December 2018 is as follows:

| *(thousands of Russian rubles)* | *Corporate lending* | *Structured finance loans* | *Total* |
|---|---|---|---|
| Unsecured loans | 55 915 | 5 832 | **61 747** |
| Loans collateralized by guarantees received from Credit Agricole Group | 12 670 797 | 4 805 137 | **17 475 934** |
| **Loans to customers** | **12 726 712** | **4 810 969** | **17 537 681** |

Breakdown of loans and advances to customers by type of collateral at 31 December 2017 is as follows:

| *(thousands of Russian rubles)* | *Corporate lending* | *Structured finance loans* | *Total* |
|---|---|---|---|
| Unsecured loans | 72 025 | 3 387 | **75 412** |
| Loans collateralized by guarantees received from Credit Agricole Group | 17 746 773 | 2 856 286 | **20 603 059** |
| **Loans to customers** | **17 818 798** | **2 859 673** | **20 678 471** |

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralized assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralized assets”).

*(thousands of Russian rubles)*

## 10. Fixed assets

The movements in fixed assets were as follows:

| | *Premises* | *Leasehold improvements* | *Office and computer equipment* | *Total* |
|---|---|---|---|---|
| **Cost or revalued amount** | | | | |
| **31 December 2017** | **1 007 126** | **824 567** | **340 402** | **2 172 095** |
| Additions | – | – | 27 479 | **27 479** |
| Charge to profit and loss | (16 322) | – | – | **(16 322)** |
| Revaluation | (85 661) | – | – | **(85 661)** |
| Depreciation write off on revalued premises | (20 143) | – | – | **(20 143)** |
| **31 December 2018** | **885 000** | **824 567** | **367 881** | **2 077 448** |
| **Accumulated depreciation** | | | | |
| **31 December 2017** | **–** | **(700 927)** | **(261 463)** | **(962 390)** |
| Depreciation charge | (20 144) | (15 465) | (39 930) | **(75 539)** |
| Depreciation write off on revalued premises | 20 144 | – | – | **20 144** |
| **31 December 2018** | **–** | **(716 392)** | **(301 393)** | **(1 017 785)** |
| **Net book value** | | | | |
| **31 December 2017** | **1 007 126** | **123 640** | **78 939** | **1 209 705** |
| **31 December 2018** | **885 000** | **108 175** | **66 488** | **1 059 663** |

| | *Premises* | *Leasehold improvements* | *Office and computer equipment* | *Total* |
|---|---|---|---|---|
| **Cost or revalued amount** | | | | |
| **31 December 2016** | **1 003 960** | **824 631** | **332 912** | **2 161 503** |
| Additions | – | – | 11 619 | **11 619** |
| Disposals | – | (64) | (4 129) | **(4 193)** |
| Charge to profit and loss | 3 720 | – | – | **3 720** |
| Revaluation | 19 525 | – | – | **19 525** |
| Depreciation write off on revalued premises | (20 079) | – | – | **(20 079)** |
| **31 December 2017** | **1 007 126** | **824 567** | **340 402** | **2 172 095** |
| **Accumulated depreciation** | | | | |
| **31 December 2016** | **–** | **(685 462)** | **(222 007)** | **(907 469)** |
| Depreciation charge | (20 079) | (15 465) | (42 956) | **(78 500)** |
| Depreciation charge on disposals | – | – | 3 500 | **3 500** |
| Depreciation write off on revalued premises | 20 079 | – | – | **20 079** |
| **31 December 2017** | **–** | **(700 927)** | **(261 463)** | **(962 390)** |
| **Net book value** | | | | |
| **31 December 2016** | **1 003 960** | **139 169** | **110 905** | **1 254 034** |
| **31 December 2017** | **1 007 126** | **123 640** | **78 939** | **1 209 705** |

The Bank engaged an independent valuer to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2018. More details about the fair value of buildings are disclosed in Note 23.

*(thousands of Russian rubles)*

## 11. Taxation

The corporate income tax expense comprises:

| | *2018* | *2017* |
|---|---|---|
| Current tax charge | 41 337 | 107 536 |
| Deferred tax charge/(credit) – origination and reversal of temporary differences | 14 760 | (1 472) |
| **Income tax expense** | **56 097** | **106 064** |

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

| | *2018* | *2017* |
|---|---|---|
| Net gains/(losses) on debt instruments at fair value through OCI (previously classified as available-for-sale) | (2 021) | (3 604) |
| Revaluation of buildings | (17 132) | 3 905 |
| **Income tax charged to other comprehensive income** | **(19 153)** | **301** |

Russian legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate for companies (including banks) comprised 20% for 2018 and 2017. Corporate income tax rate applicable to interest (coupon) income on state and mortgage-backed bonds in 2018 and 2017 was 15% while corporate income tax rate applicable to interest (coupon) income on municipal bonds in 2018 and 2017 was 9%.

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

| | *2018* | *2017* |
|---|---|---|
| **Profit before tax** | **137 599** | **345 167** |
| Statutory tax rate | 20% | 20% |
| **Theoretical income tax expense/(benefit) at the statutory rate** | **27 520** | **69 033** |
| Non-deductible expenditures | 29 024 | 42 646 |
| Unrecognised deffered tax asset related to tax losses | 13 295 | – |
| Income on certain securities taxed at different rates | (13 742) | (5 615) |
| **Income tax expense** | **56 097** | **106 064** |

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

| *(thousands of Russian rubles)* | *31 December 2017* | *Effect of adoption of IFRS 9* | *1 January 2018* | *Origination and reversal in the statement of profit or loss* | *Origination and reversal in other comprehensive income* | *31 December 2018* |
|---|---|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | | | |
| Fixed assets | (225 782) | – | (225 782) | 8 901 | 17 132 | (199 749) |
| Revaluation of derivatives | 11 133 | – | 11 133 | (21 678) | – | (10 545) |
| Revaluation of debt securities at FVOCI (previously classified as available-for-sale) | (2 880) | – | (2 880) | – | 2 021 | (859) |
| Accrued staff costs | 19 058 | – | 19 058 | 5 752 | – | 24 810 |
| IFRS 9 impairment | – | 1 276 | 1 276 | 54 | – | 1 330 |
| Other | 8 969 | – | 8 969 | (7 789) | – | 1 180 |
| **Net deferred tax liability** | **(189 502)** | **1 276** | **(188 226)** | **(14 760)** | **19 153** | **(183 833)** |

*(thousands of Russian rubles)*

## 11. Taxation (continued)

| *(thousands of Russian rubles)* | ***1 January 2017*** | ***Origination and reversal in the statement of profit or loss*** | ***Origination and reversal in other comprehensive income*** | ***31 December 2017*** |
|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | |
| Fixed assets | (228 296) | 6 419 | (3 905) | (225 782) |
| Revaluation of derivatives | 1 922 | 9 211 | – | 11 133 |
| Revaluation of securities available for sale | (6 484) | – | 3 604 | (2 880) |
| Accrued staff costs | 27 526 | (8 468) | – | 19 058 |
| Other | 14 659 | (5 690) | – | 8 969 |
| **Net deferred tax liability** | **(190 673)** | **1 472** | **(301)** | **(189 502)** |

## 12. Other assets and liabilities

Other assets comprise:

| | ***2018*** | ***2017*** |
|---|---|---|
| **Other financial assets** | | |
| Accrued income | 29 985 | 17 397 |
| Other financial assets | 1 646 | 1 849 |
| **Total other financial assets** | **31 631** | **19 246** |
| Prepayments | 87 747 | 49 055 |
| Prepaid taxes other than income tax | – | 376 |
| **Total other non-financial assets** | **87 747** | **49 431** |
| **Other assets** | **119 378** | **68 677** |

| | ***2018*** | ***2017*** |
|---|---|---|
| **Other financial liabilities** | **16 100** | **15 870** |
| Commissions and fee payable | 10 231 | 9 976 |
| Deferred income on credit related commitments | 3 515 | 2 051 |
| Other financial liabilities | 2 354 | 3 843 |
| **Other non-financial liabilities** | **310 379** | **283 086** |
| Accrued employee benefit costs | 163 215 | 182 561 |
| Accrued IT expenses | 78 734 | 52 327 |
| Taxes other than income tax payable | 25 504 | 10 284 |
| Accrued expenses related to fixed assets | 13 730 | 14 709 |
| Accrued audit and consulting expenses | 12 484 | 6 465 |
| Accrued rent expenses | 8 752 | 8 752 |
| Other non-financial liabilities | 7 960 | 7 988 |
| **Other liabilities** | **326 479** | **298 956** |

## 13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

| | ***2018*** | ***2017*** |
|---|---|---|
| Time deposits and loans | 2 369 054 | 2 002 149 |
| Correspondent accounts | 316 743 | 718 246 |
| **Amounts due to credit institutions** | **2 685 797** | **2 720 395** |

As at 31 December 2018, term borrowings from Credit Agricole CIB Group amounted to RUB 1 002 759 thousand or 42,3% from term placements of other banks (2017: RUB 1 901 182 thousand or 95,0%). The remaining amount of term deposits was attracted from Russian banks.

*(thousands of Russian rubles)*

## 13. Amounts due to credit institutions (continued)

At 31 December 2018, correspondent accounts with Credit Agricole SA and Credit Agricole CIB amounted to RUB 20 306 thousand or 6,4% and RUB 296 437 thousand or 93,6% and from correspondent accounts (2017: correspondent accounts with Credit Agricole CIB Group and Credit Agricole SA amounted to RUB 87 017 thousand or 12,1% and to RUB 341 012 thousand or 47,5%, respectively).

The carrying value of each class of due to credit institutions approximates fair value at 31 December 2018 and 31 December 2017. At 31 December 2018, the estimated fair value of due to credit institutions was RUB 2 685 797 thousand (2017: RUB 2 720 395 thousand). Refer to Note 23.

## 14. Amounts due to customers

The amounts due to customers include the following:

| | *2018* | *2017* |
|---|---|---|
| Time deposits | 28 830 223 | 17 259 833 |
| Current accounts | 10 934 760 | 10 982 462 |
| Accounts of individuals | – | 224 |
| **Amounts due to customers** | **39 764 983** | **28 242 519** |
| Held as security against letters of credit | 3 506 769 | 661 383 |

At 31 December 2018, amounts due to customers of RUB 31 385 610 (78,9%) were due to the ten largest customers (2017 − RUB 19 294 245 (68,3%)).

An analysis of customer accounts by economic sector follows:

| | *2018* | *2017* |
|---|---|---|
| Manufacturing | 14 580 778 | 13 423 528 |
| Trade | 13 625 972 | 4 294 662 |
| Construction | 7 743 359 | 6 795 994 |
| Financial services and insurance | 1 241 782 | 1 474 415 |
| Operations with real estate | 197 537 | – |
| Leasing | 120 701 | – |
| Mining | 27 357 | 44 043 |
| Transport and telecommunication | 46 371 | 498 444 |
| Electric power, gas and water production | 30 300 | 13 238 |
| Other | 2 150 826 | 1 698 195 |
| **Amounts due to customers** | **39 764 983** | **28 242 519** |

## 15. Subordinated loans

The lender of this subordinated loan was Credit Agricole CIB Group. As at 31 December 2018, the carrying value of this loan was USD 104 124 thousand, the equivalent of RUB 7 233 582 thousand (2017: the carrying value of this loan was USD 104 011 thousand, the equivalent of RUB 5 991 070 thousand). The interest rate on this loan is 6M Libor + 3,9% (2017: 6M Libor + 3,9%). As at 31 December 2018, the interest rate was 6,77% (2017: 5,74%). The debt ranks after all other creditors in case of liquidation of the Bank.

At 31 December 2018, the estimated fair value of subordinated debt was RUB 7 233 582 thousand (2017: RUB 5 991 070 thousand). Refer to Note 23. Interest rate and maturity analysis of subordinated debt are disclosed in Note 22. The information on related party balances is disclosed in Note 24.

*(thousands of Russian rubles)*

## 16. Equity

Movements in shares outstanding, issued and fully paid were as follows:

| *In thousands of RUB except for number of shares* | ***Number of outstanding shares*** | ***Nominal amount of ordinary shares*** | ***Inflation adjusted amount of ordinary shares*** | ***Inflation adjusted amount of share premium*** | ***Total*** |
|---|---|---|---|---|---|
| At 1 January 2017 | 240 250 | 2 883 000 | 2 959 679 | 734 148 | **3 693 827** |
| At 31 December 2017 | 240 250 | 2 883 000 | 2 959 679 | 734 148 | **3 693 827** |
| At 31 December 2018 | 240 250 | 2 883 000 | 2 959 679 | 734 148 | **3 693 827** |

All shares were paid in cash, except for shares issued in May 2001 for the total nominal amount of RUB 220 000 thousand which were paid in accordance with the Russian statutory legislation by means of capitalisation of statutory revaluation of fixed assets. All ordinary shares have a nominal value of RUB 12 thousand per share (2017: RUB 12 thousand per share) and rank equally. Each share carries one vote. During 2018 and 2017 the Bank did not issue shares.

### Nature and purpose of other reserves

*Revaluation reserve for premises*

The revaluation reserve for premises is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

*Revaluation reserve for investment securities at FVOCI (previously classified as available-for-sale)*

This reserve records fair value changes on available-for-sale investments (before 1 January 2018) and financial assets at FVOCI (after 1 January 2018).

## 17. Commitments and contingencies

### Operating environment

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

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

### Legal

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

### Taxation

Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

The Russian transfer pricing legislation effective since 1 January 2012 aligned to a large extent with the international principles developed by the Organization for Economic Cooperation and Development. This legislation allowes tax authorities to perform transfer pricing adjustments and accrue additional tax liabilities in respect of controlled transactions (transactions with related parties and specific types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. The management of the Bank implemented internal control procedures to comply with the transfer pricing legislation requirements. In 2018 the Bank has determined tax liabilities resulting from the controlled transactions based on their actual prices related to transfer pricing regulations.

*(thousands of Russian rubles)*

## 17. Commitments and contingencies (continued)

### Taxation (continued)

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

| | *2018* | *2017* |
|---|---|---|
| **Credit related commitments** | | |
| Letters of credit | 7 167 865 | 2 513 697 |
| Financial guarantees issued | 4 940 723 | 1 974 593 |
| Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change | 405 000 | 647 051 |
| | **12 513 588** | **5 135 341** |
| **Operating lease commitments** | | |
| Not later than 1 year | 48 637 | 46 019 |
| Later than 1 year but not later than 5 years | 222 727 | 211 416 |
| Later than 5 years | 2 620 730 | 2 680 679 |
| | **2 892 094** | **2 938 114** |
| Performance guarantees | 1 005 298 | 1 532 289 |
| **Commitments and contingencies** | **16 410 980** | **9 605 744** |

A reconciliation of other reserves during the year ended 31 December 2018 is as follows:

| | *Guarantees and letters of credit* | *Total* |
|---|---|---|
| **At 1 January 2018** | **(1 316)** | **(1 316)** |
| Charge | (1 038) | **(1 038)** |
| **At 31 December 2018** | **(2 354)** | **(2 354)** |

## 18. Net interest income

Net interest income comprises:

| | *2018* | *2017* |
|---|---|---|
| **Financial assets measured at amortized cost** | | |
| Cash equivalents | 1 598 157 | 773 425 |
| Loans to customers | 912 555 | 1 546 805 |
| Investment securities | 228 887 | – |
| **Financial assets measured at fair value through other comprehensive income (previously classified as available-for-sale)** | | |
| Investment securities | 60 041 | 147 883 |
| **Interest revenue calculated using effective interest rate** | **2 799 640** | **2 468 113** |
| Current/settlement accounts | 181 222 | 316 234 |
| Term placements of other banks | 541 845 | 484 907 |
| Term placements of CBR | 4 635 | 1 569 |
| Term deposits of legal entities | 1 006 035 | 1 259 446 |
| **Interest expense** | **1 733 737** | **2 062 156** |
| **Net interest income** | **1 065 903** | **405 957** |

*(thousands of Russian rubles)*

## 19. Net fee and commission income

Net fee and commission income comprises:

| | *2018* | *2017* |
|---|---|---|
| Currency control | 142 266 | 119 172 |
| Settlements operations | 80 322 | 73 359 |
| Foreign currency transactions | 56 846 | 99 031 |
| Guarantees issued | 34 984 | 20 226 |
| Commission on trade finance operations | 34 809 | 31 203 |
| Cash transactions | 1 330 | 1 417 |
| Other | 15 466 | 23 567 |
| **Fee and commission income** | **366 023** | **367 975** |
| Guarantees received | 22 087 | 299 |
| Brokerage services | 10 321 | 7 842 |
| Commission on settlement and cash transactions | 8 973 | 10 737 |
| Other | 7 775 | 6 926 |
| **Fee and commission expense** | **49 156** | **25 804** |
| **Net fee and commission income** | **316 867** | **342 171** |

## 20. Personnel and other operating expenses

Personnel and other operating expenses comprise:

| | *2018* | *2017* |
|---|---|---|
| Staff costs | 760 474 | 704 983 |
| Services provided by the participants of Credit Agricole CIB Group | 164 954 | 142 568 |
| IT expenses | 101 176 | 89 731 |
| Depreciation of fixed assets | 75 539 | 78 500 |
| Other expenses related to fixed assets | 49 588 | 42 801 |
| Taxes other than income tax | 53 896 | 46 517 |
| Travel and entertainment expenses | 37 184 | 29 387 |
| Operating lease expense for premises and land | 36 824 | 36 265 |
| Telecommunication expenses | 16 809 | 21 310 |
| Professional services | 42 111 | 22 368 |
| Office stationary and typographic services | 8 362 | 7 424 |
| Other | 41 409 | 41 822 |
| **Other operating expenses** | **1 388 326** | **1 263 676** |

## 21. Dividends

| | *2018* | | *2017* | |
|---|---|---|---|---|
| | *Ordinary* | *Preference* | *Ordinary* | *Preference* |
| **Dividends payable at 1 January** | | | | |
| Dividends declared during the year | 202 872 | – | 264 463 | – |
| Dividends paid during the year | (202 872) | – | (264 463) | – |
| **Dividends payable at 31 December** | **–** | **–** | **–** | **–** |
| **Dividends per share declared during the year** | **2,15** | **–** | **1,11** | **–** |

All dividends are declared and paid in Russian roubles.

*(thousands of Russian rubles)*

## 22. Risk management

### Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

*Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

*Management Board*

The Management Board has the responsibility to monitor the overall risk process within the Bank.

*Risk Department*

The Risk Department has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions made in respect of risks and based on the experience of Credit Agricole CIB Group.

*Bank Treasury*

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

*Internal audit*

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

### Credit risk

The Bank is exposed to credit risk, which is the risk that one of the parties to a transaction with a financial instrument losses due to non-fulfillment by other party of contractual obligations in accordance with the terms of the contract. Credit risk arises from credit and other operations of the Bank with counterparties, which cause financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For credit related commitments, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 17.

Credit operations are governed by a set of policies and procedures to ensure that all aspects of credit risk are adequately covered. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers.

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components:

- The "probability of default" by the client or counterparty on its contractual obligations;
- Current exposures to the counterparty and its likely future development, from which the Bank derives the "exposure at default"; and
- The likely recovery ratio on the defaulted obligations (the "loss given default").

*(thousands of Russian rubles)*

## 22. Risk management (continued)

### Credit risk (continued)

The Bank determines the level of credit risk by allocating limits to individual borrowers or groups of borrowers. The Bank uses the internal rating system of Credit Agricole CIB Group as follows:

***Investment grade***

- "A+" – exceptional quality of the borrower. Superior asset quality. Debtors have exceptional debt capacity and coverage.
- "A" – excellent quality of the borrower. Superior asset quality. Debtors have excellent debt capacity and coverage.
- "B+" – very good quality of the borrower. Very good asset quality and liquidity. Debtors have strong debt capacity, very reputed management.
- "B" – good quality of the borrower. Good asset quality and liquidity. Large debt capacity. Very reputable management. The debtor shows no weaknesses.
- "C+" – fairly good quality of the borrower. Good asset quality and liquidity. Debtors have very good management and moderate indebtedness. The debtor may show one average or weak external or internal factor which does not impair it.
- "C" – acceptable quality of the borrower. Satisfactory asset quality and liquidity. Debtors have moderate indebtedness, good management, average size and position in the industry, not more than two weak factors and which are well compensated by strong sides.
- "C-" – medium quality of the borrower. Satisfactory asset quality and liquidity. Debtors have moderate indebtedness and good management, average size and position in the industry. Contrary to "C", it may have also one weak external or internal factor that makes higher the risk of being downgraded to speculative.

***Non-investment grade***

- "D+" – reasonable quality of the borrower. Acceptable asset quality. Debtors have modest debt capacity or highly leveraged and good management. Two weak external or internal factors do not make it eligible to an investment-grade status.
- "D" – mediocre quality of the borrower. Acceptable asset quality, though illiquid. Debtors are highly or fully leveraged. Debtor is not strong enough to sustain major setbacks.
- "D-" – very mediocre quality of the borrower. Concentrated and rather illiquid assets. Debtors are highly or fully leveraged. Debtors are undersized comparing to competitors and not strong enough to sustain major setbacks.
- "E+" – weak watch quality of the borrower. Debtors are highly leveraged. Weak management do not make it an acceptable debtor without specific external support.
- "E" – poor quality of the borrower, debtors are in the watchlist. Illiquid assets. Debtors are fully leveraged but no default reported.
- "E-" – poor quality of the borrower, debtors are in the watchlist. Illiquid assets. Debtors are fully leveraged. Delay in payments incurred or loan covenants were breached.
- "F/Z" – default situation because of an overdue (3 month) or the bank's doubt on the debtor's capacity to pay. "F" grade indicates transfer of borrower to default category. "Z" grade indicates that litigation against borrower was brought to court.

For internal assessment of credit risk, the Bank applies procedures and methodology of Credit Agricole Group, which includes financial analysis, industry analysis, market analysis, management quality analysis, country analysis, etc. Based on the assessment, a rating is assigned to each client. The Bank monitors credit risks on a daily basis and each borrower is reassessed regularly.

For the management of credit risk concentration by industrial and economic sector and by territory, the Bank uses regulations of Credit Agricole Group. Loans issued by the Bank are normally secured by guarantees received from Credit Agricole Group.

Credit risk exposure (counterparty risk) in respect of derivative financial instruments is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making off-balance sheet items as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

*(thousands of Russian rubles)*

## 22. Risk management (continued)

### Credit risk (continued)

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

The geographical concentration of Bank's financial assets and liabilities is set out below:

| | *2018* | | | | *2017* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Russia* | *OECD* | *CIS and other foreign countries* | *Total* | *Russia* | *OECD* | *CIS and other foreign countries* | *Total* |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 17 168 633 | 8 737 677 | 146 199 | **26 052 509** | 16 263 452 | 1 455 875 | 1 361 | **17 720 688** |
| Amounts due from credit institutions | 5 3161 161 | – | – | **5 361 161** | 336 918 | – | – | **336 918** |
| Derivative financial assets | 1 149 617 | 1 300 432 | – | **2 450 049** | 3 736 510 | 285 765 | – | **4 022 275** |
| Loans and advances to customers | 17 533 384 | – | – | **17 533 384** | 20 678 471 | – | – | **20 678 471** |
| Investment securities | 5 350 011 | – | – | **5 350 011** | 3 055 044 | – | – | **3 055 044** |
| Other financial assets | 2 219 | 28 458 | 954 | **31 631** | 452 | 18 733 | 61 | **19 246** |
| | **46 565 025** | **10 066 567** | **147 153** | **56 778 745** | **44 070 847** | **1 760 373** | **1 422** | **45 832 642** |
| **Liabilities** | | | | | | | | |
| Amounts due to credit institutions | 1 101 424 | 1 467 783 | 116 590 | **2 685 797** | 100 815 | 2 549 865 | 69 715 | **2 720 395** |
| Derivative financial liabilities | 1 249 940 | 1 147 385 | – | **2 397 325** | 279 643 | 3 798 299 | – | **4 077 942** |
| Amounts due to customers | 31 699 129 | 7 956 938 | 108 916 | **39 764 983** | 21 051 586 | 7 190 390 | 543 | **28 242 519** |
| Subordinated debt | – | 7 233 582 | – | **7 233 582** | – | 5 991 070 | – | **5 991 070** |
| Other financial liabilities | 5 703 | 10 397 | – | **16 100** | 1 855 | 10 173 | 3 843 | **15 871** |
| | **34 056 196** | **17 816 085** | **225 506** | **52 097 787** | **21 433 899** | **19 539 797** | **74 101** | **41 047 797** |
| **Net assets/ (liabilities)** | **12 508 829** | **(7 749 518)** | **(78 353)** | **4 680 958** | **22 636 948** | **(17 779 424)** | **(72 679)** | **4 784 845** |

### Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations. The Bank is exposed to risk due to the daily need to use available funds for settlements on overnight deposits, customer accounts, deposit repayments, loans, payments on guarantees and derivative financial instruments, settlements on which are made in cash. The Bank does not accumulate funds in case of the need for a one-time fulfillment of all the above obligations, as, based on the all previous experience, it is possible to predict with a sufficient degree of probablility the level of funds necessary for the fulfillment of these obligations. Liquidity risk is managed by the Bank's Assets and Liabilities Management Committee.

The Bank maintains a stable funding base which mainly consists of amounts due from other banks, deposits of legal entities, and invests in diversified portfolios of liquid assets in order to be able to meet unforeseen liquidity requirements easily.

Liquidity management of the Bank requires an analysis of the level of liquid assets required to settle liabilities at maturity; to ensure access to various sources of financing; to have plans in case of problems with financing and to monitor the compliance of balance sheet liquidity ratios with legal requirements.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. The Bank was in compliance with normative value of liquidity ratios at 31 December 2018 and 31 December 2017.

As at 31 December, these ratios were as follows:

| | ***2018, %*** | ***2017, %*** |
|---|---|---|
| N2 "Instant Liquidity Ratio" (assets receivable or realisable within one day / liabilities repayable on demand) | 38,6 | 34,9 |
| N3 "Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days) | 80,5 | 85,2 |
| N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year) | 48,6 | 38,9 |

*(thousands of Russian rubles)*

## 22. Risk management (continued)

### Liquidity risk and funding management (continued)

The Treasury Department of the Bank receives information about the liquidity profile of the financial assets and liabilities and then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid securities and deposits with banks, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Credit Agricole CIB Group's Risk Management Department.

The tables below show liabilities as at 31 December 2018 and 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including contractual amounts to be paid on gross settled currency derivatives and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the each reporting period.

The maturity analysis of financial liabilities at 31 December 2018 is as follows:

| *(In thousands of Russian roubles)* | ***Demand and less than 1 month*** | ***From 1 to 6 months*** | ***From 6 to 12 months*** | ***From 1 to 5 years*** | ***Over 5 years*** | ***Total*** |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Amounts due to credit institutions | 2 685 797 | – | – | – | – | **2 685 797** |
| Amounts due to customers | 39 764 983 | – | – | – | – | **39 764 983** |
| Gross settled derivatives: | | | | | | |
| - Payables | 6 103 426 | 21 243 107 | 5 372 624 | 44 475 372 | – | **77 194 529** |
| - Receivables | (6 137 494) | (20 162 945) | (5 323 094) | (44 580 899) | – | **(76 204 432)** |
| Other financial liabilities | 12 614 | 612 | 1 057 | 1 817 | – | **16 100** |
| Subordinated debt | 39 933 | 199 665 | 247 584 | 1 948 727 | 8 121 976 | **10 557 885** |
| **Total future payments on financial liabilities** | **42 469 259** | **1 280 439** | **298 171** | **1 845 017** | **8 121 976** | **54 014 862** |
| **Off-balance sheet and contingent liabilities** | | | | | | |
| Credit related commitments | 2 587 187 | 7 555 843 | 1 601 731 | 1 774 124 | – | **13 518 885** |
| **Total potential future payments for financial liabilities** | **45 056 446** | **8 836 282** | **1 899 902** | **3 619 141** | **8 121 976** | **67 533 747** |

The maturity analysis of financial liabilities at 31 December 2017 is as follows:

| *(In thousands of Russian roubles)* | ***Demand and less than 1 month*** | ***From 1 to 6 months*** | ***From 6 to 12 months*** | ***From 1 to 5 years*** | ***Over 5 years*** | ***Total*** |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Amounts due to credit institutions | 2 721 750 | – | 376 | 138 | – | **2 722 264** |
| Amounts due to customers – individuals | 224 | – | – | – | – | **224** |
| Amounts due to customers – corporate entities | 28 278 345 | – | – | – | – | **28 278 345** |
| Gross settled derivatives: | | | | | | |
| - Payables | | | | | | |
| - Receivables | 40 488 850 | 28 188 947 | 5 970 233 | 64 572 766 | – | **139 220 796** |
| Other financial liabilities | (40 257 214) | (26 928 856) | (5 970 233) | (64 572 766) | – | **(137 729 069)** |
| Subordinated debt | 13 849 | 295 | 784 | 942 | – | **15 870** |
| **Total future payments on financial liabilities** | 157 947 | – | – | 1 254 134 | 7 189 144 | **8 601 225** |
| **Liabilities** | **31 403 751** | **1 260 386** | **1 160** | **1 255 214** | **7 189 144** | **41 109 655** |
| **Off-balance sheet and contingent liabilities** | | | | | | |
| Credit related commitments | 368 160 | 2 958 485 | 1 808 696 | – | – | **5 135 341** |
| **Total potential future payments for financial obligations** | **31 771 911** | **4 218 871** | **1 809 856** | **1 255 214** | **7 189 144** | **46 244 996** |

*(thousands of Russian rubles)*

## 22. Risk management (continued)

### Liquidity risk and funding management (continued)

The Bank monitors contractual maturities, which may be summarised as follows at 31 December 2018:

| *(In thousands of Russian roubles)* | *Demand and less than 1 month* | *From 1 to 6 months* | *From 6 to 12 months* | *From 1 to 2 years* | *From 2 to 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 26 052 509 | – | – | – | – | – | **26 052 509** |
| Amounts due from credit institutions | 459 820 | 2 891 873 | 2 009 468 | – | – | – | **5 361 161** |
| Derivative financial assets | 307 129 | 737 088 | 214 328 | 456 278 | 735 226 | – | **2 450 049** |
| Loans to customers | 5 438 572 | 4 631 091 | | 410 097 | 7 053 624 | | **17 533 384** |
| Investment securities | – | 5 350 011 | – | – | – | – | **5 350 011** |
| Other financial assets | 30 456 | 1 168 | 7 | – | – | – | **31 631** |
| **Total financial assets** | **32 288 486** | **13 611 231** | **2 223 803** | **866 375** | **7 788 850** | **–** | **56 778 745** |
| **Liabilities** | | | | | | | |
| Amounts due to credit institutions | 2 685 797 | – | – | – | – | – | **2 685 797** |
| Derivative financial liabilities | 299 572 | 691 131 | 213 545 | 457 435 | 735 642 | – | **2 397 325** |
| Amounts due to customers | 38 239 891 | 1 525 093 | – | – | – | – | **39 764 983** |
| Other financial liabilities | 12 614 | 612 | 1 057 | 1 769 | 48 | – | **16 100** |
| Subordinated debt | – | – | | – | – | 7 233 582 | **7 233 582** |
| **Total financial liabilities** | **41 237 873** | **2 216 836** | **214 602** | **459 204** | **735 690** | **7 233 582** | **52 097 787** |
| **Net liquidity gap** | **(8 949 387)** | **11 394 395** | **2 009 201** | **407 171** | **7 053 160** | **(7 233 582)** | **4 680 958** |
| **Cumulative liquidity gap** | **(8 949 387)** | **2 445 008** | **4 454 209** | **4 861 380** | **11 914 540** | **4 680 958** | |

The liquidity position of the Bank at 31 December 2017 is set out below:

| *(In thousands of Russian roubles)* | *Demand and less than 1 month* | *From 1 to 6 months* | *From 6 to 12 months* | *From 1 to 2 years* | *From 2 to 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 17 720 688 | – | – | – | – | – | **17 720 688** |
| Amounts due from credit institutions | 336 918 | – | – | – | – | – | **336 918** |
| Derivative financial assets | 3 652 001 | 186 133 | 20 609 | 18 757 | 144 775 | – | **4 022 275** |
| Loans to customers | 9 774 498 | 4 652 299 | 1 177 470 | 81 230 | 4 992 974 | – | **20 678 471** |
| Securities available for sale | 1 320 033 | 1 212 756 | – | 522 255 | – | – | **3 055 044** |
| Other financial assets | 18 733 | 476 | 37 | – | – | – | **19 246** |
| **Total financial assets** | **32 822 871** | **6 051 664** | **1 198 116** | **622 242** | **5 137 749** | **–** | **45 832 642** |
| **Liabilities** | | | | | | | |
| Amounts due to credit institutions | 2 720 395 | – | – | – | – | – | **2 720 395** |
| Amounts due to customers | 28 242 519 | – | – | – | – | – | **28 242 519** |
| Derivative financial liabilities | 3 646 204 | 246 831 | 21 024 | 18 757 | 145 126 | – | **4 077 942** |
| Other financial liabilities | 13 849 | 295 | 784 | 902 | 40 | – | **15 870** |
| Subordinated debt | – | – | | – | – | 5 991 070 | **5 991 070** |
| **Total financial liabilities** | **34 622 967** | **247 126** | **21 808** | **19 659** | **145 166** | **5 991 070** | **41 047 796** |
| **Net liquidity gap** | **(1 800 096)** | **5 804 538** | **1 176 308** | **602 583** | **4 992 583** | **(5 991 070)** | **4 784 846** |
| **Cumulative liquidity gap** | **(1 800 096)** | **4 004 442** | **5 180 750** | **5 783 333** | **10 775 916** | **4 784 846** | |

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

*(thousands of Russian rubles)*

## 22. Risk management (continued)

### Liquidity risk and funding management (continued)

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

### Market risk

Bank is exposed to market risk connected with (a) open foreign currency position and (b) interest rate instruments that bears the risk of general and specific changes in the market. Limits are set by the Credit Agricole Group in relation to the level of risk taken and compliance with them is monitored on a daily basis. This approach is a standard practice of risk management among market participants, however, it does not prevent losses in case of significant changes in the market.

The Bank applies the “value at risk” (“VAR”) method separately for currency and interest rate risks in estimating the market risk of the positions held and the maximum losses expected, based on a number of assumptions concerning various changes in the market conditions. Credit Agricole Group’s Global Market Risk Management Department (DRM) sets the limits for acceptable risk for the Bank which are monitored on a daily basis.

The daily market VAR is a 99%-reliable estimate of the potential loss, provided that the current positions do not change over the following business day. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

Since VAR constitutes an integral part of the Bank’s market risk controls, VAR limits are established for all trading and portfolio operations. The management assesses the actual risk exposure against the limits on a daily basis. However daily monitoring of VAR limits does not protect the Bank from losses arising from significant market movements. At the local level Capital Markets department of the Bank monitors market risk by determination that VAR and sensitivities are in the limits defined by Credit Agricole Group.

*Currency risk*

In respect of currency risk, the Bank sets limits on the level of exposure by currency and in total for overnight positions, which are monitored daily. The table below summarises the Bank’s exposure to foreign currency exchange rate risk at the end of the reporting period:

| | ***At 31 December 2018*** | | | | | ***At 31 December 2017*** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(in thousands of Russian roubles)* | ***Monetary financial assets*** | ***Monetary financial liabilities*** | ***Derivatives*** | ***SPOT*** | ***Net position*** | ***Monetary financial assets*** | ***Monetary financial liabilities*** | ***Derivatives*** | ***SPOT*** | ***Net position*** |
| Russian roubles | 36 621 163 | 35 567 209 | 3 460 819 | 8 015 | **4 522 788** | 31 544 043 | 23 787 111 | (3 544 078) | 313 360 | **4 526 214** |
| US dollars | 11 966 595 | 8 017 063 | (3 778 153) | (32 036) | **139 343** | 6 947 193 | 9 982 272 | 2 994 518 | 40 927 | **366** |
| Euros | 4 617 274 | 5 707 237 | 916 363 | 196 313 | **22 713** | 2 497 838 | 3 389 469 | 484 721 | 424 090 | **17 180** |
| Other | 1 122 971 | 407 644 | (546 305) | (172 908) | **(3 886)** | 817 451 | (189 003) | 9 172 | (774 540) | **241 086** |
| **Total** | **54 328 003** | **49 699 153** | **52 724** | **(616)** | **4 680 958** | **41 806 525** | **36 969 849** | **(55 667)** | **3 837** | **4 784 846** |

Derivatives and spot deals in each column represent the gross settlements at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty.

The amounts by currency of derivatives are presented gross as stated in Note 8. The net total represents fair value of the currency derivatives.

*(thousands of Russian rubles)*

## 22. Risk management (continued)

### Market risk (continued)

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant. The Bank performs currency risk sensitivity analysis on the basis of its forecast of possible changes in exchange rates:

| | ***Impact on profit or loss*** | |
|---|---|---|
| *(in thousands of Russian roubles)* | ***At 31 December 2018*** | ***At 31 December 2017*** |
| US dollar strengthening by 14% (2017: 20%) | 19 508 | 73 |
| US dollar weakening by 14% (2017: 20%) | (19 508) | (73) |
| Euro strengthening by 14% (2017: 20%) | 3 180 | 3 436 |
| Euro weakening by 14% (2017: 20%) | (3 180) | (3 436) |

### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

## 23. Fair value measurements

### Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

For the purpose of fair value disclosures, the Bank's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

| | ***Fair value measurement using*** | | | |
|---|---|---|---|---|
| ***At 31 December 2018*** | ***Level 1*** | ***Level 2*** | ***Level 3*** | ***Total*** |
| **Assets measured at fair value** | | | | |
| *Derivative financial assets:* | | | | |
| - Exchange rate forwards/swaps/options | − | 1 546 649 | − | **1 546 649** |
| - Interest rate swaps | − | 337 407 | − | **337 407** |
| - Cross currency swaps | − | 565 993 | − | **565 993** |
| *Investment securities – debt securities at FVOCI:* | | | | |
| - Russian State bonds | 520 167 | − | − | **520 167** |
| Property and equipment − buildings | − | − | 885 000 | **885 000** |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | 84 298 | 25 968 211 | − | **26 052 509** |
| Amounts due from credit institutions | − | 5 361 161 | − | **5 361 161** |
| Loans to customers measured at amortised cost | − | 17 533 384 | − | **17 533 384** |
| Investment securities measured at amortised cost | 4 829 844 | − | − | **4 829 844** |
| **Liabilities measured at fair value** | | | | |
| *Derivative financial liabilities:* | | | | |
| - Exchange rate forwards/swaps/options | − | (1 493 925) | − | **(1 493 925)** |
| - Interest rate swaps | − | (337 407) | − | **(337 407)** |
| - Cross currency swaps | − | (565 993) | − | **(565 993)** |
| **Liabilities for which fair values are disclosed** | | | | |
| Amounts due to credit institutions | − | − | (2 685 797) | **(2 685 797)** |
| Amounts due to customers | − | − | (39 764 983) | **(39 764 983)** |
| Subordinated debt | − | (7 233 582) | − | **(7 233 582)** |

*(thousands of Russian rubles)*

## 23. Fair value measurements (continued)

### Fair value hierarchy (continued)

| | *Fair value measurement using* | | | |
|---|---|---|---|---|
| ***At 31 December 2017*** | ***Level 1*** | ***Level 2*** | ***Level 3*** | ***Total*** |
| **Assets measured at fair value** | | | | |
| *Derivative financial assets:* | | | | |
| - Exchange rate forwards/swaps/options | – | 3 882 339 | – | **3 882 339** |
| - Interest rate swaps | – | 139 936 | – | **139 936** |
| *Investment securities – debt securities at FVOCI:* | | | | |
| - Russian State bonds | 522 255 | – | – | **522 255** |
| - Bonds of CBR | 2 532 789 | – | – | **2 532 789** |
| Property and equipment − buildings | – | – | 1 007 126 | **1 007 126** |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | 44 714 | 17 675 974 | – | **17 720 688** |
| Loans to customers measured at amortised cost | – | 20 678 471 | – | **20 678 471** |
| Investment securities measured at amortised cost | | | | |
| **Liabilities measured at fair value** | | | | |
| *Derivative financial liabilities:* | – | (3 936 506) | – | **(3 936 506)** |
| - Exchange rate forwards/swaps/options | – | (141 436) | – | **(141 436)** |
| **Liabilities for which fair values are disclosed** | | | | |
| Amounts due to credit institutions | – | – | (2 720 395) | **(2 720 395)** |
| Amounts due to customers | – | – | (28 242 519) | **(28 242 519)** |
| Subordinated debt | – | (5 991 070) | – | **(5 991 070)** |

### Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed.

*Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

*Derivatives*

The valuation technique employed by the Bank for derivative deals assumes applying discounted cash flows. Discounting of future cash flow at present value is built using independent mid quote prices (broker sources such as ICAP). BOR (interbank offered rate) curves are mainly built using BOR fixing rate and/or Money Market rates for short end, Futures prices for mid-term end, BOR swap rates for long tenor. BASIS curves which are used to discount cash flow of cross currency products are built with a dedicated pricer using independent market data such as reference curve (e.g. LIBOR USD 3M), Overnight Index Rate curve, Spot Rate, Pips.

*Financial assets and financial liabilities carried at amortised cost*

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBR and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

*Property and equipment − buildings*

Premises of the Bank were independently revalued at 31 December 2018. Definition of the market value is based on the sales comparison approach. Using this approach, the subject property is compared to those deemed similar or comparable. Taking into account certain adjustments, which reflect specific advantages and disadvantages over comparable properties, the market value of the subject property can be determined. To reflect the differences between the subject property and each comparable property, adjustments have been made to the comparable sales data.

*(thousands of Russian rubles)*

## 23. Fair value measurements (continued)

### Valuation techniques and assumptions (continued)

The following elements of comparison identify specific characteristics of properties considered and the associated price variations:

- -11,5% – adjustment to the asking price allowing for negotiations;
- 0% to 5% – adjustment for differences in location;
- -5% to 0% – adjustment for the size of the premises;
- -5% to 0% – adjustment for age/date of refurbishment;
- -5% to 10% – adjustments for the parking ratio.

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2018 (2017: none).

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2018 is as follows:

| *(in thousands of Russian roubles)* | ***2018 Premises*** | ***2017 Premises*** |
|---|---|---|
| **Fair value at 1 January** | **1 007 126** | **1 003 960** |
| Gains or losses recognised in profit or loss for the year | (36 465) | (16 359) |
| Gains or losses recognised in other comprehensive income | (85 661) | 19 525 |
| **Fair value at 31 December** | **885 000** | **1 007 126** |

The premises of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The Bank's management uses judgment for determining the materiality of changes in the fair values of premises during the reporting period for deciding whether a revaluation is necessary.

## 24. Related party disclosures

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

At 31 December 2018, the outstanding balances with related parties were as follows:

| | ***2018*** | |
|---|---|---|
| | ***Shareholders*** | ***Other related parties*** |
| **Cash and cash equivalents** | | |
| - Correspondent accounts and overnight placements (0,0%) | – | 431 534 |
| - Placements with other banks with original maturities of less than three months (0,1%) | 4 586 257 | 3 655 383 |
| Derivative financial instruments (assets) | 1 285 412 | 15 021 |
| **Other assets** | | |
| - Accrued income receivable | 25 459 | 2 840 |
| Due to other banks (0,0-5,0%) | 1 023 065 | 561 308 |
| Derivative financial instruments (liabilities) | 1 004 597 | 142 788 |
| Subordinated debt (4,55%) | 7 233 582 | – |
| **Other liabilities** | | |
| - Accrued fees | 10 231 | – |
| - Deferred income on credit related commitments | 39 | 128 |
| - Accrued IT expenses | 60 255 | 2 475 |

*(thousands of Russian rubles)*

## 24. Related party disclosures (continued)

At 31 December 2017, the outstanding balances with related parties were as follows:

| | 2017 | |
|---|---|---|
| | ***Shareholders*** | ***Other related parties*** |
| **Cash and cash equivalents** | | |
| - Correspondent accounts and overnight placements (0,0%) | – | 1 354 195 |
| - Placements with other banks with original maturities of less than three months (0,1%) | – | 1 |
| Derivative financial instruments (assets) | 214 223 | 8 902 |
| **Other assets** | | |
| - Accrued income receivable | 14 069 | 2 777 |
| Due to other banks (0,0-5,0%) | 2 242 194 | 377 386 |
| Derivative financial instruments (liabilities) | 3 735 658 | – |
| Subordinated debt (4,55%) | 5 991 070 | – |
| **Other liabilities** | | |
| - Accrued fees | 9 976 | – |
| - Deferred income on credit related commitments | 51 | 146 |
| - Accrued IT expenses | 29 859 | 9 510 |

Aggregate amounts lent to / borrowed from and repaid by/to related parties during 2018 were:

| | ***Shareholders*** | ***Other related parties*** |
|---|---|---|
| Amounts lent to related parties during the period | 492 524 579 | 752 219 543 |
| Amounts repaid by related parties during the period | 487 939 518 | 748 255 350 |
| Amounts borrowed from related parties during the period | 274 278 125 | 9 441 051 |
| Amounts repaid to related parties during the period | 274 212 346 | 9 459 201 |

Aggregate amounts lent to/borrowed from and repaid by/to related parties during 2017 were:

| | ***Shareholders*** | ***Other related parties*** |
|---|---|---|
| Amounts lent to related parties during the period | 912 398 993 | 493 549 244 |
| Amounts repaid by related parties during the period | 912 438 207 | 493 580 718 |
| Amounts borrowed from related parties during the period | 104 402 617 | 14 885 908 |
| Amounts repaid to related parties during the period | 104 100 929 | 20 984 018 |

As at 31 December 2018 loans and advances to customers were collateralised by guarantees received from Credit Agricole CIB or Crédit Agricole SA in the total amount of RUB 17 475 934 thousand (2017: RUB 20 603 059 thousand).

The income and expense items with related parties for the year 2018 and 2017 were as follows:

| | ***2018*** | | ***2017*** | |
|---|---|---|---|---|
| *(in thousands of Russian roubles)* | ***Shareholders*** | ***Other related parties*** | ***Shareholders*** | ***Other related parties*** |
| Interest income | 43 115 | 10 301 | 78 519 | 50 940 |
| Interest expense | 468 493 | 4 198 | 340 288 | 20 007 |
| Fee and commission income | 32 140 | 36 923 | 139 623 | 14 076 |
| Comission on guarantees (deductible from interest income) | 87 296 | 3 382 | 83 784 | 3 433 |
| Gains less losses / (losses less gains) from trading in foreign currencies | – | – | – | – |
| Losses less gains from foreign exchange translation | 3 637 624 | 61 664 | 9 054 563 | 8 907 |
| Losses less gains from operations with interest rate derivatives | 300 527 | – | 84 823 | – |
| Other operating income | 82 425 | 1 586 | 9 727 | 2 698 |
| Administrative and other operating expenses | 180 820 | 8 869 | 157 604 | 7 078 |

Key management compensation is presented below:

| | ***2018*** | ***2017*** |
|---|---|---|
| Salaries and short-term bonuses | 168 069 | 189 519 |
| **Total management compensation** | **168 069** | **189 519** |

*(thousands of Russian rubles)*

## 25. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored daily with reports outlining their calculation reviewed and signed by the Bank's President and Chief Accountant.

### CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio above certain minimum percentage of risk-weighted assets, computed based on RAL. As of 31 December 2018 and 2017, the Bank's capital adequacy ratio on this basis was as follows:

| | *2018* | *2017* |
|---|---|---|
| Base capital | 4 344 152 | 4 358 338 |
| Additional capital | 8 228 450 | 7 385 196 |
| **Total capital** | **12 572 602** | **11 743 534** |

**Capital adequacy ratio**
- Main capital (minimum requirement: 6,0%)
- Total capital (minimum requirement: 8,0%)

The level of capital adequacy ratio as at 31 December 2018 and 2017 are presented in the table below:

| | *2018* | *2017* |
|---|---|---|
| Capital adequacy ratio (N1.0) | 40,2 | 51,6 |
| Minimum acceptable level (N1.0) | min 8,0% | min 8,0% |

## 26. Offsetting of financial instruments

The table below shows the effect of enforceable master netting agreements and similar arrangements (ISDA, RISDA, etc.) that do not result in an offset in the statement of financial position:

| | *Related amounts not set off in the statement of financial position* |
|---|---|
| **Financial assets** | |
| Derivative financial assets | 945 210 |
| **Financial liabilities** | |
| Derivative financial liabilities | (1 120 219) |
| **Net amount** | **(174 909)** |